Stress Tests for Hospital Lenders Mean More Pain for Patients.

- **Affected facilities boost revenues but are less attentive**
- **NBER study says readmission rates rise at affected hospitals**

When hospitals' leaders come under scrutiny, their patients feel the pain, too.

Facilities whose lenders underwent regulatory stress tests were more likely to readmit patients and forgo some timely or needed treatments, according to a new paper dramatically titled "Merchants of Death: The Effect of Credit Supply Shocks on Hospital Outcomes."

The study, part of a National Bureau of Economic Research working paper series, highlights how tighter credit to hospitals may be an unintended consequence of the stress tests, which were created to prevent another runaway bout of bank failures and bailouts. It also shows how precarious hospital financing can be.

These facilities carry "a substantial amount of debt," the authors wrote, and are "particularly risky borrowers" with greater-than-average yields and higher municipal-bond defaults. That means they're a logical place for lenders to cut back if they're seeking to improve their credit profile.

"Affected hospitals exhibit significantly lower attentiveness in providing timely and effective treatment and procedures, and are rated substantially lower in patient satisfaction," according to the report. Hospitals in that group had a "significant increase" in readmitting patients within a month after discharge, considered a key quality gauge, and in deaths from pneumonia, heart attacks and heart failure.

AHA Balks

The study examined 3,658 hospitals from 2010 to 2016. Of those, 537 hospitals had lenders undergoing stress tests in the period. They held loans worth an average of $737 million, with maturities of just under five years.

The American Hospital Association called the study "dramatically oversimplified" and "riddled with wild assumptions" that don't reflect the complexity of hospital financing and operations.

"Hospitals have continued to provide increasing amounts of uncompensated and unreimbursed care as well as billions of dollars in community benefits over the study period," Aaron Wesolowski, AHA's vice president of policy research, analytics and strategy, said in an emailed statement, "showing that despite the existence of financial stress tests, hospitals and health systems have continued to invest heavily in caring for the communities and patients they serve."

"We don't really have a theoretical model" around hospital financing or profit maximizing, said Pinar Karaca-Mandic of the University of Minnesota, who wrote the study with Minnesota colleagues Cyrus Aghamolla and Richard Thakor and Xuelin Li of the University of South Carolina.

The stress tests on hospital lenders “are associated with these changes in the type of care that hospitals deliver,” Karaca-Mandic said in an interview with her co-authors.

Hospitals in the study responded to lenders curtailing or raising rates on debt by working to boost revenue while scaling back less-profitable services such as intensive care. That translated into an additional 367 patients per year, on average, and an average revenue increase of about $1,701 per patient from either increased fees or higher collections.

The study’s conclusions rang true to Martin McGahan, managing director for Alvarez & Marsal’s healthcare industry group.

“Health care is a business,” McGahan said. “There is no doubt quality of care is impacted by how you spend your money, what your access to capital is, what your cost of capital is.”

The 2010 Dodd-Frank Act required banks to undergo regular examinations to ensure they have enough access to capital to withstand shocks like the mortgage meltdown that led to the Great Recession.

U.S. hospitals are emerging from the cataclysm of the pandemic dealing with higher safety expenses and fatigued workers.

“Hospitals are facing even smaller profit margins now and are getting more and more financially constrained,” Thakor said. “Our view is that these credit market shocks would be even stronger and more relevant for the hospitals in the post pandemic period.”

Bloomberg Markets

By Lauren Coleman-Lochner

May 18, 2021, 6:25 AM MDT

— With assistance by John Tozzi, and Dawn McCarty

The States and Cities With the Strongest and Weakest Levels of Capital Investment.

A new data tool offers a detailed look at how real estate and business loans and other investments vary widely across the country and sheds light on the inequities poorer and minority neighborhoods face.

Look across the U.S. and the amount of capital from sources like home mortgages, business loans and federal grants varies widely from state to state and city to city. Within each place, there are further gaps at the neighborhood level, with poorer and minority communities often seeing less investment flow their way.

A new tool the Urban Institute released Thursday provides perspective on how these differences look, with easy-to-view data for states and Washington, D.C., and the nation’s 250 largest cities and counties.

The tool provides information on the overall amounts of investment each place receives. It also features racial and income equity metrics. These gauge how evenly investments are distributed across neighborhoods that have different racial and ethnic demographics or levels of poverty.

There are also scores for specific types of capital investments, such as single-family home loans, small business loans, federal funding and “mission lending” investments made by “socially motivated” entities like community development financial institutions.

The statistics that the tool produces are percentile scores that show how each place stacks up against its peers in different categories.

Selecting Seattle, for instance, reveals that the city ranks in the 91st percentile for overall investment. In other words, it’s attracting a large amount of capital compared to other cities. But on racial equity, or how evenly capital is distributed across Seattle’s neighborhoods, the city scores in the 34th percentile, or almost in the bottom third among its peers.

Looking at the more specific categories shows Seattle in the 7th percentile when it comes to how evenly small business loans are distributed across neighborhoods with different racial and ethnic demographics. The city also ranks low (in the 5th percentile) for how evenly multifamily housing investments are spread across neighborhoods with different poverty levels.

Brett Theodos, a senior fellow and director of the Community Economic Development Hub at the Urban Institute, is one of the researchers who helped build the tool. He says it’s valuable because it can help provide insights into both the overall share of capital investment that each state, city or county is receiving and also how equitably the shares are carved up in each place.

“It can be hard, absent these comparisons, to know if Milwaukee is doing better or worse on a scaled measure than Chicago or Cleveland or Detroit,” Theodos said.

He noted how some places might be strong in certain categories, like multifamily housing investment and weak in others, like small business lending. “It gives a level of granularity.”

Things to Consider

There are some caveats to keep in mind with the statistics. One is that investment in each place is analyzed on a per household, housing unit or employee basis. So while New York City is a magnet for capital, there are also a lot of people living there, upwards of 8 million, and this is a key factor in why it ranks mid-pack in the 47th percentile for overall investment volume.

Theodos also pointed out that the best-off places have some of the most inequality based on the metrics provided. A reason for this is that places with higher concentrations of top earners, affluent areas and thriving businesses—all characteristics that tend to draw in capital—see bigger spreads between neighborhoods and residents that are struggling and those that are doing well.

On the other hand, places with weaker economies and less capital investment overall, might not have the same high-to-low disparities.

“You can be equitable and disinvested,” Theodos said. “You want to be in the quadrant that has lots of investment and that has good equity.”

Lastly, the way that the metrics are presented means that places are effectively graded on a curve, in comparison to their peers.

“Even if you score good on race equity, that doesn’t mean you’re good,” Theodos said. He explained that a better score might mean that majority white neighborhoods in a city or county see two-times more investment than majority Black neighborhoods, instead of, say, eight times more. From an equity standpoint, either scenario is problematic.

There are levers that state and local policy makers can pull to try to increase different kinds of capital flows. But Theodos emphasized that the bulk of capital investment is taking place in the private marketplace and that, in most places, home lending accounts for half or more of it. Federal and mission-driven investments are, by comparison, much smaller.

“The public sector and the mission sector, they’re important, especially for places the market won’t go,” he said. “But they’re never going to be big enough to overcome inequities in the market itself.”

“Part of what states and localities and others have to do is fill in the gaps,” he added, “but also be something of market makers so that the private market sees energy and excitement.”

Route Fifty

by Bill Lucia

May 20, 2021

[Fitch: ARPA Interim Rule Limits Credit Positives for States and Locals]

Fitch Ratings-New York-18 May 2021: The US Treasury’s recent guidance on how US states and local governments can spend the $350 billion of direct American Rescue Plan Act (ARPA) aid will limit their ability to use ARPA to unwind nonrecurring budgetary actions, including deficit borrowing undertaken in 2020 to compensate for pandemic-related revenue declines, Fitch Ratings says. The Treasury’s Interim Final Rule for the Coronavirus State and Local Fiscal Recovery Funds (FRF) prohibits using the funds for debt service and reserve replenishment, tempering the positive rating momentum from the FRF for some credits on Negative Outlook.

Eligible uses are still fairly broad. Virtually all general infrastructure is also eligible up to the amount of a government’s revenue losses relative to a pre-pandemic growth trajectory, which is assumed to be 4.1% annually from fiscal 2019. Authorization for water, sewer and broadband infrastructure projects is broader, allowed up to each government’s full FRF allocation. The rule allows operating uses, including restoring government staffing to pre-pandemic levels, and public health and safety payroll costs. Fitch considers application of one-time FRF for recurring operating needs as a credit negative that could create a fiscal cliff.

The interim final rule is effective immediately but is likely to be amended in the next several months after the Treasury evaluates comments. Given the extensive documentation around the FRF, many governments will need time to evaluate the rule, submit comments and await revisions. Some, such as Kentucky, already enacted legislation laying out their plans. Kentucky proposes using half its FRF for repayment of a loan from the Federal Unemployment Account (FUA), broadband expansion, and drinking water and wastewater infrastructure. All three are explicitly eligible uses.

The rule prohibits repayment of debt service or reserve fund replenishment, which complicates planning and hampers restoration of fiscal resilience for Illinois (BBB-/Negative) and New Jersey (A-/Negative), which both expressed interest in using the funds to pay down liabilities. The Treasury specifically requests feedback on whether the debt service prohibition should be reconsidered. Fitch notes the allowance of FRF to repay prior FUA loans contrasts with the Treasury's preference that governments use FRF for prospective uses rather than to reimburse prior spending.

Illinois' comptroller has already submitted comments urging the Treasury to allow the state to use part of its $8.100 billion FRF allocation to repay short-term borrowing undertaken to support operations during the pandemic, including $2.175 billion in outstanding loans from the Federal Reserve's Municipal Liquidity Facility.

According to the National Conference of State Legislatures, nearly half of states planned or implemented reserve draws during the pandemic and many local governments did the same. Strong revenue growth has allowed many governments to avoid such draws or restore them, but overall reserves remain below pre-pandemic levels. The Treasury's prohibition on using FRF to restore this key element of financial resilience may leave some governments in a weaker position should tax revenues not be as robust as forecast over the medium term.

The ARPA statute indicates FRF may not be used for standalone direct pension contributions and tax cuts. The rule goes into extensive detail on the tax cut prohibition, which applies only to states, implying the Treasury will be particularly vigilant in monitoring it. Thirteen states have filed a federal lawsuit challenging the tax cut provision as a violation of states' sovereignty.

ARPA also included a separate $10 billion Coronavirus Capital Projects Fund to be distributed to states, territories and tribal governments. The Treasury anticipates releasing detailed guidance on this fund before the summer.

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[U.S. Department of the Treasury Launches the Coronavirus State and Local Fiscal Recovery Funds Program: Ballard Spahr]

Summary

The U.S. Department of the Treasury (Treasury Department) announced the launch of the Coronavirus State and Local Fiscal Recovery Funds Program, which will provide $350 billion in emergency funds to eligible entities including state, local, territorial, and tribal governments. Eligible entities may use Coronavirus State and Local Fiscal Recovery Funds to stabilize revenue downturns and address budget shortfalls.

The Upshot

The Coronavirus State and Local Fiscal Recovery Funds Program allocates up to $350 billion to eligible government entities. Of the $350 billion, $306 billion is available to states, counties, and metropolitan cities for COVID-19 mitigation efforts, post-pandemic recovery, and capital investments in public facilities.
Funds may be used to support public health expenditures and address negative economic impacts; replace lost public sector revenue; provide premium pay for essential workers; and invest in water, sewer, and broadband infrastructure.
Funds may not be used to fund directly or indirectly a reduction in tax revenue, and funds may not be deposited into any pension fund.

The Bottom Line

Eligible government entities are encouraged to request funding from the Treasury Department for their allocation of Coronavirus State and Local Fiscal Recovery Funds to help support and resolve economic difficulties arising from the COVID-19 pandemic.

On May 10, 2021, the U.S. Department of the Treasury (Treasury Department) launched the Coronavirus State and Local Fiscal Recovery Funds Program (the Fiscal Recovery Funds Program) authorized pursuant to the American Rescue Plan Act. The American Rescue Plan Act (ARPA) was signed into law by President Biden on March 11, 2021. Section 9901 of the ARPA amended Title VI of the Social Security Act, to add provisions that collectively established the Fiscal Recovery Funds Program.

This $350 billion initiative will provide economic relief in an effort to ameliorate some of the deleterious economic effects further exacerbated by the COVID-19 pandemic to eligible government entities. Government entities eligible to receive emergency funds provided under the Fiscal Recovery Funds Program include states, counties, metropolitan cities, territories, non-entitlement units, tribal governments and the District of Columbia.

The Fiscal Recovery Funds Program provides eligible government entities the flexibility to determine the appropriate form of eligible uses. Eligible uses provided under the Fiscal Recovery Funds Program include vaccination programs, contract tracing, purchasing of personal protective equipment, and capital investments in public facilities to address existing operational concerns. Additionally, eligible businesses and non-profits are allowed to use dispersed funds to provide loans or grants to mitigate financial hardship including declines in revenue, payroll, rent, or other costs related to retaining employees, including providing funds to offer additional payments to essential works. Further, local governments and municipalities are permitted to use funds to make necessary investments in water, sewer, and broadband infrastructure, including wastewater-owned treatment works and develop water reuse projects. The Fiscal Recovery Fund Program does not permit any funds received by an eligible government entity to be deposited into existing pension funds.

In conjunction with announcing the launch of the Fiscal Recovery Fund Program, the Treasury Department issued an Interim Final Rule (IFR) outlining the requirements of the Fiscal Recovery Fund Program. The IFR explains that state and local governments have experienced substantial increases in costs to provide government services to their community members and as a result have experienced substantial budget challenges, including a reduction in workforce. The Fiscal Recovery Fund Program seeks to provide support to state and local governments to help rebuild economies and strengthen efforts related to mitigating and preventing the spread of COVID-19 and to meet Congress's intent that Fiscal Recovery Funds be spent within four eligible uses: (1) to respond to the public health emergency and its negative economic impacts, (2) to provide premium pay to essential workers, (3) to provide government services to the extent of eligible governments' revenue losses, and (4) to make necessary water, sewer, and broadband infrastructure investments. The Fiscal Recovery Fund Program generally restricts the use of funds from being used to directly or indirectly offset a reduction in the net tax revenue of a State or territory resulting from a change in law, regulation, or administrative interpretation from March 3, 2021 through the last day of the fiscal year in which the funds provided have been spent, although that restriction is being challenged by the Attorneys General of several states.

The Treasury Department will distribute funds to eligible entities based on government type. States and the District of Columbia are eligible to receive up to $195.3 billion in economic relief, collectively. Counties and metropolitan cities across the United States are allocated to receive $65.1 billion and $45.6 billion, respectively. Beginning May 10, 2021, eligible entities can submit their allocation request through the Treasury Submission Portal here. Local governments, counties, and metropolitan cities should expect to begin to receive funds in two tranches beginning in May 2021 with the remainder of funds to be disbursed next year. States that have experienced an increase in unemployment by more than 2% as of February 2020 pursuant to requirements outlined by the Treasury Department will receive their full allocation in a single payment, while other states will receive their full allocation in two equal tranches. The Coronavirus State and Local Fiscal Recovery Funds Program provides eligible entities with necessary flexibility to utilize emergency funds to strengthen the needs of their local communities.

Ballard Spahr LLP

May 19, 2021

Questions Loom for States, Localities About How to Spend Billions in Covid Relief Funds.

Federal and policy experts told city officials Thursday that governments that lost revenue during the pandemic have greater flexibility for using the American Rescue Plan money.

State and local governments that lost revenue as a result of the coronavirus pandemic have greater flexibility in how they can spend Covid-19 relief money than governments whose budgets withstood economic downturn, according to federal officials.

Treasury Department rules outline specific ways that state and local governments can spend $350 billion in federal aid appropriated through the America Rescue Plan Act. But governments that experience a decline in revenue can offset those losses with the federal dollars—and use the offset amount to pay for any number of government services that would not otherwise be considered eligible expenses.

“The revenue loss category provides the greatest flexibility,” said Jacob Leibenluft, a counselor to Treasury Secretary Janet Yellen.

[Continue reading.]

Route Fifty

By Andrea Noble,

MAY 20, 2021

[SIFMA: Funding and Financing Options to Bolster American Infrastructure]

SUMMARY

Submission for the Record by the Securities Industry and Financial Markets Association before the Senate Finance Committee in the hearing: “Funding and Financing Options to Bolster American Infrastructure”

SIFMA and its member firms strongly support increased investment in this country’s infrastructure, which will help spur job creation and economic growth. To that end, we believe it is critical to support the great work states and localities do in building and maintaining our infrastructure. A partnership among federal, state, and local governments and private investors will ease the burden on the cash-strapped federal government by leveraging our capital markets to create expanded financing options. We believe that this partnership is especially important during this difficult fiscal environment as states and local governments seek to lower their costs and also finance much-needed infrastructure such as schools, roads, and hospitals.

At SIFMA, we believe it is critical to close the infrastructure financing gap by restoring and creating additional vehicles to assist in resolving these needs. We hope that you agree that increased investment in our infrastructure has a critical role to play as our nation will continue to grapple with the economic impact of the COVID-19 pandemic for years to come. Further, the provisions outlined in this testimony will facilitate the more efficient leveraging of our capital markets for the benefit all Americans.

[Read the SIFMA comment letter.]

[America’s School Infrastructure Needs a Major Investment of Federal Funds to Advance an Equitable Recovery.]

The federal government plays a small but significant role in funding public school operations and programs designed to even out disparities in student opportunity based on income, race, and ethnicity, and those facing students with disabilities. But no comparable federal program addresses the disparities in financing school construction and maintenance, leaving these significant costs to states and localities and tying schools' condition directly to the wealth of the surrounding community. Estimates suggest that American schools have hundreds of billions of dollars of unmet capital construction needs that local districts cannot make up. In recovery legislation Congress will soon consider, it should include a significant infusion of federal funds — at a minimum, the $50 billion in grants proposed in President Biden's American Jobs Plan — to build and repair K-12 schools.

As a nation, we have not kept up with school maintenance. The COVID-19 pandemic has highlighted the need to prevent the spread of virus by, for example, improving school ventilation systems and creating ways for students to be socially distanced, but these are only some of many significant repairs facing schools. Due in part to longstanding federal inaction, the estimated cost of bringing all schools to good condition had reached nearly $200 billion by 2013, according to the U.S. Department of Education,[1] and is likely even higher today as a result of disinvestment since the Great Recession. One estimate puts the cost of needed ventilation system improvements alone at $72 billion.[2] The need for improvements is particularly acute in schools with high populations of students from low-income families and of Black, Indigenous, Latino, and other children of color.

Fixing school buildings can improve both health and student learning, research shows, while also creating jobs. Better lighting, acoustics, and accessibility all help students learn. And modern heating, ventilation, and cooling systems can slow the spread of airborne diseases such as COVID-19. While the federal government has provided significant support for schools' increased operating costs during the pandemic — and to help children recover unfinished learning — support for school construction and other infrastructure needs is long overdue.

[Continue reading.]

CENTER ON BUDGET AND POLICY PRIORITIES

MAY 17, 2021 | BY VICTORIA JACKSON AND NICHOLAS JOHNSON

[There's a Better Way to Pay for Infrastructure.]

One tweak to municipal finance could get more money where it belongs.

President Joe Biden wants to transform America's infrastructure. While he's at it, he should also consider transforming the way state and local governments pay for it.

Washington has long provided incentives for municipalities to invest in public goods. This makes perfect sense, because some of the benefits of things such as roads, bridges and schools accrue to the whole country — in the form of better transportation, a more educated populace, greater productivity.

One big federal subsidy comes in the form of a tax exemption: Investors in municipal debt don't have to pay income tax on the interest they receive. This has made municipal bonds very popular among tax-sensitive people and organizations, giving rise to a multi-trillion-dollar market. It also allows state and local governments to borrow at lower interest rates, saving them billions of dollars a year.

Yet the tax exemption has some serious flaws. For one, it's worthless for investors not subject to federal income tax — such as pension funds and foreigners — whose demand could otherwise push borrowing costs down further. Also, because the exemption is worth more to higher-rate taxpayers, some of the subsidy flows to them rather than to the state and local issuers. (An investor in the top income-tax bracket, for example, gets the full 37% break compared with a taxable bond, while an issuer might get an overall discount of only 22% on interest costs.) This "leakage" can amount to several billion dollars a year.

There's a proven alternative. As part of its efforts to support the recovery from the 2008 financial crisis, the federal government introduced something called Build America Bonds. Instead of offering a tax exemption, the federal government simply paid issuers a portion of the interest, and collected tax from investors as with any other bonds. The program was a success: It eliminated leakage, lowered borrowing costs by expanding the investor base, and coexisted perfectly well with traditional municipal securities. State and local governments raised more than $180 billion over less than two years, for projects ranging from sewers to firehouses.

Unfortunately, politics stalled the program. First, a Republican-controlled legislature declined to extend it beyond 2010, more as a partisan rebuke to the Democratic administration than for any particular failure. Then, a 2011 battle over the federal debt ceiling led to sharp and indiscriminate budget cuts — including to the share of interest that the federal government had promised to pay the issuers. This dealt a blow to confidence that hasn't been forgotten.

Now, though, some lawmakers are proposing a revival. This is a welcome development, provided it incorporates the lessons of the past. In particular, Congress — which is holding hearings this week on financing infrastructure — would need to guarantee funds for the subsidy, to avoid a repeat of the budget sequestration debacle. Beyond that, keeping the overall cost of support for municipal borrowing steady implies a subsidy of around 28% of interest payments, as opposed to the 35% of the original Build America Bonds.

One might ask why the government should introduce a new financing option now, at a time when the Biden administration is promising trillions of dollars in investment, and when ample demand for municipal debt is pushing yields to extreme lows. The answer is simple. The purpose is not to remedy a shortage of borrowing and investment, but to ensure that federal support for those productive outlays is as cost-effective as possible.

Bloomberg Opinion

By Editorial Board

May 18, 2021, 6:00 AM MDT

How to 'Build Back Better' with Public-Private Partnerships.

Infrastructure is a high priority of the Biden administration and one of the very few areas of public policy where the prospects for bipartisanship are favorable. After all, who doesn't want to improve our highways, bridges and broadband access?

While the president's mantra for infrastructure improvement is "Build Back Better," we must also ensure that we rebuild and revitalize responsibly. And that means engagement and partnership with the private sector to guarantee that infrastructure projects are carried out efficiently, effectively, transparently and in a socially and environmentally responsible manner.

The optimal means of doing so is through a public-private partnership (PPP), the very same vehicle that helped build Silicon Valley, launched the U.S. space program (and lunar landing) and developed and distributed COVID-19 vaccines under the Trump and Biden administrations.

In a sense, we are where we are today courtesy of public-private partnerships. While Spanish regents Ferdinand and Isabella may have financed Columbus's first voyage to the New World, Juan Niño, the Quintero brothers and Juan de la Cosa were, respectively, the owner-operators of the Niña, Pinta and the Santa Maria.

The fact is that public-private partnerships built much of the early infrastructure of the United States, including the Philadelphia and Lancaster Turnpike road in Pennsylvania, which was initiated in 1792, and an early steamboat line between New York and New Jersey in 1808.

PPPs are slated to experience a renaissance in light of the $1.9 trillion proposed by the Biden administration to create 2.7 million jobs over the next 10 years and add over $5.7 trillion to the economy by 2024, making up for the COVID-19 recession job losses by a factor of 10.

So, what exactly are PPPs, how do they work and what are their benefits? PPPs are contractual agreements between government agencies – federal, state or local – and private companies. Collaboratively, they provide a public service, typically infrastructure-related utilities such as water, sewer, transportation, bridges, highways or light rail. Most public works projects in the U.S. are designed by the government and put out for bidding.

The lowest responsible bidder is awarded the contract. Then if there is an operational component, the facility will typically be operated by government employees. The major benefit of a public-private partnership is in getting the private entities involved to deliver a product more efficiently, more cost effectively and with improved service. The private entity has the expertise to provide the service; it is their focus, as it is what they were created for. With PPPs the financial risk is transferred from taxpayers to investors; the undertaking is "bundled" (the private partner designs, builds, finances and operates); and PPPs offer expanded capital opportunities — financing that uses a combination of equity and debt. One should note that a municipal government might be so heavily indebted that it cannot undertake a capital-intensive building project; but a private enterprise may be interested in funding its construction in exchange for operating profits once the project is complete.

The financing of PPPs is generally sourced by the government through surpluses or borrowing or by the private sector through debt and equity finance. The funding, however, is typically sourced from taxes or user charges, depending upon whether it is a government-pays or user-pays scheme.

Examples of PPPs abound. For instance, the California Fuel Cell Partnership, a public-private partnership to promote hydrogen vehicles (including cars and buses) in California, is notable as one of the first initiatives for that purpose undertaken in the United States. The challenge is which comes first, hydrogen cars or filling stations?

Another public-private partnership example is Challenge Seattle, a coalition that has been exploring an ultra-high-speed rail corridor from Portland to Seattle to Vancouver, along with broadband internet access and strategic land zoning.

PPPs surely have their limitations, however. The Cross City Tunnel project in Sydney is a good example. When a concessionaire fails to fulfill its contractual obligations, the state is forced to take over project delivery, and this can entail substantial delays and cost overruns. Failure to complete a project can have other downsides. In the first instance, the intended facility is not built at all, so residents and businesses must continue to deal with the problems impacting the existing system.

Second, a PPP failure that results in significant losses for bondholders could damage the prospects for future project financing.

For PPPs to succeed, a shared vision and mutual respect are paramount. Both parties must be as committed to achieving the others' goals as they are to their own. Contracts alone cannot achieve this. Incentives (as opposed to penalties) and the involvement of a government champion/politically influential advocate are essential. Other requisites are the presence of political will and quality of institutions and governance. At the management level, measurable objectives, proper monitoring, clear accountability and consultative decisionmaking are essential.

To say U.S. infrastructure is in a sorry state of disrepair is an understatement. The American Society of Civil Engineers' report card on the nation's infrastructure grades it a "D+," meaning mostly below standard, while the latest Global Competitiveness Report of the World Economic Forum finds the U.S. has declined from fifth place in 2002 to 13th in 2021 in terms of the quality of its infrastructure.

The challenge is great and immediate. Harnessing and combining government investment, financing, oversight and accountability with private sector acumen in designing, planning and executing of projects will enable our infrastructure reform efforts to succeed.

THE HILL

BY JERRY HAAR, OPINION CONTRIBUTOR

Jerry Haar is a business professor at Florida International University and a global fellow of the Woodrow Wilson Center in Washington, D.C. He is also a working group member on Work and Entrepreneurship of the Council on Competitiveness.

Senate Lawmakers Release $304B Bipartisan Roads Proposal.

The draft legislation includes new grant funding for areas like electric vehicle infrastructure and rural projects. It comes as the White House struggles to win over Republican support for a much broader infrastructure package.

Lawmakers on a Senate committee that deals with infrastructure on Saturday released a bipartisan, $303.5 billion draft proposal to reauthorize the main federal program that provides funding for highways, roads and bridges.

In addition to supplying bedrock federal dollars for roads, the legislation would provide new grant funding in a number of areas—including for electric vehicle infrastructure, efforts to make the nation's infrastructure more "resilient" to extreme weather, climate change and natural disasters, and for projects in rural regions.

"Not only will this comprehensive, bipartisan legislation help us rebuild and repair America's surface transportation system, but it will also help us build new transportation infrastructure," said U.S. Sen. Shelley Moore Capito, of West Virginia, who is the top Republican on the Environment and Public Works Committee.

Continue reading.

Route Fifty

by Bill Lucia

MAY 22, 2021

[Who Will Pay for the Roads?]

Key Findings

- The future of funding for America's highways has been the topic of much political discussion for decades. While many states have increased motor fuel tax rates over the last decade, the federal government has not updated the gas tax since 1993.
- The motor fuel tax is a relatively well-designed tax which acts as a user fee by raising revenue to fund the highway system. The tax also aims to counter the negative side effects caused by driving petroleum-burning motor vehicles and their contribution to congestion.
- Tax revenues per vehicle mile traveled (VMT) are decreasing in real terms while expenditures are increasing in real terms. In 1994, a passenger car averaged 20.7 miles per gallon (MPG) and drivers paid 3.2 cents in state and federal tax per VMT. In 2018, a passenger car averaged 24.4 MPG and drivers only paid 2.1 cents per VMT.
- Discrepancies between tax revenues and highway expenditures will get worse as fuel economy improves, if tax rates are not indexed to inflation, or if share of electric vehicles (EVs) grows.
- One solution is to fund highways by taxing vehicle miles traveled. Rather than using taxes on cars or motor fuel as a proxy for transportation, a tax levied directly on miles gets closer to capturing the externalities and approximating the road maintenance cost of each vehicle.
- A federal VMT tax rate must average 1.7 cents per mile to cover the highway fund's expenditures. The actual rate per vehicle should be differentiated based on weight per axle.

Continue reading.

Tax Foundation

by Ulrik Boesen

August 25, 2020

[Infrastructure Bond Bill Could Boost Life Insurers' Earnings.]

What You Need to Know

- U.S. life insurers ended 2020 with $2.1 trillion in corporate bonds and just $208 billion in municipal bonds.
- Under S1308, the Treasury Dept. would help state and local governments pay higher rates on eligible taxable bonds.
- The ACLI, SIFMA and the Insured Retirement Institute all support the bill.

Republicans and Democrats are working together on a bill that could encourage life insurers to invest in efforts to build and maintain bridges, tunnels, subways and renewable energy programs.

Sen. Michael Bennet, D-Colo., talked about S1308, the "American Infrastructure Bonds Act of 2021" bill, at a hearing on infrastructure financing Tuesday that was organized by the Senate Finance Committee.

The bill could help state and local governments issue taxable municipal bonds, to attract cash from life insurers, pension plans and IRA holders for infrastructure projects.

Senators and witnesses spent much of their time at the hearing discussing options for increasing and using federal revenue.

But Sen. Ron Wyden, D-Ore., the committee chairman, did talk about the Build America Bond program in his opening remarks. Congress created that taxable infrastructure bond program in 2009, in response to the 2007-2009 Great Recession. The goal was to rush money to “shovel ready” construction projects.

“It was completely bipartisan,” Wyden said.

He recalled estimating that the program might succeed at issuing about $3 billion to $5 billion worth of bonds.

“In a year and a half, it sold $182 billion worth of bonds,” Wyden said. “That’s an example of a public-private partnership coming together.”

Taxable Bonds vs. Tax-Exempt Bonds

Today, state and local governments borrow money mainly by issuing tax-exempt municipal bonds.

Investors who normally do have to pay income taxes on investment earnings buy the bonds to earn a steady income while holding down their tax bills.

Corporations and some other buyers issue taxable bonds. Those bonds typical pay higher interest rates than tax-exempt bonds, because investors subject to income taxes must pay taxes on their bond income. Life insurers, pension plans and IRA holders typically focus on investing in taxable bonds because they like getting higher yields, and they need not pay taxes on the earnings while they hold the bonds in their portfolios.

U.S. municipal bond issuers have about $3.9 trillion in municipal bond value outstanding, according to the Municipal Securities Rulemaking Board.

Figures from the Securities Industry and Financial Markets Association (SIFMA) show U.S. corporate bond issuers have about $46 trillion in corporate bond value outstanding.

U.S. life insurers ended 2021 with $2.1 trillion trillion in corporate bond holdings and just $208 billion in municipal bond holdings.

Life insurers are hungry for new investment ideas that regulators can live with, because typical yields on investment-grade corporate bonds are under 4%.

Higher yields on bonds could make it easier for offer richer life insurance, annuity, long-term disability insurance and long-term care insurance products at lower prices.

The American Infrastructure Bonds Act

Bennet has introduced S1308 together with Sen. Roger Wicker, R-Miss. The bill has a total of four Republican sponsors and cosponsors and five Democratic backers.

The bill would let state and local governments issue taxable bonds for any public purpose that the same governments could fund with traditional tax-exempt municipal bonds, according to an S1308 summary.

Because buyers of the taxable bonds would have to pay income taxes on the bond income, issuers would have to pay higher rates than issuers of comparable tax-exempt municipal bonds.

The bill would compensate the issuers for the extra interest payment costs by having the U.S. treasury secretary and the defense secretary send the issuers direct subsidy payments.

The bonds "have the potential to attract investment in local communities from a wider range of investors than are typically interested in tax-exempt municipal bonds," according to the bill summary.

The list of supporting organizations includes the American Council of Life Insurers, the Insured Retirement Institute and the SIFMA.

The Hearing

Bennet noted at the infrastructure hearing that S1308 is bipartisan.

"The bill would create a new class of direct-pay, taxable bonds, to help state and local governments finance critical public projects, " Bennet said. " These bonds would be similar to Build America Bonds."

Bennet asked a witness, Heather Buch, the transportation steering committee chair at the National Association of Counties, whether the bonds would be helpful.

"It will greatly improve our ability to invest in the critical infrastructure projects and improve the resiliency of our many county-owned infrastructure assets," Buch said. "We believe that the direct-pay bonds, like the Build America Bonds, are an excellent complement to municipal bonds."

ThinkAdvisor

by Allison Bell

May 19, 2021

[6 Funding Methods to Achieve Climate Equity in US Cities.]

United States city budgets are tighter than ever due to COVID-19. The American Rescue Plan Act, recently passed by Congress and signed into law by President Joe Biden, will provide some relief in the near term, while the proposed American Jobs Plan offers a tantalizing vision of federal infrastructure investments that could drive local climate action and equity nationwide.

Yet there remains an immutable reality that U.S. cities without dedicated revenue streams to fund climate change mitigation, resilience and environmental justice will continue to face fiscal constraints. Simply put, these social and environmental causes are at risk of being deprioritized when they stand side-by-side with other essential services.

But even in our economically challenging times, the light of leadership remains bright at the city level. Mayors, community coalitions, advocacy groups and city councils have maintained focus on climate change and the need for aggressive action to protect and improve their communities' futures.

Continue reading.

greenbiz.com

By Alexander Dane & Alisa Petersen

May 19, 2021

Municipal Market Sales Slacken, Raising Supply Alarms.

- **Investors keep cash on sidelines in expensive market**
- **States, localities are being helped by federal funding**

State and local governments, helped by the arrival of federal stimulus money, are in no rush to issue debt as they wait for Congress to consider sending them infrastructure funding.

Municipal bond issuers are anticipated to sell $7.3 billion in bonds over the next month, the lowest visible supply mark since late March and well below the average pace of about $10 billion this year, according to data compiled by Bloomberg. The 30-day supply projection usually accounts for about half of what is actually sold, since deals can be priced with less than a month's notice.

The drop in visible supply comes at a time of year where issuance has been historically strong. A combination of an economic rebound and the $350 billion American Rescue Plan, of which $105.3 billion has already been disbursed, has left the nation's municipalities less dependent on borrowing, said Barclays Plc municipal strategist Mikhail Foux.

"Going into the year a lot of people were thinking municipalities would have to issue bonds to fund deficits. The economic recovery was stronger than people believed," Foux said. "Clearly we're not going to have that much issuance over the course of the summer."

Issuers may also be waiting for federal infrastructure plans, which could serve as the catalyst for billions of dollars of debt sales. This week, Democrats in both the House and Senate advocated for leaning on the state and local government debt market in any infrastructure package and the revival of a technique to refinance debt that was rolled back during the Trump administration.

For now, the lull in sales has yet to scare off participants in a muni market that has become historically expensive by some metrics. Money has continued to pour into the market unabated, with investors adding an additional $725 million to municipal-focused mutual funds, marking the 11th straight week of inflows.

Those funds have been sitting on more cash than ever before, perhaps waiting for the right time to deploy. The 10 biggest mutual fund families all have higher cash holdings than 2016 levels, with some holding nearly 10% more, according to Barclays. If there's rate volatility during the summer it could be an opportunity to put that money to work, Foux said.

"If rates move higher, munis will outperform somewhat," Foux said. "Everyone understands valuations and how rich they are and people don't want to chase at current levels."

Bloomberg Markets

By Fola Akinnibi

May 21, 2021, 11:34 AM MDT

Municipal-Bond Inflows are Smashing Records in 2021.

Investors betting that state and local governments would get a boost from federal stimulus were right

The municipal bond market is on a tear this year.

Concerns about rising taxes, a search for even a little bit more yield than what's offered by Treasurys, and a bet that states and local entities would benefit from the Biden administration's stimulus plans have boosted investor interest in the sector.

Data from Refinitiv Lipper (as shown in the chart above) shows that through mid-May, investors had plowed $41.7 billion into muni-bond funds. That's nearly the same amount as in all of last year, putting 2021 on track to be one of the best years in history.

Continue reading.

MarketWatch

By Andrea Riquier

May 24, 2021

How President Biden Might Affect the Muni Bond Market?

Municipal bonds have long been a safe-haven asset class for fixed income investors, but it's also the most susceptible to the whims of politics.

For instance, the tax-advantaged nature of municipal bonds means that tax rates have a big impact on their valuations. Government spending also plays a key role in the supply of muni bonds over time.

Let's take a look at how President Biden's spending and tax plans could impact the municipal bond market over the coming years – and what it means for investors.

Continue reading.

municipalbonds.com

by Justin Kuepper

May 20, 2021

3 Reasons Why Muni Bonds Are Still a Good Buy.

What You Need to Know

- Through May 17, the Bloomberg Barclays Municipal Bond Index is up 0.51%, while the Agg is down 2.7%.
- The prospect of higher income taxes on high earners seems to be supporting munis, along with more fiscal stimulus.
- The $1.9 trillion American Rescue Plan provides $350 billion to state, local and tribal governments.

The municipal bond market is having a very good year, and its outperformance will likely continue.

Year-to-date through May 17, the Bloomberg Barclays Municipal Bond Index is up 0.51%.

This may not seem that great, but it far outpaces the performance of the Bloomberg Barclays Aggregate Bond Index, down 2.7% so far in 2021, and the Bloomberg Barclays Investment Grade Bond Index, off 3.55%, according to Cooper Howard, director of fixed income strategy for the Schwab Center for Financial Research.

Howard spoke with ThinkAdvisor Wednesday about the muni market's outperformance and why it could continue despite their recent price gains over Treasuries thanks to trends in three areas.

1. Economic Factors

The Biden administration's $1.9 trillion American Rescue Plan provides $350 billion to state, local and tribal governments to ease the economic impact of the COVID-19 pandemic, although the impact of the pandemic on state and local governments was not as bad as originally expected.

Though many workers, especially in lower-income jobs, lost employment benefits or pay, those with higher incomes were far less affected, according to Howard.

The better-than-expected rollout of COVID-19 vaccines in the U.S. is also supporting state and local economies.

All these developments support the credit quality of municipal bonds. State and local governments haven't had to implement deep spending cuts, and the credit quality of munis has improved, Howard said.

There have been a number of upgrades of muni bonds. Most recently, Moody's Investors Service's upgraded outlook for $38.7 billion worth of New York City general obligation bonds, from negative to stable.

Moody's also affirmed its Aa2 rating for the bonds. S&P revised its issuer outlook to stable across the board in the U.S. public infrastructure sector (including 185 debt ratings for 126 issuers), according to Goldman Sachs.

State and local governments still face fiscal challenges, such as unfunded pension plans, which were apparent well before the pandemic began. The dire forecasts anticipated for municipal debt in March 2020, though, never materialized, according to Howard.

2. Technical Factors

Supply and demand factors are also supportive of the muni bond market.

Demand for munis by mutual funds and ETFs has risen in 51 of the past 53 weeks, said Howard, noting that "strong demand has not kept pace with supply."

Morningstar reported this week that April fund flows — which include mutual funds and ETFs — marked the 12th consecutive week of inflows, totaling $122 billion, including $11 billion in April, of which $3.5 billion were in high-yield munis.

Municipal fund inflows totaled $42 billion through April 30, marking "a record to start" for a year, according to Goldman Sachs.

"The prospect of higher income taxes along with greater confidence in issuer financial health may be contributing to the strong demand," according to Morningstar.

Adding to the supply/demand imbalance is the expectation of the usual net negative muni supply in the summer, when principal and coupon payments for many muni bonds come due, prompting funds to reinvest proceeds into other muni bonds.

3. Tax-Related Factors

Higher taxes are another major factor in the growing demand for municipal bonds, whose interest payments are exempt from federal, state and local taxes.

President Joe Biden's American Families Plan — estimated to cost $1.8 trillion over 10 years to increase funding for education, child tax credits and child and dependent care tax credits — would be funded with higher taxes on wealthy Americans, including a higher marginal income tax rate and higher capital gains tax rate.

"It's clear the administration wants to raise taxes on higher earners, but there are questions about how high they will go," Howard said.

Higher marginal tax rates on wealthy investors, who are major investors in municipal debt, would have the bigger impact on municipal bond demand since most muni investors purchase the bonds for income, not capital appreciation.

The White House has proposed raising the minimum marginal income tax rate on individuals earning more than $452,700 and married couples earning more than $509,300 from 37% to 39.6% starting in 2022.

The 39.6% rate was the top marginal income tax rate before it was reduced by the 2017 tax cut plan in the last administration.

ThinkAdvisor

by Bernice Napach

May 18, 2021

Why Tax-Free Munis Are Still A Buy.

Investors who feared muni-bond defaults when the pandemic first hit created unusual opportunity for those willing to buck the tide. One of the winners was Doug Behnfield, a Boulder-based financial adviser at Morgan Stanley whose ideas have been featured here many times over the years. Doug is not only one of the savviest investors I know, he is one of the savviest guys. Now, he is quite bullish on municipal bonds for reasons spelled out in a report that went out to clients in April. He also thinks Fed Chairman Jerome Powell's confidence that the inflationary effects of stimulus and fiscal spending will be "transitory" is well founded and that their effects have already been mostly discounted by stocks and bonds.

Doug and his clients enjoyed an exceptional year in munis because he started buying when others were dumping them. Prices subsequently recovered and then some, yielding excellent gains for anyone who'd faded the panic. Doug is a canny contrarian who shares your editor's view that deflation poses a greater threat to the U.S. economy than inflation. More immediately, he expects pent-up demand to produce a subdued recovery rather than boom times. It will take years for growth to recover, he says, in part because consumers have learned beneficial lessons of frugality.

A Limited Supply

There are additional factors that have made Doug especially bullish on municipal bonds. For one, they are exempt from federal income tax. Substantial tax hikes planned by the Democrats will therefore make municipal bonds even more attractive. Munis also are exempt from a tax that affects mainly the wealthy: the 3.8% levy on investment income under the Affordable Care Act. Limited supply is another reason muni bonds stand to do well over the next couple of years or longer, says Doug. Cities will not have to raise as much money with bonds because the states have received hundreds of billions of dollars in stimulus grants.

FXSTREET.COM

ANALYSIS | 5/24/2021 12:23:25 AM GMT

An ETF With A Different Take on ESG Investing.

The most quoted reason for investing in companies that are socially, environmentally, and ethically responsible, a practice known as ESG investing, is that it is the right thing to do. There is, however, another reason that even the most cynical investor should consider it: It is profitable and is destined to become more so over the next few decades.

The reason is obvious to anyone who has children. Our children's generation have been consistently taught from an early age that some kind of environmental awareness is normal and that discrimination on the basis of race, gender, sexual identity or anything else is not acceptable. They typically have a wonderful attitude to those things, not aggressively pro or anti inclusion and equality, just indifferent to them as issues. It is hard to hate something when you don't see it as anything but perfectly normal. And when acting in an environmentally responsible manner is simply what you do rather than a product of a campaign or protest, it becomes a lot more sustainable and just about universal.

As millennials and subsequent generations take over the reins of power, both politically and financially, that is becoming the predominant attitude, with those who retain some form of bigotry viewed with a powerful pity or a withering, somewhat comical disdain. Investing in companies that are ahead of a game that powerful, destined to dominate, is a good idea, whatever your own attitude may be.

Continue reading.

Nasdaq

by Martin Tillier

MAY 24, 2021 9:55AM EDT

Why Go for a Municipal Bond ETF?

With its tax advantages and relative stability, municipal bonds should continue to outperform in the tricky fixed income environment, all to the benefit of the VanEck Vectors CEF Municipal Income ETF (XMPT).

With its 0.40% expense ratio, XMPT seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the S-Network Municipal Bond Closed-End Fund Index. The fund normally invests at least 80% of its total assets in investments from which the income is exempt from U.S. federal income tax (other than federal alternative minimum tax).

It normally invests at least 80% of its total assets in securities of issuers that comprise the fund's benchmark index. The CEFMX Index is comprised of shares of U.S.-listed closed-end funds.

"XMPT features impressive diversity of exposure, and also offers investors a way to gain access to some of the world's most successful muni bond managers through a single ticker," an ETF Database analysis said. "Moreover, because the methodology is designed to overweight CEFs trading at a discount to their NAV, this product may be able to deliver attractive current returns."

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

MAY 21, 2021

GFOA Pre-Order: An Elected Official's Guide - Managing Your Community's Assets: Capital Planning & Debt

Managing Your Community's Assets: Capital Planning & Debt explores managing resources that power the development and upkeep of valuable physical assets. Capital improvement plans, debt issuance, accessing financial markets and more are covered to equip policy leaders for building strong communities.

PRE-ORDER

S&P Credit FAQ: Risks In The Insurance Sector Ripple Through To U.S. Public Finance Rental Housing Projects

Key Takeaways

- To maintain profitability, U.S. insurance companies have implemented significant premium increases in response to low interest rates and extreme weather events.
- On average, rental housing properties' insurance premiums increased 30% between 2017 and 2019.
- Credit pressures have been moderate to date but we expect environmental factors will continue this cost escalation.

Continue reading.

12 May, 2021

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

View the Current List.

May 13, 2021

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

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

Download.

May 6, 2021

Why Local Governments Don't Pay for Expensive Disaster Insurance.

Experts worry that some federal disaster aid is actually creating perverse incentives for cities and states — and deterring them from making better climate policies.

What makes a disaster? When we think of calamity, most of us think of flood waters that submerge towns, or hurricane winds that shred buildings. The U.S. federal government uses another kind of measure to decide whether an act of nature becomes an official disaster: its cost.

In deciding when to dole out federal assistance, the Federal Emergency Management Agency looks to see if per capita damage to uninsured assets exceeds a certain threshold; for 2021, that would be $1.55 per person in a state. The agency has a proposed rule to update that number to $2.33 per person and then index it to the consumer price index going forward.

Why should anyone care about that 80 cents? The answer is climate change.

A warming climate is contributing to more and bigger disasters. But human beings are stubborn. We continue to live and build in risky areas just like nothing is happening. Proverbial frogs in the boiling pot.

One of the best ways to make the costs of climate change more transparent is to price the rising risk into insurance policies. Private insurers and reinsurers are very sophisticated at guessing when things will go wrong and charging customers accordingly. Customers can refuse to pay the higher price, but if a disaster strikes they will bear the cost. Eventually the true cost of living by the ocean or in a wildfire zone becomes apparent.

It is an effective feedback loop, but brutal — which is where the federal government comes in. To greatly simplify the history here: As disasters have increased in certain areas, private insurers found flood insurance in particular too risky, and sent premiums sky-high. The federal government stepped in to provide subsidized flood insurance, racking up tens of billions of dollars in debt for covering claims.

But the government hasn't just covered the claims of individuals; it's also covered the claims of cities, states and some nonprofits through the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Helping local governments recover from a public disaster might seem like an unalloyed good, but for a long time federal officials have argued that it creates perverse incentives for the localities to under-insure, knowing that in the end they'll never have to pick up the cost.

There are some areas, like debris clean-up and utility repair, where this argument doesn't really apply because localities would have a hard time getting insurance. But there is one category assistance in the Stafford Act that is particularly controversial because private insurers are downright eager to cover these areas: Category E applies to buildings, their contents, vehicles and equipment (BCVE). Think of school buses, court buildings and even churches.

A January analysis by the Homeland Security Operational Analysis Center looked specifically at whether states and localities were under-insuring for Category E. It found that while most of the states and localities did have some insurance, the proportion of overall building repair costs covered by insurance has only been 28% over the last decade or so. In other words, Uncle Sam has been on the hook for 72% of repairs. And according to an analysis by Hagerty, an emergency management consulting firm, Category E has historically accounted for the largest chunk of FEMA's assistance obligations.

Craig Fugate, who ran FEMA under the Obama administration, sees in these numbers not just under-insurance "but rather a wholesale risk transfer."

The concern is that this risk transfer will beget even bigger bills down the line. Without an incentive to purchase expensive insurance, states, cities, and tribes are largely shielded from the most immediate costs of a warming Earth. If towns had to pay for real risks, they would have a financial incentive to place new buildings and bridges out of harm's way. Instead, towns, eager to return to normal after a disaster, rebuild again in the same spots. (By law, FEMA can make them elevate the new properties, but not move them.)

There are endless examples of FEMA money that's been used to rebuild in an area that's very likely to flood in the future, from prisons and airports in Louisiana to public schools in New York City. This is important not just because of the expense of immediate replacement, but also because town planning and infrastructure often dictate where private residences and businesses are built. “If the state locals aren’t internalizing the costs of these risks, you totally get the wrong incentives to encourage development in certain areas,” said Lloyd Dixon, a co-author of the Homeland Security report and a senior economist at the RAND Corporation.

Within FEMA, there is relatively broad agreement that something needs to change about the current federal regime. The White House’s fiscal year 2021 budget proposed ending Category E funding altogether.

Such a position was, understandably, very unpopular with states and the proposal didn’t make it very far. That’s where the current rule comes in. It won’t eliminate Category E, but it does raise the threshold for state assistance. Not only does it raise the per capita minimum by 80 cents; it also raises the total minimum storm damage from $1 million to $1.5 million, a number that will also be indexed to inflation going forward.

In theory, over time as the thresholds increased, the number of storms covered would decrease and states and localities would be forced to have a more robust insurance practice. “They can either use their own budgets, or increase their use of insurances to cover risk,” Fugate said.

But former FEMA administrator Brock Long is skeptical. He argues that raising the threshold for disaster assistance might just force states to look for even more uninsured assets. He says FEMA can’t fix the problem with just rule-making.

“The Stafford Act was innovative when it was introduced in 1979 but it did not encompass climate change,” he said. “It is time for Congress to consider legislative changes that reward communities for doing the right thing,” he continued, “things like proper building codes and reinsurance capabilities need to be incentivized not penalized.”

Colin Foard, who studies this issue for the Pew Charitable Trust, has a similar view. He says cities and states desperately need the money from the federal government to prepare for the future. If they want to reform the current problem, they shouldn’t spend less, he says. They should just spend differently, perhaps mandating that Category E funds go toward buildings that are disaster resistant. “Every dollar spent on mitigation can save 6 in recovery,” he said. “So if the federal government wants to do something about this, there is a more strategic way to lower everyone’s costs.”

Bloomberg CityLab

By Leslie Kaufman

May 15, 2021, 4:31 AM MDT

Public Finance Note: Milken Institute Public Finance Newsletter

“Public Finance Note” is the inaugural newsletter of the Milken Institute’s new Program for Excellence and Equity in Public Finance (P-FIN). Facing the unprecedented twin health and economic crises from COVID-19, the nearly $4 trillion state-local-municipal finance space, employing over 20 million Americans, faces an uphill battle to recover. Helping this critical sector of our economy rebound strongly and equitably is the goal P-FIN.

Future deficits in the state and local sector are estimated to be as high as $1 trillion in the next several years, about four times the hole created by the 2008 Great Recession. As a result, traditional financing for essential services, let alone new investments in equitable community development and post-COVID needs like community broadband, could be impeded without innovation and intention by policymakers and investors.

Housed at the Center for Financial Markets at the Milken Institute, P-FIN will aim to serve as a networked center of gravity and a solutions resource for policymakers, market-makers, academics, and innovators committed to (1) building best practices and innovation on the public side, (2) reducing market fragmentation on the private side, and (3) engaging investors and policymakers to ensure a strong, equitable, and resilient COVID-19 recovery.

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- Out Front: An Interview with Lois Scott
- Policy Watch: The Push for Predevelopment
- Public Finance Advisory Council: Meet the Members
- 2021 Q1 Calendar
- What We're Reading, Listening To, and Watching

Read the newsletter.

The Milken Institute

May 10, 2021

Colleges Bond Deals Betting on Resurrection of Campus Dorm Life.

- **Tufts, U.C. Davis among those borrowing to build new housing**
- **A new appreciation of community seen emerging from pandemic**

Colleges all across America are betting big on the resurrection of American campus life. So are bondholders.

After a year of declining enrollment, online classes and vacant quads, schools have started selling bonds again for new dormitories, signaling optimism that the impact of the pandemic will be short-lived.

Tufts University, a private school near Boston, took on $250 million of debt to build a new residence hall to allow more students to live on campus. Stockton University raised money to build apartments for its Atlantic City campus. Even a company that has seen several of its dorm projects fall into financial distress during the pandemic was easily able to sell bonds to build another at a college in Boca Raton, Florida.

They are joining other industries upended by Covid-19 — like airports and convention centers — that are seizing on low interest rates and investors' confidence in the economic recovery to refinance debt or borrow for new projects. Investors have been anticipating a comeback even for schools struggling before the pandemic: Junk-rated education debt has returned more than 5%, some of the municipal market's biggest gains.

“The higher-education sector has been far more resilient than people had thought back when the pandemic first broke in March and April,” said Eric Friedland, director of municipal research for Lord Abbett, which has been buying higher-education bonds.

Virtually Unscathed

The impact of the pandemic, which cut undergraduate enrollment nationwide by about 6% this spring, was softened by stimulus money from the federal government. That’s left bondholders virtually unscathed: debt issues for just 18 student-housing projects have showed signs of distress in 2020 and so far in 2021, either by defaulting or taking steps such as drawing down reserve funds to cover bond payments, according to Municipal Market Analytics.

The steady vaccination rollout is now promising a return to normal, with colleges poised to reopen classrooms and some confident enough to start borrowing again to build new facilities to draw in students. About $600 million of municipal bonds have been issued so far this year for student housing projects, nearly three times as much as was sold in the same period a year ago, according to data compiled by Bloomberg. A California agency this month will sell $275 million of bonds for a 613-unit student housing facility at the University of California, Davis.

Rhodes College, a liberal-arts school in Memphis, Tennessee, is among the schools financing new residences. The college of more than 1,800 students saw applications for the 2021-22 academic year surge to 20% over its previous record. It sold about $19 million of bonds in April for a new dormitory with a lounge for student groups to gather.

President Marjorie Hass said the pandemic has underscored the value of on-campus community. Rhodes has started requiring students to live on campus for three years — instead of the previous two — a step that will increase revenue by about $500,000 a year starting in fiscal 2023.

“We certainly have had to spend more time thinking about the campus experience,” she said in an interview. “It was really a moment to reflect on the value of the face-to-face residential experience.”

Encouraging Signs

There are other encouraging signs for schools. Students on average applied to 9% more colleges as of March 1 compared with last year, according to data from the Common Application, a nonprofit that lets individuals apply to multiple schools. Some of that may be driven by students sending more applications after many schools dropped requirements for students to submit SAT and ACT scores. Nationally, in April the amount of student housing pre-leased for the coming school year grew by 10 percentage points to about 58%, the biggest jump since prior to the pandemic, according to data on off-campus properties tracked by RealPage.

Tufts, a selective school in Massachusetts, saw undergraduate applications surge 35% for the fall 2021 semester. Last month, it sold $250 million of taxable bonds as part of a long-running plan to build a new residence hall on campus.

Michael Howard, an executive vice president at Tufts, said in a statement the school has been looking to add a new residence hall for years. “Although the proposed new dorm is unrelated to the pandemic, the challenges of the past year have given students an even greater appreciation for the sense of community that is fostered by residential campus life,” he said.

With investors pouring into high-yield bonds, even speculative projects are easily financed in the debt market. A private company affiliated with Provident Resources Group, a national company that finances dorms, sold bonds for a new 342-bed dorm at Lynn University, a private college in Boca

Raton, Florida, with over 3,200 students. Other Provident properties have struggled during the pandemic, with two bond-financed projects in New Jersey disclosing in April that they would begin discussions with their bond trustee to avoid a technical default.

Investors demanded higher yields to be compensated for the risks associated with the Lynn sale. The bonds priced to yield 5% in 2057, about 3.4 percentage points above AAA borrowers.

Stockton University, a public college in Galloway Township, New Jersey, is expecting its campus to fill with students again. The number of residential students tumbled by 39% in fall 2020 as classes went online. This month, it sold bonds to finance a $69 million apartment-style complex that will house more than 400 students at its beach-front campus in Atlantic City that opened in 2018.

“Students are very interested in returning to a sense of normalcy,” said Jennifer Potter, chief financial officer at the university, in an emailed statement.

Bloomberg Markets

By Amanda Albright and Peyton Forte

May 12, 2021, 7:30 AM MDT

— With assistance by Janet Lorin, Natalia Lenkiewicz, and Danielle Moran

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Analysis: How Governments Can Effectively Spend American Rescue Plan Funds

If they spend wisely, states and localities can put their budgets and economies in a better position—now and in the future, according to The Pew Charitable Trusts.

The American Rescue Plan Act is expected to provide $195 billion in flexible funding to states as well as $130 billion to local governments, which may cause a challenge to keep spending levels once the relief expires in 2024. The Pew Charitable Trusts suggests ways governments can effectively use federal funds.

The organization advises governments to take lessons learned from the Great Recession to inform strategic decisions for allocating stimulus dollars from the federal government. Its research draws on the problems states faced in 2009, when states had problems sustaining programs created with money from the American Reinvestment and Recovery Act under President Obama.

Many cities will face issues, too, because they are receiving such large sums of aid. For instance, Dayton, Ohio, with about 140,000 residents and a general fund of about $180 million, will receive around $147 million in direct federal aid, according to estimates compiled by the National League of Cities.

The federal stimulus package also contains $10 billion for states to boost the capital available to new businesses, which is another opportunity to improve the economy.

Pew says states should conduct analyses of what their budgets will look like after the federal funds expire to avoid the “fiscal cliff” they faced after getting stimulus money under the Obama administration. States also should take into account multiple factors, including lingering effects of the pandemic, according to the organization.

There are issues exacerbated by the pandemic like extreme demographic changes and the loss of tax dollars that states will have to consider in their budget forecasts. The commentary highlights Hawaii and Nevada as states that may want to consider the heavy losses of tourism dollars and the potential of regaining those funds once the pandemic subsides.

Some challenges governments will come across are how to balance using funds for continuing costs like hiring state employees and one-time expenses such as infrastructure projects and essential worker benefits, the commentary says. However, states can use funds from the act to reduce long-term costs.

Using the money to reduce the backlog of needed infrastructure maintenance, including expanding access to broadband for residents, could also offer long-term budget relief, according to Pew. It also advised that states use the stimulus funds to pay unemployment claims, which are usually paid from taxes on employers with interests.

"By acting responsibly now while maintaining a long-term perspective, states can ensure that future crises and challenges—whenever they occur and whatever their causes—will be markedly less painful," writes Josh Goodman, a senior officer at The Pew Charitable Trusts.

While Pew advises against using the money to start new programs, it says "if ongoing spending is below what a state is likely to be able to sustain, then using some of the federal dollars for ongoing expenses is a reasonable choice."

The Treasury Department is providing guidance that will better inform states and localities of how they can use the relief money.

To read more on the Pew analysis click here.

ROUTE FIFTY

by BRENT WOODIE

MAY 14, 2021

U.S. Offers States $350 Billion in Aid, With Conditions.

- **Funds intended to help combat pandemic, stoke recoveries**
- **Governments can't put aid toward tax cuts, debt payments**

The U.S. Treasury Department on Monday began accepting applications from states and municipalities for $350 billion in relief funds, laying out rules to ensure the money quickly flows toward Covid-19 relief and other programs that will support the economy.

The step will trigger the release of money to governments potentially within days, with the funds being a key part of the $1.9 trillion American Rescue Plan law signed by President Joe Biden in March. Generally, the funds are intended to help states and local governments combat the pandemic and stoke their economic recoveries.

Treasury's guidelines spell out the range of potential uses by governments — such as rehiring workers or supporting industries that were hit hard by Covid-19 — as well as prohibited uses. States and territories can't use the funds to pay for tax cuts, a provision of the law that has sparked lawsuits from Republican state officials. Recipients are also barred from using aid to fund debt payments, legal settlements, or deposits to rainy-day funds or financial reserves, according to a Treasury fact sheet.

Continue reading.

Bloomberg Politics

By Amanda Albright

May 10, 2021, 11:00 AM MDT Updated on May 10, 2021, 12:54 PM MDT

91% of Cities Say Insufficient Funding Delaying Critical Infrastructure Investments.

New Data from the National League of Cities Reveals Cities Concerned About Funding, Developing and Providing Essential Infrastructure Services for their Residents

As the Congress and the Administration debate the details of a new comprehensive infrastructure package, new survey data released today from the National League of Cities (NLC) shows 91% of cities, towns and villages surveyed identified that insufficient funding for infrastructure is a top priority.

"Local governments have led the way on infrastructure for decades. The latest data and stories from America's cities, towns and villages highlight the incredibly urgent need for support and partnership from the federal government to pass comprehensive infrastructure legislation," said Kathy Maness, President, National League of Cities and Councilmember, Lexington, South Carolina. "It is well beyond time to rebuild our nation's roads, water systems, broadband and workforce. Our communities can't keep doing it alone."

The 596 local leaders surveyed in March and April 2021 identified top factors impacting their infrastructure decision-making including insufficient funding (91%), lack of pre-development funds (56%), essential services (31%) and hiring workers skilled for infrastructure (27%). Local leaders have also identified the need for making infrastructure decisions through an equity lens—with nearly 20% of those surveyed identifying equity as a top factor in their decision making. With an estimated $660 billion in local infrastructure needs according to the Kinder Institute for Urban Research at Rice University, the survey results reflect that infrastructure demands far exceed city resources.

Continue reading.

The Death and Life of the Central Business District.

Offices are not going back to the way they were pre-pandemic, and neither are the downtown neighborhoods that house them.

Just last spring, a chorus of pundits loudly proclaimed a sweeping urban exodus and the impending death of cities. Now, just slightly more than a year later, our cities are springing back to life. Sidewalks are starting to bustle; restaurants, which have spilled onto the streets, are teeming with patrons; museums and galleries are reopening; and fans are heading back to baseball parks, basketball arenas and even outdoor concert venues.

But one area of urban life where the pandemic is poised to leave a far bigger mark is on the places where we do business. The ongoing shift to remote work challenges the historic role of the Central Business Districts — neighborhoods like New York's Midtown and Wall Street, Chicago's Loop, or San Francisco's Financial District — as the dominant centers for urban work.

These signature skyscraper and corporate tower districts that define the skylines of great cities, and are often synonymous with downtowns, will have to adapt. But far from killing them off, the shift to remote work will ultimately change their form and function in more subtle ways. Given their strategic locations at the very center of major metro areas, Central Business Districts are perfectly positioned to be remade as more vibrant neighborhoods where people can live and play as well as work — a leading-edge example of what many urbanists are now calling 15-minute neighborhoods. And with conscious and intentional action on the part of urban leaders and assistance from the federal government, these CBDs can be rebuilt in ways that are more inclusive and affordable.

Continue reading.

Bloomberg CityLab

By Richard Florida

May 14, 2021

Fitch: Job Recoveries Up Sharply for Most U.S. Metros

Fitch Ratings-New York-12 May 2021: The pace of job recoveries gained substantial ground in March, though Fitch Ratings' latest U.S. Metros Tracker shows some notable laggards as well.

The median jobs recovery rate among major MSAs jumped to 61% from 56% between March and February of this year with 52 out of 53 major metros seeing employment growth. "Job growth picked up substantially in March as pandemic restrictions eased and mobility-to-work data exhibited strong growth relative to other major metros," said Senior Director Olu Sonola.

The median jobs recovery rate in major Northeastern MSAs rose to 60% in March from 56% in February. That said, all Northeastern metros were still off their mobility pandemic peeks, chief among them New York City. The country's largest employment center, New York City remains the only Northeastern metro to have recovered less than 50% of jobs lost during the pandemic.

There was a surge of job growth in Texas metros with Dallas, San Antonio, Houston and Austin. Austin remains the second-fastest recovering metro, recovering 86% of employment lost during the pandemic. Though still lagging national trends, Houston saw a large pick-up in growth was related to its improving leisure and hospitality sector, which benefitted from reopening and has recovered approximately 70% of jobs lost during the pandemic.

Leisure and hospitality job recovery in major metros has languished between 50% to 57% since

August, though fortunes could change for the better in the coming months with pandemic restrictions easing. This could be particularly good news for Las Vegas, which has the highest concentration of leisure and hospitality employment among major metros and has been hiring at a slower pace during the recovery.

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

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N.Y.'s Biggest Mall Borrowed Big and Now Can't Pay.

- **Owner hires company to mull debt restructuring talks**
- **Default would be the first on type of muni used by developers**

A sprawling shopping mall in Syracuse, New York, may be driven into one of the biggest municipal-bond defaults since the onset of the pandemic.

Already struggling before the lockdowns hammered retailers, Destiny USA, the state's largest mall, said it doesn't know if it will generate enough cash to keep running and pay its debts this year, raising doubts about whether it can continue as a business. Its owner, Pyramid Management Group, hired restructuring advisers and has sought a meeting with investors who hold about $285 million of municipal bonds that financed the project, according to a filing last month.

Nuveen LLC and MFS Investment Management were the biggest holders of the debt as of March 31, according to data compiled by Bloomberg.

If Destiny can't pay what it owes, it would be the second-largest default in the state and local government bond market since Covid-19 began racing through the nation in early 2020. It would also mark the first ever on debt backed by payments developers agree to make instead of property taxes, making it a potential precedent for a $7.5 billion corner of the market that financed New York's Hudson Yards development, the Mets' baseball stadium and the new American Dream mall in New Jersey, whose grand opening was delayed by the pandemic.

"There isn't much precedent for PILOT bonds used to finance shopping centers in bankruptcy," said David Hammer, head of municipal bonds at Pacific Investment Management Co., referring to securities backed by payments in lieu of taxes. "Valuations on many of these assets were already facing headwinds prior to Covid due to changing consumer behavior."

Aiden McGuire, a Pyramid spokesman, didn't return calls seeking comment.

Defaults have remained relatively rare in the $3.9 trillion municipal market since the pandemic, with the economic rebound and last year's stock-market rally boosting tax revenue. President Joe Biden's rescue plan will also extend federal aid toward borrowers, like public transit systems, that have seen revenue tumble.

But some businesses that have raised money by selling debt through government agencies have struggled to repay what they owe. About $2.1 billion of bonds defaulted in 2020, up from $1.4 billion in 2019, according to data compiled by Bloomberg Intelligence. Among them was a company that's building a California factory to recycle rice waste, a fuel plant in Oregon and a Tennessee cancer center.

Destiny sold its PILOT bonds in 2007 and 2016 through the Syracuse Industrial Development Agency to expand into a super-regional shopping and entertainment complex. Instead of paying real estate taxes to Syracuse, the city agreed to subsidize the project by allowing the company to direct the money to debt repayment.

But it struggled as Americans increasingly shifted to online shopping. Then Covid hit, causing sales to drop 40% and rent revenue to fall by more than 30% to $32 million last year, when the mall closed for four months.

Occupancy at the older portion of the mall that backs the municipal bonds, formerly known as the Carousel Center, fell to 57.7% in December and anchors including JC Penney Corp Inc. and Best Buy Co. Inc. shuttered stores. The estimated value of that segment fell to $118 million, less than half of the $285 million of PILOT debt outstanding.

Less Incentive

Destiny also has $430 million of subordinate commercial-backed securities, of which $300 million is on the Carousel portion. The loan servicer has granted a moratorium on loan payments until the loans mature in June 2022.

With the valuation so far below what is owed, the company has less incentive to keep paying on the debt, Fitch Ratings said in March when it downgraded the PILOT bonds deeper into junk. About $22 million in PILOT payments are due this year, $14 million more than the mall's operating revenue in 2020.

Pyramid hasn't asked Syracuse to reduce the PILOT payment, said Greg Loh, the city's chief policy officer. The next payment is due in July.

The company said in a bond filing that it's seeking to cut costs and renegotiate its debts.

"The company plans to continue to implement cost control procedures, negotiate revised terms on its debt service requirements, and rely on capital contributions from the partners, which are at the discretion of the partners and uncertain in nature, to cover any cash flow deficiencies," according to Carousel's financial statement.

Nuveen and its parent TIAA held about $110 million of Carousel's municipal bonds as of March 31, according to data compiled by Bloomberg. MFS was the second-biggest holder with $96.6 million as of March 31. Jessica Greaney, a Nuveen spokeswoman, didn't provide immediate comment. Dan Flaherty, a spokesman for MFS, declined to comment.

Some $94.3 million of the bonds issued in 2007 are insured against default. A $5 million block of the insured bonds traded at 101.5 cents on the dollar on May 6. Uninsured debt last traded at around 100 cents on the dollar in March, before the company released its financial statements.

Bloomberg Markets

By Martin Z Braun

May 13, 2021, 11:01 AM MDT

Texas Advances Bill Targeting Bank of America, Citi Over Gun Policies.

- **Legislation would curtail banks' work with Texas governments**
- **A similar bill has already passed the state's Senate**

Texas moved closer to enacting a law that would ban government work with Wall Street banks whose policies restrict the firearms industry, marking a pushback from Republicans in the gun-friendly state against corporations taking sides in America's political fights.

After a fiery debate on Thursday, the Texas House of Representatives passed a bill that would block the state and local governments from contracting with banks and other financial-services companies that have policies that limit their work for the firearms or ammunition industries. The approval sends it back to the Senate, where a different version of the bill has already passed, making it likely to head to Governor Greg Abbott for his approval.

The law would crimp business for Bank of America Corp. and Citigroup Inc., both of which enacted policies targeting certain types of firearms in the wake of the 2018 mass shooting at a school in Parkland, Florida, that left 17 dead.

Citigroup said it would prohibit its retailer-store customers from offering bump stocks or selling guns to those who haven't passed a background check or are younger than 21. Bank of America announced it would stop extending new loans to companies that make military-style rifles for civilian use.

The legislation reflects ire among Republicans as corporations are drawn into politically divisive policies of America's culture wars. That angst has been building since corporations and executives opposed Georgia's move to make it more difficult to vote after Democrats carried the state in the most recent U.S. presidential and senate elections.

Gene Wu, a House Democrat, said the bill could trigger costly legal fights, saying it creates First Amendment issues. "We don't need a thought police," he said during the floor debate before the vote. "We don't need speech police. Let Texans be."

If enacted, the Texas legislation could hurt the banks municipal underwriting business in Texas, a fast-growing state that's a major source of debt issues in the $3.9 trillion municipal-bond market. Texas-based issuers accounted for $58 billion of debt sales in 2020, the second-most of any state behind California, according to data compiled by Bloomberg.

Spokespeople for Bank of America and Citigroup declined to comment.

The House version of the bill provides an exemption that would allow banks to still participate in certain short-term note sales issued by the Texas Comptroller of Public Accounts, a type of short-term debt issued that can cover revenue shortfalls.

The legislation would affect governmental entities, which Texas law defines as state agencies, as well as political subdivisions like counties, municipalities and school districts. An amendment proposed on Thursday that would have exempted municipalities' bond sales failed.

The bill will have "a severe impact on city operations," said Vikki Goodwin, the Democratic state lawmaker who proposed the amendment. She said the main concern she's hearing is that the bill could impact bond issuances.

The bill would take effect Sept. 1.

"If I'm limited in who I can do business with and talk to and engage with, that's going to raise my costs and increase the cost to the taxpayers," Elizabeth Reich, chief financial officer for the city of Dallas, said in an interview about the bill in April.

Bloomberg Markets

By Danielle Moran and Amanda Albright

May 13, 2021, 11:18 AM MDT Updated on May 13, 2021, 12:11 PM MDT

— With assistance by Paul Stinson

[Corporate & Municipal CUSIP Request Volumes Climb for Third Straight Month.]

Corporate Issuance Up 23%, Municipal Volumes Up 4% in April

NEW YORK, May 17, 2021 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for April 2021. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a significant monthly increase in request volume for new corporate and municipal identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate equity and debt rose 23.2% in April from last month. The monthly increase was driven largely by U.S. corporate debt identifier requests, which increased by 20.1%. On a year-over-year basis, corporate CUSIP requests were down 11.6%, reflecting a significant year-over-year decline in January of 2021.

Monthly municipal volume also increased in April. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 4.3% versus March totals. On an annualized basis, municipal CUSIP identifier request volumes were up 17.2% through April. Texas led state-level municipal request volume with a total of 179 new CUSIP requests in April, followed by California with 129 and New York with 102.

"Now into our third straight month of steadily increasing CUSIP request volume, we're seeing a trend toward increased debt and capital markets activity in U.S. markets," said Gerard Faulkner, Director of Operations for CGS. "Issuers of corporate and municipal debt continue to take advantage of a combination of low interest rates and an improving economic outlook."

Requests for international equity and debt CUSIPs both declined in April. International equity CUSIP requests were down 35.5% versus March.

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

Rising Tide Lifts Municipal Bonds.

Summary

- Municipal bonds have not only recovered, posting positive returns in Q4 of 2020, but they have also continued to generate positive returns through the first four months of this year.
- While we expect discussions to continue around the direction of rates or the magnitude of change, we believe managing exposure within investment grade is clearly in play in 2021.
- In our view, investors can expect a modest performance of 3-5% (described as "earn the coupon") to be the target for investment grade municipal bonds.

Continue reading.

Seeking Alpha

May 11, 2021

Muni Bonds Push Higher.

Summary

- Munis posted another strong month amid falling rates and favorable market dynamics.
- Seasonal weakness typical of mid-April was averted due to the delayed tax-filing deadline.
- Although valuations appear rich, economic and political themes look positive for municipals.

Continue reading.

Seeking Alpha

May 11, 2021

Why Municipal Bonds Are Springing Back to Life.

The widely followed S&P National AMT-Free Municipal Bond Index, a broad gauge of municipal debt, is modestly higher over the past month.

Generally speaking, municipal bonds don't deliver big gains in short time frames, but the index's recent uptick confirms investors are returning to an asset class many retirees lean on for reducing risk and generating income.

“Investors have poured a net $39 billion into municipal-bond mutual funds this year through Thursday, according to data compiled by Municipal Market Analytics, the most over the same period since 2008,” reports Sebastian Pellejero for the Wall Street Journal. “Returns on the debt, which local governments use to fund public works such as sewers or bridges, have beaten those of corporate bonds and Treasurys.”

Yields are still considered low on muni bonds, but between anemic yields on cash instruments and slack performances elsewhere in the fixed income market, investors are ratcheting up their appetite for munis.

“Demand is so intense that Illinois, the only state to tap the Federal Reserve’s pandemic emergency-lending facility, recently sold three-year bonds at yields near 1%,” according to the Journal.

Fervor for municipal debt may not be done. In fact, it may just be getting started. President Biden’s proposed capital gains tax hike is motivating advisors and investors to seek more tax-advantaged vehicles, and muni bonds check that box.

“Another boost is coming from the Biden administration’s proposed tax changes, which potentially can make municipal debt more attractive to investors. Considered almost as safe as Treasurys because they are backed by taxes or payments on essential services like water, municipal bonds typically offer interest payments that are tax-free,” adds the Wall Street Journal.

Another reason to consider munis is that credit risk is low. As noted above, only Illinois borrowed money from the Fed, and tax receipts are exceeding expectations, even in some financially challenged states, indicating muni default risk remains benign.

ETF TRENDS

by TOM LYDON

MAY 11, 2021

Are We Entering a ‘New Golden Decade’ for Municipal Bonds?

With higher yields and more stability to offer fixed income investors, municipal bonds are all the rage in the debt market. A pair of active funds to consider are the IQ MacKay Municipal Intermediate ETF (MMIT) and the IQ MacKay Municipal Insured ETF (MMIN).

With its active management strategy, MMIT seeks current income exempt from federal income tax. The fund, under normal circumstances, invests at least 80% of its assets in debt securities whose interest is, in the opinion of bond counsel for the issuer at the time of issuance, exempt from federal income tax (“municipal bonds”).

It does not intend to invest in municipal bonds whose interest is subject to the federal alternative minimum tax.

MMIN seeks current income exempt from federal income tax. Like MMIT, the fund is an actively managed ETF and thus does not seek to replicate the performance of a specific index.

Instead, it uses an active management strategy to meet its investment objective. The fund, under normal circumstances, invests at least 80% of its assets (net assets plus borrowings for investment purposes) in: (i) debt securities whose interest is, in the opinion of bond counsel for the issuer at the time of issuance, exempt from federal Income tax ("municipal bonds"); and (ii) debt securities covered by an insurance policy guaranteeing the payment of principal and interest.

"A New Golden Decade"

Demand for municipal bonds have been intensifying as of late. With a stability that's as close to Treasury notes as possible, munis are the perfect option for the risk-averse bond investor.

Additionally, muni ETFs offer the advantage of holding tax-free debt as part of its portfolio. Proposed tax changes under U.S. president Joe Biden are another reason why municipal bonds been seeing strong demand as of late.

At the height of the pandemic, bond investors were selling off municipal bonds due to fear of defaults. However, the tide is changing, in what could be a "golden decade" for municipal bonds, according to Bank of America.

"Bank of America analysts in a recent note said the municipal market is entering 'a new golden decade of strong growth and strengthening credit quality,'" a Wall Street Journal article said. "Moody's Investors Service raised its outlook for state and local governments to 'stable' from 'negative' after the passage of the $1.9 trillion pandemic relief bill in March, saying the funds would stabilize state finances and help avoid funding cuts for local governments."

ETF TRENDS

by BEN HERNANDEZ

MAY 13, 2021

[Jumping Into The 'Green' Muni Market.]

Between the Biden administration's ambitious plans—driven in large part by climate change concerns—to bolster the nation's infrastructure, the looming specter of tax hikes, and the growing desire among many investors to "make a difference" with their investment dollars, it's an ideal time to explore opportunities in the market for "green" municipal bonds. Good old-fashioned munis, after all, will be supplying much of the capital as communities build out their infrastructure and deal with the effects of climate change.

Not all credits or issuers should be viewed in the same light, though. Some issues marketed as green bonds, for example, may not achieve the environmental benefits investors had hoped for, whether due to inefficient use of proceeds, a lack of proper oversight, or because proceeds were deployed to insufficiently green projects.

Similarly, investors should bear in mind that green bonds may be issued for very different reasons, with some intended to drive proactive environmental benefits while others fund more "defensive" projects that bolster communities' resilience to the negative impacts of climate change.

[Continue reading.]

FINANCIAL ADVISOR

by JEFF LIPTON

MAY 13, 2021

[Munis In Focus: What Kind Of Bond Is Best? (Bloomberg Radio)]

Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses the latest on muni markets. Hosted by Paul Sweeney and Matt Miller. (Taylor Riggs fills in for Matt Miller)

[Listen to audio.]

Bloomberg Radio

May 14, 2021

[Muni Sales for New Projects Hit 10-Year High as Economy Revives.]

- **Issuance already at $65 billion in 2021, up 31% year over year**
- **Work was delayed or trimmed amid the pandemic: Ramirez's Block**

U.S. states and cities are turning to the municipal-bond market to raise money for new projects at the fastest pace in at least a decade, a sign of optimism as tax revenue improves with the reviving economy and as federal aid pours in.

Localities issued about $65 billion in long-term municipal debt in the first four months of 2021 solely for new projects, a 31% jump from the same period of last year, according to data compiled by Bloomberg. The tally marks the most bond sales for new endeavors, known as new-money issuance, to begin a year since 2010.

The borrowing burst speaks to localities' improving confidence as business activity recovers with the vaccination campaign and as localities ponder how to spend the money they're getting from the $350 billion of aid in President Joe Biden's American Rescue Plan.

Get Your Shovels Ready
Cities are borrowing for new projects at the fastest pace since 2010

In just two examples of deals for infrastructure projects that are about to hit the market, West Virginia is selling more than $200 million of general-obligation bonds to fund highway, bridge and secondary road construction; and Colorado is set to issue $500 million of certificates of participation for highway and transit projects in rural areas.

"Many issuers delayed projects or scaled them back because of the pandemic," said Peter Block, head of municipal strategy at Ramirez & Co. "We're seeing a natural increase in new money as the economy picks up."

Sales Boomlet

Local officials are seizing on low interest rates and robust demand for municipal debt to borrow for projects or refinance for savings. That's causing sales boomlets in some parts of the $3.9 trillion state and local bond market — transportation-related issuance reached a record in the first quarter, surpassing the previous peak in 2008, data compiled by Bloomberg show.

Maine Governor Janet Mills, a Democrat, is proposing to sell bonds that will complement her plan to invest the nearly $1 billion the state is set to receive from the American Rescue Plan.

Tom Kozlik, head of municipal strategy and credit at Hilltop Securities Inc., estimates that about $650 billion in federal aid will be spread across different municipal sectors, possibly bringing about a "golden age" of opportunities in public finance.

"If public finance issuers were on the fence about selling debt this year, they are probably leaning toward doing it," he said.

With muni sales overall expected to increase heading into the next few months, the project boom could extend through 2021.

"This year is on track to equal or exceed last year," Natalie Cohen, founder of National Municipal Research, Inc., said of new-money issuance. "There is some light at the end of the tunnel."

Bloomberg Markets

By Peyton Forte

May 12, 2021, 12:40 PM MDT

— With assistance by Natalia Lenkiewicz, and Amanda Albright

[Going Wide With Muni Ladders: The Long And Short Of It.]()

People invest in municipal bond ladders for several reasons, the obvious being they can benefit investors seeking tax-efficient income. Also, by buying bonds with varied maturity dates, investors can increase liquidity and avoid getting locked into a single interest rate, which can ease the impact of rising rates. And, because bond ladders hold several issues, they offer investors some diversification through type of issuer and credit quality.

But what happens when the market shifts, like what's happening right now? Fragmentation makes it harder to find what you're looking for. Almost 70% of the municipal bond market (as represented by the Bloomberg Barclays Municipal Bond Index) used to be rated AAA, whereas at the end of last year, it was less than 16%, based on our team's analysis of the index from 2004 through 2020 using Bloomberg data. On top of that, the bull market for bonds is subsiding and the world is working toward putting a global pandemic in the rearview mirror. It's clear the market doesn't look the same as it did when many existing bond ladders were initiated. By virtue of their design, ladders don't automatically shift to stay current with rapidly changing market trends — they are manually adjusted. So in 2021, I believe it may be time to consider ways to enhance traditional ladder strategies, perhaps by complementing them with passive multi-sector strategies that are built to exploit the broader credit opportunities. Cost efficiency becomes even more important in low-rate environments.

What's In A Bond Ladder, Anyway?

The typical municipal bond ladder is comprised of 10 to 15 bonds, usually general obligation (GO) bonds, with one-, three-, five-, 10- and 20-year maturities. A GO bond is a municipal bond that is secured by a state or local government's pledge to repay bondholders using available revenue. Investors might choose state GO bonds for the tax benefits and security of repayments, and they may ask their advisors to layer in certain bonds that are near and dear to their heart — those that support their home state or causes they care about, such as education or preserving parks and green space.

But how diversified are they really? How many sectors does the typical bond ladder provide access to? The reality is, the municipal bond market is picked over, particularly in smaller states. Investors' and advisors' options are limited. There are many non-GO sectors investors can consider, which are tied to specific projects or revenue streams, each with its own yield profile. Also, not all investors benefit equally from state municipals; depending on their tax bracket and domicile, after-tax returns may differ. So some investors in bond ladders aren't necessarily getting the broad yield opportunity they might think they're getting, much less sector diversification.

Ladders Don't Move With The Market

If an investor is in a 10-year bond ladder, they chose bonds in that ladder within the context of a market that no longer exists. Not only has the U.S. Treasury bond bull market likely ended its run, but the global pandemic has dramatically changed the world and has had a profound impact on many industries.

As Covid-19 vaccinations continue to roll out and individual states' economies open up, certain sectors are poised to reap the benefits. For example, as people begin traveling again, airports and toll roads are likely to generate more revenue. President Biden's proposed $2 trillion package of investments for infrastructure and domestic needs, including a large proportion going toward the construction of roads, bridges and rail lines, would further open opportunities in the municipal bond market. And by virtue of their limited exposure, investors in traditional bond ladders may be missing out on sectors that are on the verge of strong performance.

Using A National Municipal Bond Strategy As An Alternative Approach

While bond ladders put the onus on the advisor or individual to diversify holdings, a nationally diversified municipal bond strategy typically provides exposure to 200 to 400 bonds, automatically delivering both geographical and sector diversification. As the market shifts, such a diversified strategy is in a stronger position to capitalize on outperforming sectors in the marketplace.

Professionally designed municipal bond strategies, including those accessed through strategic beta exchange-traded funds (ETFs), choose sectors and investments they believe will boost yield, regardless of where they're located.

As for the disadvantages of a nationally diversified municipal bond strategy, income is exempt from federal but not state taxes. As such, this product might not appeal to or fit the needs of residents living in high-tax states such as New York.

Bottom Line

In a higher-rate environment, bond ladders can be a cost-effective strategy to balance the need for recurring income and reinvestment risk. In a low-rate environment, however, strict laddering can be limiting. An investor's need for real income is usually constant and does not adjust as rates rise and fall — making it difficult for those who use ladders, which consequently limits their investment universe. By adding a national municipal strategy to the laddered portfolio, investors and advisors may be able to increase income while maintaining cost efficiency and transparency. Sometimes, the decision to widen the opportunity set is as important as deciding where on the curve to land.

Forbes

by Marc Zeitoun

May 13, 2021

CEF Insider Finds Value in Munis.

Infrastructure spending is back in vogue, and we've got a chance to grab a piece of it tax-free, asserts Michael Foster, fund expert and investment strategist at CEF Insider.

That would be through municipal bonds, investments most people see as sleepy (though I have no idea why) but are poised to roll as President Biden's $2-trillion infrastructure package (or some version of it) becomes law.

That's because the law will usher in an explosion of new "muni" bonds — and there are select actively managed closed-end funds (CEFs) ready to pick up the best ones. By buying them now, we can nicely front run this muni-bond wave.

The best part of buying muni bonds (which are issued by states, cities and some non-profit entities, like hospitals, to fund infrastructure) is that the income they generate is 100% tax-free. This boosts the yield these funds offer considerably, especially if you're in a higher tax bracket.

For instance, a municipal-bond yield of 3.8% may not sound like a lot (although in today's market, 3.8% is still generous, since it's over twice what you'd get from the S&P 500), but it's the same as getting a 5.1% yield from dividend stocks if you earn $100,000 per year, thanks to their tax-free status.

Plus, municipal bonds are less volatile than almost all other assets, making them a great wealth protector, in addition to an income generator. The good news is that there are still bargains to be had in muni-fund land; here are three worth your attention now.

The BlackRock California Municipal Income Trust (BFZ) is an ideal way to get a 3.6% tax-free yield and capital gains over the long haul, thanks to its 9.7% discount and the fact that it focuses on California muni bonds.

Since Californians have one of the highest tax burdens in the country, a lot of them look for funds like BFZ. (And yes, you can still get tax-free income from BFZ if you don't live in California.)

And if you're worried an exodus from the highly taxed Golden State will hurt the value of California's bonds, don't be. Just 135,600 people left California in 2020, on a total population of 39.5 million. There are millions of Californians who can benefit from the tax-advantaged nature of California municipal bonds, leaving a big pool of buyers within the state itself for BFZ.

Our second fund boasts a slightly bigger discount (10.6%) and a slightly higher yield (3.7%) that BFZ: the Nuveen Ohio Quality Municipal Income Fund (NUO), so named because it invests 80% of its portfolio in highly rated muni bonds issued by organizations ranging from the Ohio Turnpike to the Cincinnati water system.

That makes it safer than your average muni-bond fund (which is already pretty steady) and therefore ideal for adding stability to your portfolio. But you're not sacrificing performance to get this ultra-stable fund: it still easily beat the benchmark muni-bond ETF, the iShares National Muni Bond ETF (MUB), in the last decade.

NUO's prudent portfolio management and market outperformance make it a nice choice for stability, gains and income – whether you live in Ohio or not.

Our final pick is the best: the Nuveen New Jersey Quality Municipal Income Fund (NXJ), which, like NUO, invests 80% of its assets in high-quality bonds while also trading at a whopping discount to NAV: 11.7%, in this case. But that isn't even the best thing about NXJ; its dividend is — its 4.7% yield is large for a tax-free muni-bond fund.

Nuveen New Jersey Quality Municipal Income has been on my radar for a long time — since back in 2018. Back then, muni-bonds were out of favor, due to rising interest rates. But the fund has outperformed the broader muni-bond market, giving investors an outsized 8.9% total annualized return since then, with tax advantages to boot. That's a sign that this quality fund is mispriced at an 11.7% discount.

moneyshow.com

by Michael Foster

05/12/2021

[Bond Investors Can Turn to Muni ETFs for Steady Yields at Lower Tax Rates.]

Fixed income exchange traded fund investors seeking steady yields and lower tax rates can turn to municipal bond strategies.

According to Municipal Market Analytics, investors have already funneled a net $39 billion into muni bond mutual funds this year through last Thursday, the most over the same period since 2008, the Wall Street Journal reports. So far this year, the munis market has outperformed corporate debt and Treasuries.

Bolstering the muni play, the Biden administration recently proposed tax hikes on the wealthy, which would make tax free municipal debt more attractive to these high net worth investors.

The sudden interest in munis marks a stark contrast to the same period of 2020 when cash-starved investors dumped everything, including the relatively safe municipal bonds. Furthermore, many warned that tax collections would plummet in the coronavirus pandemic-induced recession, fueling mounting debt and triggering a wave of defaults from the ensuing financial distress.

While defaults rose, the doomsday scenario never manifested, and investors eventually returned, especially after the Federal Reserve buoyed debt markets. Tax collections even overshot expectations, with states and local governments raising revenue expectations in response to the stimulus money coming in.

“We have money raining out of the sky,” Ben Watkins, director of bond finance for the state of Florida, told the WSJ, referring to the favorable market conditions and stimulus aid. “We’re in a much better position now than if Covid hadn’t hit at all.”

The municipal market is entering “a new golden decade of strong growth and strengthening credit quality,” according to Bank of America analysts.

Moody’s Investors Service also upgraded its outlook for state and local governments to “stable” from “negative.”

“We made it through a tough year with very minor problems,” Dan Solender, director of tax free fixed income investments at Lord Abbett & Co., told the WSJ.

As a way to focus on the muni bond market, fixed income investors can look to the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF). The American Century Diversified Municipal Bond ETF is an actively managed municipal bond fund that combines investments in thoroughly researched high yield and investment grade municipal bonds. Designed for investors seeking current income, the fund dynamically adjusts investment grade and high yield exposures based on prevailing market conditions.

Additionally, the more recently launched Avantis Core Municipal Fixed Income ETF (AVMU) invests primarily in investment grade quality municipal debt obligations from a diverse group of issuers. The actively managed fund’s investment process uses an analytical framework, including assessing securities’ expected income and capital appreciation, to seek securities with high expected returns.

ETF TRENDS

by MAX CHEN

MAY 12, 2021

For Debt Stability and Tax Exemption, Consider Muni Bond ETFs.

With the tax deadline around the corner, it’s not too late to start thinking about next year by adding tax-free municipal bonds through assets like the Vanguard Tax-Exempt Bond ETF (VTEB).

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. MUB seeks to track the investment results of the S&P National AMT-Free Municipal Bond IndexTM, which also measures the performance of the investment-grade segment of the U.S. municipal bond market.

The sampling approach means that both funds hold a subset of bonds within the index in order to replicate the yield, duration, and credit quality of the debt. This method allows the funds to avoid trading expensive bonds that could harm performance and, in addition, minimize tracking errors.

“Under normal circumstances, at least 80% of the fund’s assets will be invested in securities whose income will be exempt from federal income taxes and the federal alternative minimum tax,” the

Vanguard website noted. “Risks of the fund include the fact that changes in interest rates can affect the fund by resulting in lower bond prices (when interest rates go up) or an eventual decrease in income for the fund (when rates decline). Investors who are looking for a fund that may provide federal tax-exempt income and can tolerate moderate price and income fluctuations may wish to consider this fund.”

Soaring Demand for Municipal Bonds

Despite economic progress, many fixed income investors may still be hesitant to add more risk with corporate bonds. As such, demand for municipal debt has been high.

Whether investors are searching for more yield, debt that has a lesser likelihood of default, or diversification in their fixed income, they’re obviously seeing something they like in municipal bonds.

“Investors in search of higher returns and lower taxes are scooping up debt sold by state and local governments, pushing borrowing costs to near-record lows and boosting coffers from California to Connecticut,” a Wall Street Journal report said.

“Investors have poured a net $39 billion into municipal-bond mutual funds this year through Thursday (May 6), according to data compiled by Municipal Market Analytics, the most over the same period since 2008,” the article added. “Returns on the debt, which local governments use to fund public works such as sewers or bridges, have beaten those of corporate bonds and Treasurys.”

ETF TRENDS

by BEN HERNANDEZ

MAY 12, 2021

[How the Opioid Crisis Hurts Muni Finance Stability: New Study]

The opioid crisis has a profound effect on municipal finance, according to a new study from U.S. researchers.

The study found that municipalities with higher levels of opioid abuse also saw lower credit ratings, reduces bond issuances and reduces access to capital.

The paper, titled *Opioid Crisis Effects On Municipal Finance*, can be read [here].

From the paper:

> Using nationwide data at the level of every U.S. individual death certificate, every prescribed opioid pill, the totality of municipal bond issuance, and county-level socio-economic variables, we find that opioid abuse results in higher offer yields, lower credit ratings, and reduced bond issuance. Specifically, highly affected counties face offer yields that are 16.74 bps higher compared to less affected counties and reduce total issuance amount by nearly 9%. Given the average annual issuance of $167 million per county, our results imply a reduction of about $15 million in annual funding that could have otherwise been raised, an amount roughly equivalent to twice the average price of

a new elementary school (see Cornaggia et al., 2018). Because there is significant within-state dispersion in the severity of the crisis, our county-level study links local opioid abuse to credit risk and capital
market outcomes at a granular level.

Overall, we conclude that opioid abuse has significant adverse effects on local government access to finance. We further conclude that the effects manifest more strongly through the issuance quantity channel (sizable reduction in funding amounts raised) than the issuance price channel (economically smaller impact on municipal bond offer yields). Credit supply reduction can further amplify the negative effects of opioid abuse on local communities, as lower and more expensive credit reduces the provision of municipal services and infrastructure. Our results commend policies such as federal (or state) subsidized bond insurance for highly affected counties in order to alleviate credit constraints and mitigate the potential for such negative cycles.

by CivMetrics Staff | Apr 29, 2021

Fitch: Higher Ed Federal Aid Blunts Pandemic Impact for Some.

Fitch Ratings-Chicago/New York-04 May 2021: Provisions in the American Rescue Plan (ARP) and President Joseph Biden's proposed American Jobs Plan (AJP) and American Families Plan (AFP) that aim to help higher education are supportive of credit for the institutions targeted by these plans, including public and minority-serving institutions, Fitch Ratings says. Federal aid as a percent of total revenues has increased for public universities over the last five years, which has partially compensated for reduced state appropriations.

Estimates for state support for higher education in fiscal 2021 show an overall decline of 2.7% yoy. However, when federal aid under the Coronavirus Aid, Relief, and Economic Security (CARES) Act is factored in, total support increases to 0.3% yoy. This is still the lowest level since 2012.

Continue reading.

Fitch: Clean Energy Plans Spur Shifts for Public Entities, Projects

Fitch Ratings-New York-06 May 2021: The American Jobs Plan (AJP) would require accelerated changes to electricity generation and transmission that would have varied effects on renewable energy projects, public power utilities and states, Fitch Ratings says. President Joseph Biden's proposed infrastructure plan includes significant clean energy goals that would contribute to a carbon-free electricity grid by 2035. The credit implications of reducing fossil fuel reliance are limited for these sectors in the near-to-medium term, as we discuss in our new report Biden's Clean Energy Plans Accelerate Shifts for Public Entities and Power Projects.

While Congressional action on certain tenets of the AJP remain uncertain, we expect tax credits for clean energy projects to be a part of any final plan, spurring investment in renewables, energy storage and transmission infrastructure. Direct-pay tax credits for renewable generation are significant for project funding, as the refundable credits preclude the need for a tax-equity partner, making capital formation more efficient.

The costs of transitioning to renewable energy could be significant for utilities and other issuers in the near-to-medium term, but we expect that transaction structures and financial flexibility assumed in the rating will be able to absorb these costs until the longer-term efficiencies and savings are realized. Stranded-asset risk could be more material for issuers with significant fossil fuel exposure. States whose economies rely on the oil and gas sector will face transition risks such as lost jobs and lower economic output, but financial impacts are expected to be more modest for state governments with tax regimes that are not directly linked to this sector.

Progress toward increased renewable power use depends upon better storage and transmission technologies to meet variable demand periods. Fossil fuels will continue to play a part in meeting dispatchable capacity needs and ensuring energy in reserve until longer-duration battery storage capabilities improve.

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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.

Fitch Ratings Updates Public-Sector Counterparty Obligations in PPP

Transactions Rating Criteria.

Fitch Ratings-Milan/New York-04 May 2021: Fitch Ratings has made minor updates to its "Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria" as part of the routine criteria review process.

Revisions involve editorial changes, including clarifications in the guidelines for notching factors, such as the "budgetary process" and the "legal status and enforcement" with swapped wording in the "midrange" and "weaker" attributes.

There is no impact on existing ratings from this update.

This report replaces the criteria report of the same name dated July 10, 2020.

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In Wake of Water Plant Cyber Attack, Feds Fund Research on Protecting Critical Infrastructure.

The Department of Homeland Security is funding a grant for researchers to study vulnerabilities in critical infrastructure in the U.S.

The funding comes on the heels of a cyber attack on a Florida water treatment plant, and the looming specter of hackers taking critical infrastructure offline.

From Grants.gov:

> The nature of the cybersecurity threat to America is growing, and our nation's cyber adversaries move with speed and stealth. To keep pace, SLTT agencies need to be able to identify, categorize, and prioritize their HVAs in order to protect these assets from

compromise, subsequently protecting HVAs that are so critical to an organization that the loss of access or corruption of these assets would have serious impact to the organization's ability to perform its mission or conduct business.

Key to this effort, SLTT jurisdictions require guidelines, templates, and tools to facilitate implementation of these processes within the context of their own risk management framework, available resources, and authorities.

The purpose of this Cooperative Agreement is to establish a HVA pilot that aligns with the Federal Government's HVA programs and is flexible enough to be implemented by SLTT jurisdictions based on their individual requirements. The outcomes of this cooperative agreement will provide standardized methods for the identification, categorization, and prioritization of high value assets, and provide guidance, templates, and tools to mitigate risk associated with identified vulnerabilities.

by CivMetrics Staff | Apr 28, 2021

Water, Water Everywhere: Infrastructure Push Includes Significant Investment for Water Systems - Hunton Andrews Kurth

The topic of infrastructure has been front and center in recent weeks, following the Biden Administration's unveiling of the American Jobs Plan, a massive investment plan to "Build Back Better" the country's infrastructure. A critical infrastructure component is water systems—drinking water, wastewater, and stormwater—many of which have deteriorated with age and lack of funding. The renewed focus on infrastructure proposes to funnel massive investment into upgrading the nation's water systems, under the American Jobs Plan and a slate of bills now before Congress. We take a look at what the new infrastructure developments could mean for water systems.

Much of the network of water systems across the United States is old—some decades, others more than a century. And noncompliance with drinking water standards at many community water systems has led the U.S. Environmental Protection Agency (EPA) to designate a National Compliance Initiative—a priority area for enforcement and compliance efforts—to help ensure safe drinking water supplies. Maintaining water systems, expanding them to serve ever-growing populations, and upgrading them to achieve modern regulatory standards protective of public health and the environment all takes significant funding. Despite efforts of water systems and regulators, chronic underfunding has hampered attempts to provide efficient treatment and robust access to safe water—sometimes to catastrophic effect, like in the case of Flint, Michigan. Such issues could be further compounded as some areas face novel challenges related to limited water shortages.

Against this backdrop, several steps by the Biden Administration and Congress aim to fortify the nation's water infrastructure. A substantial portion of the American Jobs Plan, the government-wide infrastructure plan that calls for Congress to appropriate $2 trillion in federal funding, would go toward overhauling water systems. In particular, the plan calls for approximately $111 billion to be devoted to water infrastructure, with $45 billion in federal funding going to replace all remaining lead pipes and service lines still in service. Another $56 billion would provide grants and low-cost loans to state and local governments, particularly in disadvantaged communities. And an additional $10 billion would help address PFAS contamination in drinking water. Although these goals will require congressional action to fund them, the administration is already taking steps to provide greater funding immediately. For instance, earlier this month, EPA announced a $67 million stormwater grant funding opportunity to assist states and cities address stormwater management issues, such as sewer overflows from heavy precipitation.

On the legislative side, several bills addressing water infrastructure are already making their way through Congress. For example, yesterday, the Senate passed the Drinking Water and Wastewater Infrastructure Act of 2021 to provide $30 billion in water infrastructure investment. The bipartisan legislation reauthorizes a program to provide long-term, low-cost loans for regionally and nationally significant projects; reauthorizes state and EPA revolving funds for water systems; and initiates a pilot program geared toward helping rural and low-income households afford water services. Among other things, the bill's loan provisions address loan eligibility for projects that involve federal partners, allowing them to retain access to greater leverage ratios for project loans under the program. This measure appears to address concerns previously raised by water utility associations about the existing loan program that could otherwise limit available funding for loans. Despite the Congressional Budget Office calling into question the legality of this provision, the bill passed the chamber with broad bipartisan support.

Meanwhile, in the House, the Water Quality Protection and Job Creation Act of 2021 would authorize a $50 billion investment in wastewater infrastructure and local water quality projects. Specifically, $40 billion over five years would be available via loans and grants for communities to undertake wastewater infrastructure projects. Additional funding would target municipalities stormwater treatment needs, state water pollution control programs, and tribal water infrastructure needs, among other things.

These funding measures come amidst a call from a coalition of groups representing state officials responsible for stormwater, wastewater, and drinking water, urging Congress to allocate funding where it is most needed for their systems, in particular by expanding current programs and affording flexibility for projects to use the funding. Earlier this year, some of these organizations representing municipally owned wastewater and drinking water utilities launched a campaign to advocate for increased water infrastructure investment, to allow them to make necessary upgrades without driving up rates and creating severe affordability issues for consumers. As this campaign notes, federal funding for water infrastructure has dropped precipitously over time, from approximately 63 percent of overall cost in 1977 to less than 5 percent last year.

The fate of the bills now under consideration, as well as the additional legislation called for in the American Jobs Plan, are still uncertain. In particular, it remains to be seen whether the chambers will use the conference negotiation process or enact multiple packages to account for the different House and Senate bills. Ultimately, however, enacting any combination of the measures would make available a massive amount of investment to address water infrastructure needs.

Hunton Andrews Kurth LLP – Samuel L. Brown and Alexandra Hamilton

April 30 2021

Fitch: ESG Factors Affect All US Public Finance Sectors

Fitch Ratings-New York-10 May 2021: Fitch Ratings provides insight into the credit relevance and materiality of environmental, social and governance (ESG) factors for each US Public Finance sector, highlighting the rating effect of ESG factors in case studies, in its new report Where ESG

Matters for U.S. Public Finance. Fitch uses ESG Relevance Scores (ESG.RS) to communicate the effect of these factors on both US tax-supported and revenue-supported issuer ratings.

Governance is the most influential ESG factor for US Public Finance (USPF) as a whole, given the importance of management strategy, internal controls, quality of service provision and financial transparency to every sector. Cybersecurity risks, a governance and social consideration, continue to raise significant governance and social issues that may pose harm to consumers or residents and reveal management weakness, potentially negatively affecting ratings. Governance factors are expected to remain highly relevant to ratings beyond issuer navigation of the pandemic recovery.

Environmental factors have gained more importance in USPF rating decisions since the ESG.RS were introduced in May 2019. Recent events bring this issue into sharp focus, resulting in elevated ESG.RS for Exposure to Environmental Impacts for 19 public power issuers following severe weather events in Texas in February 2021 and for some military housing projects due to moisture remediation issues. Environmental factors continue to have a more modest influence in the tax-supported portfolio, with elevated scores largely recorded in Biodiversity and Natural Resource Management, as well as Natural Disasters and Climate Change.

Social factors such as Labor Relations, Customer Access and Customer Welfare have negative rating effects for a number of USPF sectors and credits. Conversely, social factors have an overwhelmingly positive influence on community development and social lending credits.

ESG.RS incorporate 15 general ESG issues for tax-supported issuers and 14 general ESG issues for revenue issuers, and are expressed on a ‘1’ to ‘5’ scale, with ‘1’ indicating irrelevance and ‘5’ being highly relevant for the rating. An ESG.RS of ‘4’ or ‘5’ can be positive or negative to a rating decision, although the majority of assigned scores reflect a negative impact.

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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.

What Does the Housing Market Boom Mean For Local and State

Governments?

With the historic low interest rates and more pre-qualified buyers with attractive offers, houses are virtually flying off the market in almost every state in the United States.

The recent data by Realtor.com shows that between April 2020 to April 2021, the median home price has risen by an average of 17.2%. This frenzy has led more and more buyers & sellers to question whether this growth is sustainable for the near future. However, this rapid uptick in the housing market comes as a positive trend for local and state governments struggling with some of their revenue streams impaired by COVID-19.

In this article, we will take a closer look at the current housing market trends, the outlook and how it will likely impact both local and state governments.

Continue reading.

municipalbonds.com

by Jayden Sangha

May 05, 2021

Pacific Northwest Firm Wants Blockchain to Work for Small Muni Borrowers.

A firm in the Pacific Northwest is trying to take blockchain-based municipal borrowing mainstream, and has announced its first loan in Oregon after launching with issuers in its home Washington state.

Small issuers in particular stand to benefit from, say the founders of Alpha Ledger Technologies, which just recorded a $1.345 million loan for the Port of Astoria, Oregon, its second such loan and first in Oregon.

“This is a historic event in the democratization of municipal finance,” Alpha Ledger CEO and co-founder Manish Dutta said in a LinkedIn post Tuesday.

In a deal that builds on municipal loans done by Alpha Ledger since 2019 in Washington state, the Special District Association of Oregon Advisory Services was municipal advisor to the Port of Astoria for the taxable loan financing.

The municipal market can be divided into two lending sectors – municipal bonds and municipal loans. Muni loans are often focused on smaller, less liquid issuers, such as small towns and villages with buyers such as community banks.

Blockchain is technology that uses computing power to generate a distributive ledger for transactions. It is often associated with cryptocurrencies, but it can be used for any type of financial payments or actions that need to be recorded. It is both decentralized and transparent, boosters say.

Blockchain allows a smaller muni loan to be digitized and placed up for sale. Auctioning off the loans directly can be good for issuers because they will see lower costs and it also fosters market competition while providing a liquidity for community banks that wasn’t there before.

While blockchain is often associated with Bitcoin, these muni transactions – while they are tokenized digital assets – are denominated in dollars and not crypto-currency. Its aim is efficient custody and clearing combined with blockchain to make the loans cheaper to issue and easier to transact.

SDAOAS, an organization that represents several hundred special district issuers in Oregon, has informed them they will now be able to issue debt though this system and that banks all over the Western United States will be able to bid on the loans.

SDAOAS invited 31 banks to bid on the Port of Astoria loan last month and the winning bid on the platform was from Kitsap Bank in Port Orchard, Washington.

The port was trying to refinance an outstanding loan to lower interest rates and avoid a balloon payment, according to port commission agenda packets that make little or no mention of the word blockchain.

The Kitsap Bank term letter to the commission simply states that “The Bank is prepared to close via either scanned documents or the Alpha Ledger Platform.”

Dutta, Tammie Arnold, head of business strategy, and Chris Wade, president and CTO, founded Alpha Ledger in 2019.

Dutta and Arnold had previously worked for PIMCO and crossed paths when working on exchange traded funds. They decided their new firm would develop and build a space for blockchain fixed-income infrastructure and applied for their broker/dealer license and built that business from the ground up.

“We recorded our first municipal loan transaction in 2019, making us the first one to do it,” Dutta told The Bond Buyer Tuesday. “We were making sure that we could put together an infrastructure that allowed the issuers to connect to the community banks.”

Dutta said as the firm built its business it was introduced in May 2020 to the Riverview School District in Washington, which was having challenges raising capital during the height of the COVID-19 pandemic.

“We then helped the district raise capital through our platform,” Dutta said, adding this was also through community banks.

“The amazing thing about this story is that this school district was looking to raise some capital and they called the banks and got some bids that they weren’t happy with,” he said. “So we brought the school district onto our platform, they created an RFP and they were able to get a winning bid.”

Arnold said it was a natural fit for the firm.

“We’re based in Poulsbo, Washington, just outside of Seattle,” Arnold told The Bond Buyer. “So it was very natural for us to work with individual issuers in the state of Washington and develop relationships in the state as we built our business.”

Arnold said the firm has plans to expand in the United States.

“We are already working on building relationships across states – mostly in the Western part of the U.S., but we have aspirations to do our work across the country,” she said, adding that as a young firm it is starting off in the part of the country that they already know well.

She noted that the firm "is a company that is built from a first principles level. We have thought through the implications of digitization throughout the life of fixed-income instruments. We have worked to build a platform that is open, direct and transparent."

"And we are starting here in the municipal loan market and we?re super excited about our work in that particular part of the market today," Arnold added.

Dutta said it is satisfying to "innovate in a market that is of great importance to our country and infrastructure."

Arnold said it is important to look at the process of bringing institutional economics to smaller transactions.

"Through a combination of modern technology and process change related to the municipal market, we have really though through and addressed the economics around small transaction size," she said.

This new system is seen not only as an upgrade in providing added market efficiency, it's a total change in the way of doing business in the muni loan space from moving from paper to cyberspace.

Alan Konevsky, the chief legal officer at tZERO, a financial technology firm, says that digital technology is the wave of the future and that local governments are starting to ride it.

"The United States has reached an inflection point of secular acceptance of digital infrastructure and blockchain technology, and recognition that it is a far superior way of recording, tracking, exchanging and storing value than legacy systems, whether it's in the realm of payments or securities flow in the capital markets or other use cases," Konevsky told The Bond Buyer.

He said the COVID-19 pandemic probably had something to do with accelerating that recognition because of the increased use of digital payments while people were at home.

"It's another step on the journey of integrating this technology into everyday society," Konevsky said. "What digital technology did for data and voice for the internet, it's going to do the same thing to value and money."

By Chip Barnett

BY SOURCEMEDIA | MUNICIPAL | 05/05/21 03:41 PM EDT

Want to Play the Travel Recovery With Small Risk? Airport Bonds Are Looking Better, Says Moody's.

Some U.S. airlines might still be a risky bet as domestic travel recovers, but the picture is brightening for municipal airports and their bonds. Moody's upgraded its outlook for the sector's credit to positive on Tuesday.

The ratings firm said that domestic travel is on track to rebound faster than it initially projected. Passenger screenings at U.S. airports have picked up substantially over the past few months, and in April there were 60% as many passengers screened as there were for the same period in 2019, compared with 38% at the end of last year, the analysts found. Even in its forecasts for a "faster recovery," Moody's had estimated passenger screenings would average just 44% of prepandemic levels.

"Constraints on travel and activities have been loosened recently in the US, despite some fluctuation in case counts in recent weeks. Given these positive developments, we expect [air travel] to continue to either meet or exceed our fast recovery case," the credit analysts wrote in a May 4 note. "We expect the recovery to reach another peak as the summer season starts, with an advanced vaccination rollout and pent-up demand driving strong domestic travel activity."

That should mean good things for municipal bonds issued by airports. While that market was temporarily hit by the pandemic, losing 5.7% in March of last year, it has rebounded since then, according to ICE Indices. The sector offers a tax-exempt effective yield of 1.7% and an effective duration of 6.8 years, according to ICE. While that may not sound great, it still measures up pretty well against the taxable 2.2% effective yield of the U.S. corporate bond market, with its 8.2-year effective duration.

"The resilient demand is also driven by stimulus funding and overall strong economic recovery. We expect that the economic momentum will accelerate over the course of this year and the next because of the improved pandemic control, fiscal support and more predictable policy environment," wrote Moody's. "With the new stimulus, not only for airports and airlines, but also for households and businesses, further boosting the pent-up demand, we expect economic activity to considerably pick up in the second half of the year."

The downside is that markets already reflect some of this optimism. Airport bonds have returned 1.3% so far this year, outperforming the broader muni market's 0.8% return, according to ICE Indices. And transportation and airport bonds have posted the best year-to-date performance of any muni-bond sector, according to CreditSights.

Even so, last month BlackRock stood by a bullish call on airport bonds, saying they still had a "preference for lower-rated credits and sectors that have been more impacted by the pandemic such as transportation, travel-related (hotel tax, airport, etc.), and health care."

Investors who want to be selective may want to look at airports that have less exposure to international and business travel, and more exposure to domestic and vacation travel.

"Although some airports have significant exposure to international and business travel, others are focused on domestic and leisure travel and are likely to show a faster recovery in enplanements," Moody's said. Airports in New York, Los Angeles, and San Francisco are some of the biggest international gateways in the U.S., according to government data.

Across the whole sector, however, a slow rebound in domestic and business travel may not significantly hamper the recovery. International travel made up only 13% of total travel in 2019, so even international-flight hubs may fare better than some investors might fear.

"We expect the strong domestic recovery to offset the slower pick up in international travel," Moody's wrote.

Barron's

By Alexandra Scaggs

May 5, 2021 10:30 am ET

A $4.5B Pool of Economic Recovery Funds States, Localities Can Tap Into.

The U.S. Economic Development Administration received an influx of Covid relief dollars over the past year that is more than 10 times the size of its usual budget. That money is now flowing as grants.

The U.S. Economic Development Administration is flush with cash these days. In fiscal 2020, the federal grant-maker had a budget of about $330 million. Now, two rounds of coronavirus relief passed by Congress have pumped more than $4 billion dollars its way, money that is destined for grant recipients that include state and local governments and certain nonprofit groups.

“It’s been both a challenge and a tremendous opportunity for the agency,” Dennis Alvord, EDA’s deputy assistant secretary for economic development and chief operating officer, said of the funding surge during an interview with Route Fifty last week.

“We definitely have had to think differently about our business model and how we undertake our grant-making mission to aid the nation’s most economically distressed communities,” he added.

Continue reading.

Route Fifty

by Bill Lucia

May 6, 2021

Public Pensions Won’t Earn as Much from Investments in the Future. Here’s Why That Matters.

Most of all, it’s important for state and local entities to have a reasonable plan and to stick with it

State pension systems dropped the rate of return they assume for their investment portfolios again, continuing a two-decade long trend that public-finance experts say is necessary, even as it presents some challenges for the entities that participate in such plans.

The median assumed return in 2021 is 7.20%, according to a report published early in May by the National Association of State Retirement Administrators, down roughly 1 percentage point since 2000, as the investment managers charged with managing trillions of dollars for municipal retirees have adapted to a more challenging market environment.

“Long-term growth projections have come down pretty significantly from the rates of growth we saw going back to the 1990s,” said Greg Mennis, director of the public sector retirement systems project at the Pew Charitable Trusts.

Continue reading.

MarketWatch

By Andrea Riquier

May 10, 2021

[6 Innovative Funding Methods To Achieve Climate Action & Equity In US Cities.]

US city budgets are tighter than ever due to COVID-19. The American Rescue Plan Act, recently passed by Congress and signed into law by President Biden, will provide some relief in the near term, while the proposed American Jobs Plan offers a tantalizing vision of federal infrastructure investments that could drive local climate action and equity nationwide.

Yet there remains an immutable reality that US cities without dedicated revenue streams to fund climate change mitigation, resilience, and environmental justice will continue to face fiscal constraints. Simply put, these social and environmental causes are at risk of being deprioritized when they stand side-by-side with other essential services.

But even in our economically challenging times, the light of leadership remains bright at the city level. Mayors, community coalitions, advocacy groups, and city councils have maintained focus on climate change and the need for aggressive action to protect and improve their communities' futures.

Continue reading.

cleantechnica.com

By Alexander Dane & Alisa Petersen

[A Muni Bond Fund Wins Big by Being Small. Here's How.]

When he first started managing money in 1996, Michael Plaiss wanted nothing more than to be the next Peter Lynch—the famous stock jockey of Fidelity's Magellan Fund. "Just the thought of being able to analyze a portfolio of stocks, and you're the one that gets to make the call that 'this one's overvalued, and this one's undervalued'—that really appealed to me," says the manager of the Performance Trust Municipal Bond fund.

Obviously, things turned out differently.

"I fell in love with bonds," Plaiss, 56, admits. "Everything I said about what I like to do—'this thing's undervalued, this is overvalued'—that sounds good, but it's very difficult in stocks to actually do that. Bonds are much more mathematical instruments."

Continue reading.

Barron's

By Lewis Braham

May 5, 2021 6:00 am ET

Yield-Starved Investors Snap Up Muni Bonds.

Investors have put $39 billion into municipal-debt funds so far this year, the most over that period since 2008

Investors in search of higher returns and lower taxes are scooping up debt sold by state and local governments, pushing borrowing costs to near-record lows and boosting coffers from California to Connecticut.

Investors have poured a net $39 billion into municipal-bond mutual funds this year through Thursday, according to data compiled by Municipal Market Analytics, the most over the same period since 2008. Returns on the debt, which local governments use to fund public works such as sewers or bridges, have beaten those of corporate bonds and Treasurys.

Demand is so intense that Illinois, the only state to tap the Federal Reserve's pandemic emergency-lending facility, recently sold three-year bonds at yields near 1%. Another boost is coming from the Biden administration's proposed tax changes, which potentially can make municipal debt more attractive to investors. Considered almost as safe as Treasurys because they are backed by taxes or payments on essential services like water, municipal bonds typically offer interest payments that are tax-free.

Continue reading.

The Wall Street Journal

By Sebastian Pellejero

May 9, 2021 11:03 am ET

Taxable Muni Bonds Are an Under-the-Radar Opportunity.

Municipal bonds have long been a favorite spot for investors looking to score tax-free income. Issued by states and local governments to fund their daily activities or special projects, munis are generally free from federal taxes. They're also free from state taxes from the issuing state. As a result, upper income individuals have prized muni bonds as a portfolio position.

But there's more to the muni market than just general revenue obligation bonds.

In fact, there's a whole sector of taxable municipal bonds out there. The best part is that these taxable munis could offer a host of benefits to investors looking to boost their income and get a dose of safety for their portfolios. And in many cases, taxable munis could be a better buy than corporate bonds with similar durations. For investors, taxable munis are one fixed income sector to keep on your list.

Continue reading.

dividend.com

by Aaron Levitt

May 06, 2021

Buyers Flee to Municipal Bonds on Biden's Tax Plan.

Wells Fargo Asset Management Senior Portfolio Manager Nick Venditti reacts to municipal bonds staging their longest winning streak against Treasuries in seven years. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Listen to audio.

Bloomberg Radio

May 5th, 2021

Muni Bonds See Longest Winning Streak Over Treasuries Since 2014.

- **Munis beat Treasuries for seven straight months through April**
- **Analysts expecting strong performance in the short-term**

America's municipal bonds are staging their longest winning streak against Treasuries in seven years.

State and local debt has benefited from a surge of cash in 2021 that's showed no signs of letting up, with President Joe Biden's plans for higher taxes on the wealthy catalyzing demand for the bonds that pay tax-free interest. That flood of money has helped municipal returns' beat Treasuries for seven straight months through April, with state and local debt posting a gain of 0.8% last month, according to Bloomberg Barclays indexes.

But with debt sales by states and cities poised to pick up and investor resistance to the historically rich levels rising, May could snap the winning streak. Already, benchmark muni yields have ticked up about five basis points since the start of last week. John Miller, head of municipals at Nuveen, noted in a May 3 note that selloff brought the securities closer to fair value.

Still, analysts say they're still expecting the market's overall strength to continue as inflows into municipal-bond mutual funds shows no signs of abating. Bank of America Corp. strategists said there's the potential for another market rally in May.

Barclays Plc strategists said the demand will help avoid a summertime correction in bond prices, even with valuations near record highs. They noted that municipals may outperform if interest rates rise again, which hurt Treasuries earlier this year. Municipals tend to outperform in rising-rate environments.

"Even if rates sell off further, tax-exempts will likely follow, but should outperform, supported by a combination of low supply, strong inflows, heavy bond redemptions over the course of the summer;

large cash cushions of mutual funds; and improving credit quality of municipal bonds," the Barclays strategists said.

James Iselin, a managing director at Neuberger Berman Group LLC, said it's unclear what could "dislodge" market conditions, given demand has stayed strong and new issuance of bonds has remained manageable.

"So far, the technicals are really driving the show right now," he said.

Bloomberg Markets

By Amanda Albright and Peyton Forte

May 4, 2021, 10:30 AM PDT

Munis In Focus: Cash Tsunami Set to Swamp Muni Market (Radio)

Joe Mysak, Munis Editor for Bloomberg Briefs, talks municipal market flows and yields. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

May 7, 2021

Stifel Pressured to Drop Controversial Alabama Prison Bond Deal.

- **Banking customer, local activists lean on investment firm**
- **Two banks dropped out as underwriters on $634 million issue**

Stifel Financial Corp. is being urged to pull out of a controversial municipal bond financing for two privately owned prisons in Alabama that activists have described as "toxic."

The funding plan has not moved forward after two other banks serving as underwriters on the $634 million publicly offered bond issue — Barclays Plc and KeyBanc Capital Markets — dropped out of the transaction last month after facing pressure from activists and investors. The agency issuing the bonds on behalf of a CoreCivic Inc.-owned entity also left the transaction, and so did the bond trustee.

The St. Louis-based bank said it acknowledged the concerns and that there were "many sides" to the issue, according to a letter sent Thursday to activists that was provided to Bloomberg News by a bank spokesperson. The financing would build new prisons that are publicly run but owned by prison giant CoreCivic as part of an effort to address poor infrastructure in the state's prison system.

Justice Capital, an impact investing firm, said in a statement on Thursday that Stifel "has yet to pull out of the deal, concerning clients and the larger investment industry." The firm, along with representatives firms like Basso Capital and Candide Group, and local activist groups like Alabama

Students Against Prisons signed a letter to Stifel CEO Ronald Kruszewski about the transaction. A separate group of activists also sent a letter to the bank about the financing.

Veronica R. Johnson, deputy director of the Alabama Justice Initiative, sent a letter to Kruszewski on behalf of different activist groups this week. The letter asked him to suspend the firm's involvement in the project. "At present, Stifel is standing alone in financing a project that has been deemed toxic and unethical by peer financial institutions," the letter said.

"Although there are many sides to this issue and little common ground, we believe that there is a general acknowledgment that the State of Alabama faces challenges in the current and historical operation of its correctional systems," Stifel's Joel Jeffrey, senior vice president for investor relations, wrote Thursday in response.

Jeffrey invited Johnson to contact him to discuss the issue in more detail. The Stifel letter added that the bank doesn't comment on potential transactions and that it's not party to the state's political process to figure out potential solutions.

A spokesperson for the bank declined to comment further.

Alabama Governor Kay Ivey has said the prison projects will move forward, but a spokesperson for her office earlier this week declined to provide additional details on the plan for the financing.

Barclays' decision to drop the financing last month is a sign of the growing power of investors focused on financing projects that advance social and environmental causes. With billions of dollars flowing into so-called ESG funds, that's created a lucrative new line of business that banks are eager to court.

The prison business has long been targeted by activists who say the profit-motive gives an incentive to cut costs, hurting rehabilitation efforts.

"We call on Stifel and all investors and financial institutions to stop the financing of mass incarceration and urge them to join us in making investments in community-led public health, safety, and infrastructure to become a part of the solution," Christina Hollenback, founding partner Justice Capital, said in the statement.

A client of Stifel, hedge fund Basso Capital, had concerns about the bond deal, the statement added.

"As a long-standing trading client of Stifel, we are halting our business with them as long as their policy to finance mass incarceration stands, and we urge other Stifel clients and partners to do the same," Howard Fischer, chief executive officer of Basso Capital, said in a statement.

Bloomberg Markets

By Amanda Albright and Danielle Moran

May 6, 2021, 11:43 AM PDT

Citi Executive Told Peers Nuveen Demand Was 'Outrageous.'

- **Bank turns over more tapes in Preston Hollow defamation case**
- **Preston Hollow says Nuveen pushed Citi to freeze it out**

A former Citigroup Inc. executive called Nuveen LLC's alleged demand that the bank stop doing business with the bond giant's smaller rival Preston Hollow Capital "outrageous" and "anticompetitive," according to a new court filing citing tapes of phone calls in a long-running legal battle.

"The idea that you can say don't do business with X, I find to be incredibly illegal … I'm not a lawyer, but that just sounds wrong to me," Peter Bartlett, Citigroup's former co-head of capital markets for municipal securities, said in a call that included Jamie Doffermyre, the bank's head of municipal sales, and John Heppolette, head of municipal markets, according to the May 3 filing by Preston Hollow.

Transcripts of calls between top executives in Citigroup's municipal bond department show that Nuveen's head of municipal investment, John Miller, demanded Citi stop doing business with Preston Hollow on multiple occasions and that Citigroup employees recognized the antitrust implications of the demands, according to the filing. Nuveen oversees more than $140 billion of municipal bonds and generates millions of dollars in revenue for Wall Street trading desks.

Delaware Chancery Court Judge Sam Glasscock III concluded last year that Nuveen had wrongfully interfered with Preston Hollow's business. Preston Hollow has asked Glasscock to penalize Nuveen for allegedly offering false testimony about the demands and to sanction Citigroup for failing to hand over evidence. It said the tapes show that John Leahy, director of Citigroup's institutional municipal bond sales, lied when he testified in a July 2019 trial that Miller hadn't demanded the bank cut off business with Preston Hollow.

The Dallas-based firm is also suing Nuveen in Delaware Superior Court for defamation over what it says was its intimidation campaign.

Citigroup has denied wrongdoing and called Preston Hollow's most recent allegations, like its prior ones, meritless and irresponsible.

"At the appropriate time, and in the appropriate forum, Citi will set the record straight, and looks forward to doing so," spokeswoman Danielle Romero-Apsilos said.

Nuveen has said Preston Hollow "continues to make false and misleading statements seeking to assign blame to Nuveen and others." Spokeswoman Jessica Greaney said Nuveen had no further comment.

Bartlett left Citi in 2019 after a 40-year career.

The current case is Preston Hollow Capital LLC v. Nuveen LLC, N19C-10-107-MMJ, CCLD, Delaware Superior Court (Wilmington).

Bloomberg Business

By Martin Z Braun and Jef Feeley

May 4, 2021, 1:40 PM PDT Updated on May 4, 2021, 3:43 PM PDT

[Hilltop Securities Sues Ex-Employee for Stealing Client Data.]

Hilltop Securities Inc., the third-biggest adviser on bonds issued by U.S. states and local governments, sued a former employee for allegedly stealing confidential files before leaving for competitor RBC Capital Markets.

Hilltop claims Alex Bugallo, a former managing director in its Orlando, Florida, office, downloaded client debt analyses, spreadsheets and client contacts to a flash drive and emailed other documents to a personal account in the two months before resigning in April.

Bugallo also deleted hundreds of files, including requests for proposals and client debt profiles known as debt maps, from Hilltop's network, the firm said in its lawsuit, filed on May 3 in federal court in Orlando. The aim was to sabotage Hilltop's service so clients would follow Bugallo to RBC, according to the suit.

A call to Bugallo's cellphone seeking comment on the suit was immediately disconnected.

RBC isn't named as a defendant in the complaint. Cody Pan, an RBC spokesman, had no immediate comment on the suit.

"The manner and timing in which Bugallo retained particular Hilltop information while obscuring it from Hilltop plainly shows that Bugallo engaged in a concerted and coordinated effort to cause immediate, ongoing, and lasting harm to Hilltop, damage its business operations in the greater Orlando market and beyond and eliminate lawful competition," according to the suit.

Dallas-based Hilltop advised on $30.5 billion in long-term fixed-rate municipal bond sales last year, according to data compiled by Bloomberg.

Hilltop demanded that Bugallo give the information back, but he didn't respond, the firm said in the complaint. He breached nondisclosure and nonsolicitation agreements and should be compelled to return the materials and prevented from disclosing them, Hilltop said. It is also seeking unspecified damages.

The case is Hilltop Securities Inc. v. Alejandro Mariano Bugallo, 21-cv-00776, U.S. District Court, Middle District of Florida (Orlando).

Bloomberg Markets

By Martin Z Braun

May 6, 2021, 11:24 AM PDT

[What Biden's Infrastructure Plan Means for Municipal Bonds.]

Director of Municipal Bond Research at Franklin Templeton, Jennifer Johnston, joined Yahoo Finance Live to break down what Biden's infrastructure plan means for municipal bonds

ADAM SHAPIRO: We want to get a pulse on small business. We're going to do that with small business and rural towns and invite into the program right now Jennifer Johnston, Director of Municipal Bond Research– not small business, but actually talking about what's going on in the muni market. Good to have you here, Jennifer. You know, with interest rates where they are, they're not climbing too fast, why would munis be a good option?

JENNIFER JOHNSTON: Sure. Well, munis are often part of a strategy to handle people's tax liability. And when Biden was campaigning, he made it clear taxes were going to be on his radar screen. And with all the stimulus that has come through the packages up to now, as well as the potential infrastructure package, taxes are likely to go up. And munis make a great investment opportunity to help manage your tax strategy.

SEANA SMITH: Demand that's out there right now– what's fueling the optimism around munis?

JENNIFER JOHNSTON: So a lot of it is just really strong performance through the pandemic– much better than expected. It still wasn't great. But if you think back to where we were a year ago, I can't believe where we are today. We've seen budgets perform better, which means state and local governments, as well as transit authorities, and any type of municipal entity have more cash than they thought they were going to have.

They thought things would be worse, and they made strong cuts in their budget, and they've actually seen an outperformance. And then the most recent federal stimulus package that was passed in March is finally going to deliver to state and local governments the hopefully the kind of direct money that they can utilize for pretty much anything. So instead of just using it for COVID cost reimbursement, which had been previous aid, they'll actually be able to use it more for revenue replacement purposes.

ADAM SHAPIRO: What danger is there if you do purchase munis right now if we do get what we're being told is going to be a big bout of inflation coming our way?

JENNIFER JOHNSTON: Well, we'll have to see what happens on that. I mean, I think at this point, having municipal bonds in a portfolio to manage your tax strategy, if that's your goal for how you want to use them, they're going to continue to make sense regardless.

SEANA SMITH: Jennifer, when we take a look at the impact that the infrastructure plan is going to potentially have on the muni market, and we talk about ways that the state and local governments should use the increase in funding– from your view, what should state and local governments prioritize?

JENNIFER JOHNSTON: Sure. So this funding, whether through the infrastructure plan or through the traditional federal stimulus packages, is one-time in nature. This isn't the type of revenue source that's going to recur year after year after year. So it's critical that state and local governments, governors, legislators, whoever your decision makers are spend it in a one-time way.

You want to match one-time revenues with one-time expenditures. You don't want to start some new program that has to be funded annually going forward, because all you're going to do is create a revenue imbalance the next fiscal year when you have to find additional spending. The point is to stimulate economies and to help get communities back on its feet, not to create future funding challenges down the road.

ADAM SHAPIRO: Correct me, because I always get confused on this– municipalities used to roll over existing debt into new muni bond issuance. Do they still do that? Are they allowed to do that? And is that something you should be leery of if they do do that?

JENNIFER JOHNSTON: Yes. So, much like we would want to refinance our homes as interest rates change, local governments want to do the same thing. There's something interesting that's going on right now where if a local government wants to advance refund their debt, they have to use taxable debt to do it, as opposed to previous to the TCGA, they could actually use tax-exempt debt. But because rates are so low right now, even issuing taxable bonds still provides state and local governments with additional savings.

So many of them are able to actually refinance, still have lower interest rates issued through the taxable market, and utilize that to either save costs, as we were going through this unknown era of COVID, as well as maybe restructure when payments were going to be just to get them through this period. A lot of people have taken advantage of that. And from the perspective of an issuer, it’s very smart to do that.

ADAM SHAPIRO: You know, as director of municipal bond research, which municipalities are being rewarded– those that pay down debt or those which are taking on debt to build out infrastructure?

JENNIFER JOHNSTON: Sure. So that’s actually an excellent question, because it has to be a little bit of both. Because at the end of the day, municipal bonds are largely paid, especially from state and local governments, paid back through property taxes. And property taxes are going to be higher on communities that have good infrastructure, robust communities, and strong services.

And so you really need to see both things. You need to see an appropriate level of debt, but smart infrastructure build-out so that the community is still a place that’s desirable and can continue to thrive. And I think the infrastructure plan that Biden has proposed is going to really target a lot of those.

ADAM SHAPIRO: All right. We appreciate you joining us with your insight, Jennifer Johnston, the Director of Municipal Bond Research at Franklin Templeton.

Yahoo Finance

April 26, 2021

Senate Bill Would Create New Municipal Bond to Fund Infrastructure Projects.

A bipartisan group of U.S. Senators introduced legislation that would create a new class of municipal bonds to help governments finance infrastructure and other public projects.

The American Infrastructure Bonds Act of 2021 would create “direct-pay” taxable municipal bonds called American Infrastructure Bonds (AIBs). They seek to improve upon the model of Build America Bonds (BABs) issued after the 2008 financial crisis to attract more investment in public infrastructure.

“Empowering local leaders to launch new infrastructure projects is a proven way to support local economic growth,” Sen. Roger Wicker (R-MS), one of the bill’s sponsors, said. “This legislation would improve upon previous efforts to expand investment in the state and local bond market by increasing flexibility for communities and adding assurances for bondholders. As our nation looks to invest in public works, now is the right time for Congress to allow state and local governments to seize this opportunity and renew infrastructure across the nation.”

It was co-sponsored by Sens. Michael Bennet (D-CO), Roy Blunt (R-MO), Debbie Stabenow (D-MI), Shelley Moore Capito (R-WV), Tim Kaine (D-VA), and Cynthia Lummis (R-WY).

The bill would allow state and local governments to issue taxable bonds for any public expenditure that would be eligible to be financed by tax-exempt bonds. This includes infrastructure projects like roads, bridges, water systems, and broadband internet. As a "direct-pay" bond, the U.S. Treasury would pay a percentage of the bond's interest to the issuing entity to reduce costs for state and local governments. These payments would be issued for projects at 28 percent of the bond's interest.

The bill is designed to boost investment in infrastructure and other important public projects at a critical time. The higher interest rates offered by the taxable AIBs increase the expected value of the bonds to some types of investors, such as pension funds, insurance companies, and foreign investors, who do not receive the tax advantage from traditional tax-exempt bonds. Expanding the market for municipal bonds increases would increase private investment in the public sector.

It also provides flexibility for state and local governments as local communities can develop their infrastructure strategically without going through a centralized bureaucracy.

The bill is supported by various groups, including the National League of Cities, the National Association of Counties, the Government Finance Officers Association, the American Public Gas Association, the National Association of Bond Lawyers, National Railroad Construction and Maintenance Association, American Institute of Architects, the Insured Retirement Institute (IRI), and SIFMA.

"This bill authorizes a direct-pay subsidy for American Infrastructure Bonds, which allows state and local governments to attract taxable bond investors, such as insurance companies, pension funds, and foreign investors, to invest in infrastructure projects. Increasing the demand for municipal securities is particularly helpful now, as state and local governments are experiencing much higher costs due to the COVID-19 pandemic," SIFMA president and CEO Kenneth Bentsen, Jr. said.

FINANCIAL REGULATION NEWS

BY DAVE KOVALESKI | APRIL 26, 2021

Denver Airport Is a Model for Biden's Infrastructure Plan.

How a "boondoggle" turned into an economic boon for Colorado.

Anyone among the two-thirds of Americans who approve of President Joe Biden's American Jobs Plan for infrastructure investment probably knows somebody in Denver, or catches a nonstop flight from its 25-year-old international airport to somewhere in North America, Asia, Europe or South America. Flying to Paris for the weekend is the latest Denver connection.

DIA, the only major new U.S. airport since the 1974 completion of Dallas-Fort Worth, was the largest public-works project in Colorado history. It is the largest airport in geographical size in the U.S., and No. 3 in the world. It led the Department of Transportation's measure of domestic origin-an--destination traffic last year for the first time.

Continue reading.

Bloomberg

By Matthew A. Winkler

April 29, 2021, 2:00 AM PDT Updated on April 29, 2021, 4:34 AM PDT

Fitch Ratings Updates FAST Assumptions for U.S. State and Local Governments.

Fitch Ratings-New York-26 April 2021: Fitch Ratings has updated the assumptions that underpin its scenario analysis to reflect changes in the outlook for the United States' economy. Fitch's "Global Economic Outlook – March 2021" projects US GDP growth to be 6.2% in 2021, benefiting from much larger-than-expected federal fiscal stimulus, expanding vaccinations, and easing of travel, business and social-distancing restrictions. We now see US GDP rising to 4.3%, above the 4Q19 level, by 4Q21.

Given the strength of the US' expected economic performance and significantly diminished downside risk Fitch is revising its US GDP assumptions for the FAST States & Locals – Fitch Analytical Stress Test Model (FAST) model to -1.0% in year one, +0.5% in year two, and +2.0% in year three. This three-year scenario represents the moderate economic downturn envisaged in Fitch's "U.S. Public Finance Tax-Supported Rating Criteria." The scenario was first adjusted in April 2020 to reflect the unprecedented nature of the economic stress evident following the onset of the coronavirus pandemic, and has been updated several times over the last year as conditions have evolved. For more information see Fitch Ratings Returning to Pre-Coronavirus Stresses for U.S. Public Finance, April 2021.

Scenario analysis informs Fitch's assessment of state and local governments' financial resilience in future downturns and is not meant to reflect the Global Economic Outlook. Fitch will also consider a tax-supported downside scenario when financial results for fiscal 2020 have not been reported, or if Fitch believes the issuer is exposed to meaningful near-term revenue risk. The downside scenario incorporates a -3.5% change in US GDP in year one (equivalent to the full-year decline in 2020), and the same assumptions (+0.5% in year two and +2.0% in year three) as the moderate scenario. The downside results in a -1.1% cumulative three-year GDP change compared to +1.5% in the moderate scenario.

U.S. Public Finance Tax-Supported Rating Criteria are forward-looking and designed to communicate state and local governments' ability to maintain financial resilience through an economic cycle at a level consistent with their typically very high rating levels. The criteria allow for a temporary modification of the scenario, including key input assumptions, in a period of economic decline. FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Hence, actual revenue declines will vary from FAST results. FAST does provide a relative sense of the risk exposure of a particular entity compared with others.

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Bank of America, Citi Risk Hit to Their Texas Businesses Over Gun Policies.

- **Texas bill could cut off banks from underwriting muni debt**
- **Legislation targets banks whose policies restrict gun industry**

Bank of America Corp. and Citigroup Inc., the top two underwriters in the $3.9 trillion municipal bond-market, are at risk of getting shut out of Texas because of a push by Republican state lawmakers to punish the banks for their restrictive gun policies.

The legislation, Senate Bill 19, would block government entities from contracting with banks and other financial services providers that have policies that restrict business with the firearms industry. Under the bill, companies with 10 employees or more seeking a government contract worth at least $100,000 would have to verify in writing that they do not have a policy or directive that “discriminates” against the firearms or ammunition industries.

It’s targeted at large banks and financial institutions that have attempted to “use financial pressure to infringe upon our Second Amendment rights,” according to a statement from the sponsors in an analysis of the bill. The legislation is in flux: it already passed the state Senate and is pending in the Texas House of Representatives. While a House companion bill includes language that would exempt debt sales and the “deposit or investment of funds,” the author in that chamber didn’t pursue adding that exemption in the Senate version.

“Any company that uses financial pressure in order to limit Texans’ ability to purchase guns or ammunition should not be tolerated,” Senator Charles Schwertner, an author of the legislation, said in a committee hearing on the bill earlier this month.

The Texas move to punish the banks comes as Republicans nationally have criticized companies for stepping into politics. Senate Minority Leader Mitch McConnell said corporate executives should “stay out of politics” in response to the backlash against a Georgia law that limits voting access.

If the Senate version is enacted, the law could hurt the banks’ municipal underwriting businesses in Texas, a huge market for state and local debt deals. Texas-based borrowers sold more than $58 billion of bonds in 2020, the second-most of any state behind California, according to data compiled by Bloomberg. As part of bond offerings, borrowers often hire banks ahead of time and pay them a fee for underwriting the sales.

Elizabeth Reich, chief financial officer of Dallas, said the bill could have wide-ranging impacts on the city, including limiting competition for its debt sales. The bill could also affect banking relationships: Dallas had $257 million in deposit with Bank of America at the end of February, she said.

“If I’m limited in who I can do business with and talk to and engage with, that’s going to raise my costs and increase the cost to the taxpayers,” she said.

The banks announced policies that set restrictions on the firearms industry in 2018 after a shooting at Marjory Stoneman Douglas High School in Parkland, Florida, left 17 people dead. Citigroup said it would prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven’t passed a background check or are younger than 21.

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

Gun-friendly Texas has become important to the National Rifle Association, which filed for bankruptcy protection this year and said it would move to the state. In an article this month, the Institute for Legislative Action, an NRA lobbying arm, celebrated “pro-Second Amendment” legislation in Texas, including the legislation targeting the banks.

BofA Says 151 Employees Were Affected by Mass Shootings in U.S.

'Discriminatory' Policies

It's unclear how wide-reaching the law would be, and there could be further changes to the language. The legislation would affect governmental entities, which Texas government code defines as state agencies, as well as political subdivisions like counties, municipalities and school districts — a potentially wide swath of muni borrowers.

Giovanni Capriglione, the lawmaker who authored the House bill, said in a written response to questions from Bloomberg News that he proposed the bill because of a shortage of ammunition in the state "caused by discriminatory policies implemented by banks."

"It is estimated that over 26,000 Texans are employed by this industry and they account for about $4.5 billion in economic impact," Capriglione said. "If these businesses can't operate because banks refuse to provide them with access to essential services, then the state loses these jobs and the economic impact they provide."

Capriglione confirmed that banks' underwriting business would be affected by Senate Bill 19.

Dan Patrick, the lieutenant governor who wields strong influence in the Texas legislature, said in a statement this month that he's supportive of the Senate bill, citing the Second Amendment. A spokesperson for his office did not respond to a request for comment. The NRA lobbying arm's article said that the bill was prioritized by Patrick.

It's not the first time that Republican state officials have sought to punish the two banks for their gun policies. In 2018, Louisiana officials voted to ban Bank of America and Citigroup from working on a debt sale.

"No one can convince me that keeping these two banks in this competitive process is worth giving up our rights," Louisiana State Treasurer John Schroder said in a statement at the time.

Texas Impact

Texas offers big business in the $3.9 trillion municipal bond market. The state's booming population makes it ripe for future sales as the need for new roads, schools and other infrastructure projects mounts.

The bill could cut off Texas muni issuers from the two biggest banks in the state and local debt market. Citigroup was the biggest underwriter of Texas muni-bond sales in 2020, credited with managing more than $6 billion of sales, and Bank of America was ranked as the fifth-biggest last year, credited with managing about $3.8 billion of bonds, according to data compiled by Bloomberg.

Overall, Bank of America and Citigroup are the two biggest municipal underwriters, managing a combined 25% of long-term state and local debt sales so far this year, according to data compiled by Bloomberg.

Spokespeople for both banks declined to comment. SIFMA, a lobbying group for broker-dealers and investment banks, also declined to comment.

Kevin Lyons, a spokesperson for the Texas Comptroller of Public Accounts, said in an emailed statement that the office is following the legislation and reviewing its contracts to determine what impact it would have on its services.

He said the bill would require state agencies to include a new provision in contracts made after Sept. 1. “If banks (or other entities) do in fact maintain such a policy it will likely be difficult for them to sign off on such a contract in the future,” he said in the statement.

Bloomberg Markets

By Danielle Moran and Amanda Albright

April 28, 2021, 2:52 PM PDT Updated on April 29, 2021, 6:53 AM PDT

— With assistance by Natalia Lenkiewicz, Lananh Nguyen, and Jennifer Surane

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Fourth Circuit Affirms Local Government Antitrust Immunity for Atrium Health.

The Fourth Circuit ruled last month that the Charlotte-Mecklenburg Hospital Authority, which does business as Atrium Health, is immune from antitrust damages as a “special function governmental unit” under the Local Government Antitrust Act of 1984 (the “Act”). The decision in *Benitez v. Charlotte-Mecklenburg Hospital Authority* clarifies the scope of local government antitrust immunity and confirms that mere growth of an organization beyond local borders does not prevent it from continuing to enjoy antitrust immunity as a “local government.”

Background of the Local Government Antitrust Act

Over 70 years ago, the Supreme Court in *Parker v. Brown* made clear that states, “as sovereign[s],” are immune from antitrust liability when they impose anticompetitive restraints on trade or commerce “as an act of government.” However, the Court did not extend such state action immunity to local governments. We have previously discussed Parker and the scope of state action immunity here. In fact, a series of Supreme Court decisions after *Parker* opened the door to substantial municipal antitrust liability. In *City of Lafayette v. Louisiana Power & Light Company*, the Supreme Court held that local governments were not automatically exempt from antitrust liability under *Parker*. A plurality of the Court suggested that local governments were exempted only when they acted “pursuant to state policy” that was “clearly articulated and affirmatively expressed.” Four years later, the Court further clarified in *Community Communications Company v. City of Boulder* that a state law, which merely offered a broad “guarantee of local autonomy,” did not constitute a clearly articulated and affirmatively expressed policy for purposes of antitrust immunity. After these decisions, antitrust litigation against local governments surged.

Recognizing the potential for large judgments against local governments, which would be borne by taxpayers, Congress passed the Act in 1984, shielding local governments from antitrust damages. The purpose of the Act is to prevent taxpayers from bearing the financial burden of their local governments’ anticompetitive activity and allow local governments to effectively govern without devoting significant time and resources to antitrust litigation.

The Act defines “local government” to include not only “general function governmental unit[s] established by State law,” such as a city or a county, but also to include “a school district, sanitary district, or any other special function governmental unit established by State law in one or more

States." This definition was the question at issue in *Benitez*.

Plaintiffs' Claims

Plaintiffs contended that Atrium Health did not qualify as a "local government" because (1) it lacked key government powers, and (2) it had expanded beyond North Carolina.

On the first point, plaintiffs alleged that Atrium Health lacked certain government powers or characteristics traditionally associated with other "special function governmental units," including the power of taxation, immunity from tort liability, and characterization as a political subdivision.

Second, plaintiffs argued alternatively that even if Atrium Health was at one time a "special function government unit," it had grown so large—with 70,000 employees operating thousands of locations in more than one state, and generating $11 billion in annual revenue—that it could no longer be considered a "local government."

The Fourth Circuit's Decision

The Fourth Circuit disagreed with both of plaintiffs' arguments. First, the Court evaluated the Act's actual text and noted that nowhere in the Act's definition of "local government" could the limitations advanced by plaintiffs be found. The court considered state law and found that Atrium Health had many powers that were typically characterized as governmental powers, such as the authority to acquire real property by eminent domain and the power to issue revenue bonds under the Local Government Revenue Bond Act. While confirming that "[t]here is no magic combination of powers that a governmental body must have to be classified as a 'special function governmental unit,'" the Court found the powers that Atrium Health has "readily qualif[ied]."

Turning to plaintiffs' second argument, the Court acknowledged it would be unusual for an organization of the geographic and financial scope of Atrium Health to qualify as a "local government." But despite what the Court recognized as "common-sense appeal" of this argument, the Court held "the language of the Act does not support" it. The Act's definition of "local government" explicitly includes entities "established by State law *in one or more States*," and imposes no limitation on size or geographic scope. The Court declined to "re-write the Act to impose a limitation it does not currently contain," noting that setting such limitations would "involve complex policy considerations" and should be "the work of lawmakers, not judges."

The Court recognized that this decision may, at first blush, be at odds with *Tarabishi v. McAlester Regional Hospital*, where the Tenth Circuit reached a different conclusion in finding an Oklahoma public trust hospital was not a "special function governmental unit." However, the Fourth Circuit distinguished the holding in *Tarabishi*, citing the unique structure of a public trust hospital and differences in Oklahoma law.

While this case could be read to offer an expansive reading of local government immunity, it should be noted that the Fourth Circuit expressly limited its decision to the facts of this case. In doing so, the Court confirmed that circumstances may exist where a "special function government unit" does not enjoy the Act's immunity. For example, if plaintiffs had alleged that Atrium Health was operating outside the purview of its statutory authority under North Carolina law or that it had committed anticompetitive acts outside of the local area where it was created, the Court "might reach a different conclusion"—leaving open the possibility that the Act's reach could be limited under different circumstances.

Patterson Belknap Webb & Tyler LLP – Danhui (Diane) Xu, Amy N. Vegari and William F.

Cavanaugh, Jr.

April 27 2021

Airport Muni Bonds Rally as Vaccines Herald Travel Rebound.

- **Yields surged amid pandemic as investors dumped hard-hit bonds**
- **Turnaround eliminates a rare bargain sector in pricey market**

Bonds backed by America's airports are rallying back as the Covid vaccine rollout promises to revive the travel industry, marking a rebound for one of the corners of the municipal-debt market hardest hit by the pandemic.

The rally has driven the yields on debt backed by airports down to about 1.2%, or about 30 basis points more than the market's benchmark, according to an ICE Bank of America index tracking the sector. That marks a dramatic shift from early in the pandemic, when speculation about the deep financial toll of the nation's shutdowns drove the index's yield to more than 4% as investors dumped the securities in droves.

The move eliminates what had been some of the rare bargains in the municipal securities market as valuations on top-rated bonds hover near record highs. Junk bonds have climbed, too, pushing the yields back toward the more than two-decade low hit before Covid-19 raced through the U.S.

"During the pandemic, airlines and anything associated got absolutely crushed in terms of spread — and they stayed wider for a longer period of time than some of the other sectors that were affected," said Jason Appleson, a portfolio manager at PT Asset Management in Chicago. "In terms of buying opportunity, I'm not sure there is a lot left."

Airline travel is showing signs of recovery with more than one-fourth of Americans fully vaccinated against the coronavirus. The number of passengers per day reached a yearly high of 1.58 million in early April, about 68% of the average during the same month in 2019, according to Transportation Security Administration checkpoint travel data.

That's helping to lift the bonds of some big airports. The yield on 8-year debt issued by the Metropolitan Washington Airports Authority, which operates Reagan National and Dulles International airports, has dropped to about 1% from as much as 1.43% in the middle of last month, according to data compiled by Bloomberg. Those on similar bonds backed by Orlando, Florida's airport have dropped to about 1.2% from as much as 1.84% in mid-March.

Last month, Moody's Investors Service lifted its outlook on U.S. airport debt to stable from negative, citing stronger passenger levels and the impact of federal stimulus measures. Airports received $8 billion in additional funding from the American Rescue Plan, on top of the $12 billion allocated in 2020.

Dan Barton, head of municipal research at Mellon Investments Corp. said that he likes the airport sector because of the expectation of increased travel and the amount of federal aid the facilities got through various stimulus bills.

"When you saw a sector that lost 99% of travel in the early part of the pandemic, and it was debatable how long it would take to recover, it's not surprising that airports was one of the slowest sectors to recover," Barton said. "But it has come back very strong."

BlackRock Inc. analysts led by Peter Hayes said in a note this month that the company is maintaining a preference for sectors that have been more affected by the pandemic, noting travel-related industries like hotels and airports.

Yet there are still some headwinds, with it still unclear how much work-related travel will rebound after a long run of companies learning to do without it. "The biggest challenge is going to be the return of business travel in a meaningful way," said Eric Kazatsky, senior U.S. municipals strategist for Bloomberg Intelligence.

Bloomberg Markets

By Nic Querolo

April 28, 2021, 10:29 AM PDT

— With assistance by Danielle Moran

[Fitch: US Airport and Toll Road Traffic Slowly Returning to Normal]

Fitch Ratings-New York-27 April 2021: Traffic levels are still suppressed at U.S. airports, but the rate of decline is leveling off, according to the latest U.S. Traffic Monitor from Fitch Ratings. While traffic for toll roads was quicker to bounce back, overall traffic still remains below pre-pandemic levels, and toll roads' collective outperformance relative to Fitch's projections is beginning to stabilize.

Airport traffic remains significantly below pre-pandemic levels, with Fitch-projected airport traffic levels of 65% lower year-over-year in 4Q'20, indicating a slight improvement from the 75% decline projected for 3Q'20.

"International gateways and leading business markets like Boston, San Francisco, Chicago, New York and Washington D.C. are still very challenged due to continued restrictions on travel," said Director Henry Flynn. "Instead the recent recovery has been driven by airline hubs at Charlotte, Dallas-Fort Worth, and Denver that funnelled traffic across smaller destination markets. Tourism and small-hub destinations that were quicker to re-open their economies were the leading performers in 4Q20."

Airport traffic declines were still severe in 4Q'20 with even the strongest performing markets (Orlando, Fort Myers, Boise, and Tampa) seeing declines between 37% to 55% relative to 4Q'19.

Toll road traffic levels are still robust, though 4Q'20 data shows the first time since the start of the pandemic that most Fitch-rated toll roads did not significantly outperform its projections. Fitch's latest traffic monitor shows seven toll roads outperforming Fitch's expectations, eight others on course, and six with falling traffic levels. "The recent new wave of coronavirus infections in certain parts of the country and the shut-downs that followed led to traffic slowdowns on some toll roads," said Flynn.

The drop-off, however, may be short lived with toll road traffic recovery set to accelerate this spring thanks to increasing vaccination rates, warming weather and monetary and fiscal stimulus poised to boost economic output.

Military Housing: Performance Is Stable As Investment Needs Build

Key Takeaways

- Strong coverage metrics lend stability to military housing ratings.
- 2021 sees increases in both basic allowance for housing and troops domiciled domestically.
- Aging military housing stock may require near- and medium-term capital investment.

Continue reading.

26 Apr, 2021

S&P Updated Scores For U.S. Metropolitan Statistical Areas Based On Various Criteria For 2020.

S&P Global Ratings has updated its scores for U.S. metropolitan statistical areas (MSAs) based on its local government general obligation (GO) criteria, priority-lien criteria, water/sewer criteria, and special assessment debt criteria (see "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions," published Sept. 12, 2013, on RatingsDirect, "Priority-Lien Tax Revenue Debt," Oct. 22, 2018, "U.S. Public Finance Waterworks, Sanitary Sewer, And Drainage Utility Systems: Rating Methodology And Assumptions," Jan. 19, 2016, and "Special Assessment Debt Criteria," April 2, 2018).

Overall, 81 of the 383 MSA scores changed with 51 improving and 30 weakening. This number of changes is higher than it has been during the past three years. The changes are due almost entirely to the employment growth aspect of the MSA score, which represents a comparison of each MSA's percentage change in employment over the past five years against the sum for all MSAs. The change in employment is measured through early 2021 and does not account for the full economic impact of the COVID-19 pandemic.

The United States Office of Management and Budget (OMB) delineates the 383 MSAs. S&P Global Ratings' uses the OMB's April 2018 delineation for our calculation of broad and diverse MSAs. These delineations are used for data sourced from the Bureau of Labor Statistics that we use in our analysis.

Our updated scores for U.S. MSAs reflect data from 2020. Participation in a broad and diverse MSA is only one component of our various criteria.

Continue reading.

26 Apr, 2021

S&P: Federal Aid Helps Lift The Cloud Over U.S. State Budgets

Key Takeaways

- Most U.S. state budgets have shown resiliency in the face of the COVID-19 pandemic though challenges remain for fiscal 2022 and beyond.
- Unprecedented federal aid has contributed to budget stability and the most recent stimulus package grants states additional flexibility to manage their budgets.
- Ability to use rainy-day reserves remains a crucial tool for budgetary management, especially for states with economic recovery that lags that of the nation.
- States must focus on long-term structural budget balance to preserve credit quality once federal aid tapers off.

Continue reading.

29 Apr, 2021

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

Read the list.

30 Apr, 2021

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

View the list.

30 Apr, 2021

Fitch: Jobs Coming Back in Greater Numbers for U.S. States

Fitch Ratings-New York-29 April 2021: Almost every U.S. state saw notable employment gains last month for the highest median month-over-month increase since September, according to the latest U.S. States Labor Markets Tracker from Fitch Ratings.

The median over the month employment change for states was +0.5%, the highest median gain over the past five months. The coming months augur for more of the same, likely at an accelerated rate. 'National labor markets are expected to show continued positive momentum this month, indicating states will likely see a similar trend for April as well,' said Fitch Senior Director Olu Sonola. 'The stage appears set for an even bigger pickup in economic activity for the second half of 2021.'

Positive job gains in March pushed several states' employment recovery to over 50% of the jobs lost at the peak of the pandemic, among them Minnesota, New York, North Dakota, Oklahoma, Oregon and Washington. Additionally, states like Idaho and Utah have recovered over 100% of jobs lost between February and April of last year. Alaska was the lone outlier that saw its employment numbers fall last month, albeit marginally.

The leisure and hospitality industries still largely dominate employment losses with roughly 37% of all U.S. job losses since February 2020. ‘Recovery in these sectors is picking up slightly, but will be prolonged given continued travel restrictions and consumer reluctance to travel,’ said Sonola. Leisure and hospitality struggles will continue for the next several quarters.

Fitch’s latest ‘U.S. States Labor Markets Tracker’ is available at ‘www.fitchratings.com’.

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Congress Urged to Use Muni Tax Breaks to Help Black Colleges.

- **House panel Wednesday focused on muni market’s social impact**
- **Idea, proposed before, backed by Wall Street trade groups**

Here’s one way the federal government could help America’s black colleges and universities: expand the market for their tax-exempt bonds.

Christopher Parsons, a University of Southern California finance professor who found that such schools face higher costs in the bond market than others, told a panel of the House Financial Services Committee Wednesday that making their debt exempt from all state and local income taxes nationwide would help reduce their financing bills.

That step, which is backed by Wall Street trade groups, would broadly expand the buyer base for their bonds beyond their home states, largely in the U.S. south. Municipal-debt investors typically buy bonds from local borrowers to ensure that the federally tax-exempt income isn’t taxed by the state either.

“The effect of this policy would to be remove the tax disadvantages an investor living in, for example, New York or California currently faces when potentially investing in an HBCU-issued bond from another state,” Parsons said at a hearing focused on the role of the municipal-bond market in economic, racial and social justice.

The tactic would significantly expand the pool of potential bond buyers nationwide, including to states such as California and New York where the higher tax rates may leave investors willing to accept lower yields than investors elsewhere. Such tax treatment helped to create a nationwide market for Puerto Rico’s debt.

The Securities Industry and Financial Markets Association supports extending the tax-exemption for the historically Black schools, board member Gary Hall, a partner at underwriter Siebert Williams Shank & Co., testified during the hearing. He said it would increase demand, result in better pricing and fit with the market’s “strong appetite” for social-impact bonds, a subset of the environmental, social and governance market.

President Joe Biden has pushed for greater funding for historically black colleges and universities, many of which were contending with sliding enrollment and financial pressures even before the pandemic shutdowns hit Black Americans disproportionately hard. The spending plan that Biden unveiled on Wednesday included a $39 billion program to subsidize tuition for students from families earning less than $125,000 at HBCUs and related institutions, among other measures.

The idea of expanding the tax breaks for buyers of bonds sold by such schools was previously proposed in Congress but failed to advance. The Bond Dealers of America, another securities industry lobbying group, said it’s in favor of it.

“HBCUs traditionally have faced hurdles accessing public and private market financing as efficiently as some other peer institutions,” the group said in a statement to the subcommittee. “HBCUs play a vital role in our higher education system, and it is important that HBCUs have efficient and ready access to capital to finance investments.”

Bloomberg

By Shruti Singh

April 28, 2021, 3:24 PM PDT Updated on April 29, 2021, 7:59 AM PDT

BDA Statement on HBCU Financing.

BDA today filed a written statement with the House Financial Services Committee Subcommittee on Oversight and Investigations in the context of their hearing this afternoon on “Examining the Role of Municipal Bond Markets in Advancing – and Undermining – Economic, Racial and Social Justice.”

We focus our statement on financing for Historically Black Colleges and Universities (HBCUs). We cite the capital needs faced by HBCUs and impediments some HBCUs have experienced in accessing the public market. We suggest several policy solutions, including direct-pay bonds, expanding bank-qualified bonds, restoring advance refundings, providing “triple tax-exempt” status for HBCU bonds, providing a federal guarantee for HBCU bonds, and promoting ESG standards that would benefit HBCUs.

The hearing begins at noon eastern today and is viewable on the Committee’s Web site.

Please call or write with any questions.

Bond Dealers of America

April 28, 2021

[Examining the Role of Municipal Bond Markets in Advancing – and Undermining – Economic, Racial and Social Justice - SIFMA Testimony]

SUMMARY

Submission for the Record by Gary Hall on behalf of SIFMA before the U.S. House of Representatives Committee on Financial Services Subcommittee on Oversight and Investigations in the hearing: "Examining the Role of Municipal Bond Markets in Advancing – and Undermining – Economic, Racial and Social Justice"

SIFMA believes that the financing solutions offered by America's capital markets to state and local governments in the form of bonds will help spur infrastructure investment as well as the myriad of related benefits such as economic growth and job creation. Still, it must be acknowledged that minority communities have, and continue to, face significant challenges due to historical underinvestment. I can say that SIFMA and its members, are committed to not only fostering a culture of diversity and inclusion within our firms and industry, but also investing in diverse communities nationwide and increasing the availability of financing for critical local infrastructure projects.

SIFMA and its members understand that America's capital markets can play an important role in enabling and financing programs to combat generational hardships such as poverty, racism, climate change, and other critical infrastructure needs. It is especially worth noting that municipal bonds can also be leveraged in terms of sustainable finance. State and local governments are increasingly turning to municipal bonds to finance projects that align with certain environmental, social, and governance goals. We view it as a business imperative and our responsibility to serve all of our clients equally and to help improve the communities in which we operate by offering financial solutions to locally identified capital projects.

Read the full SIFMA testimony.

Municipal Bonds May Be Poised For A Great 2021, Thanks To Policy Makers.

Though low yields and rising inflation are turning some investors away from fixed income, 2021 is shaping up to be a potentially strong year for municipal bonds.

Long seen as a sleepier, even boring side of fixed-income markets, the municipal bond space is heating up, thanks in part to the ambitious tax proposals being put forth, said Jeff Timlin, head of municipal bond investing at Sage Advisory.

"Once Biden got elected, we knew that the talk of higher tax rates—obviously, higher federal taxes, but higher taxes across the board with both individuals and corporations—would be a positive for municipal bonds from a demand standpoint," said Timlin. "With higher yields creeping in slowly, the desire for income and tax-free income in particular is going to be more attractive despite some of the price losses bond investors have seen."

Continue reading.

FINANCIAL ADVISOR

APRIL 29, 2021 • CHRISTOPHER ROBBINS

Munis In Focus: Rates Go Up, Municipal Bonds Go Down (Bloomberg Radio)

Editor of Bloomberg Brief: Municipal Market, Joe Mysak, talks municipal market flows and yields. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

April 30, 2021

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3 Tax-Free Ways To "Front-Run" The Biden Infrastructure Boom.

Infrastructure spending is back in vogue, and we've got a chance to grab a piece of it tax-free.

That would be through municipal bonds, investments most people see as sleepy (though I have no idea why) but are poised to roll as President Biden's $2-trillion infrastructure package (or some version of it) becomes law. That's because the law will usher in an explosion of new "muni" bonds—and there are select actively managed closed-end funds (CEFs) ready to pick up the best ones.

By buying them now, we can nicely front run this muni-bond wave.

Continue reading.

Forbes

by Michael Foster

May 1, 2021

Inflation? For Muni Investors, The Right Strategy Is Key.

Summary

- Municipal bond investors are clearly worried about rising rates and rising inflation.
- The inflation component is also taxed at ordinary income tax rates, but here's the kicker there: you don't receive the benefit of it the year that it's realized.
- As yields are rising – and inflation expectations are likely rising because there's a high correlation between the two – even though the bonds may be losing value, the swaps are gaining in value and that's where you get your offset.

Continue reading.

Seeking Alpha

Apr. 30, 2021

New Plays In The Municipal Bond Market.

I note with interest that a variety of activities are going on in the municipal bond market that appear to be tied more to the lack of yields in the corporate and U.S. Treasurys markets combined with the games one can play in the less supervised municipal bond market. This has to do with some unique features of this market as well as the fact that many current distressed deals can be saved through the injection of additional funds, thereby salvaging a debt instrument carrying a 4% to 8% coupon of tax-free income for decades to come.

As students of municipal defaults for more than 30 years, I have seen any number of games that can and have been played with munis once they become distressed. To understand these games, one needs to be aware of a few things.

In times of low interest rates tax free municipal bonds with a high coupon rate are prized instrument. The fact that they may be tied to a dog of a project does not have to be an obstacle to reviving their fortunes. To the contrary, it drives their perceived value by current owners from par value to values of 30% to 60% of par. If you have deep pockets, you can tender for such bonds, buy up the issue and then give a loan to the project to remedy its financial woes. If successful, you end up with a project paying a tax-free yield of 4% to 8% for decades with a market value 20% to 50% above par and as much as 100% above cost.

I suspect two nursing home projects are underway on just such a course. They are the Cambria County PA Senior Choice project and the Florida Capital Trust Agency Beach House project. The two projects are not making public disclosure of why the interest payments are not being made or what remedies are under way. As a result, the bonds are trading in the 50 cents on the dollar range with heavy bond selling, something not usually seen.

A second point of interest about tax-free bonds is that they can be restructured as to coupon rate, maturity or the basic project for which they were originally issued. Hence, say you have a $17.5 million nursing home that's in distress. Let's say you manage to buy up 100% of the bonds at 66 cents on the dollar through various means including a bankruptcy filing and a public auction of the facility. Now you are left with a return of your 66 cents on the dollar investment and a worthless bond issue.

But wait, that worthless bond issue is a license to generate 6.5% tax free income until 2051. All that is needed is to have the issuing authority take this black mark off their record by allowing you to put as substitute collateral say, a building leased by the U.S. Post Office for the next 20 years. This may be a property you already own but which has been fully depreciated and now only generates taxable income.

Could the owners of the Canton Georgian Housing Authority Senior Living Bond for Provident Village have such a plan in mind? (Full disclosure, we were involved in such restructuring efforts back in the 1980s when those 'worthless bond instruments' carried double digit coupon rates.)

The above situations can be played out differently depending on the ownership of the bonds. Here, they are positives from the point of view of maybe salvaging a few from the large number of retirement facilities devastated by the Covid-19 pandemic. Left to only the trustees, such facilities have a poor record for recovery and end up hurting bondholders and occupants. What is not commendable here is that the process often works only by deception, withholding information from current bondholders and tax mitigation schemes that serve little purpose for the nation. Of course, I could be totally wrong and these investors have only the noblest of intentions, even making failed projects into green projects. But then, we've seen this movie before.

Forbes

by Richard Lehmann

Apr 29, 2021

Fitch: Improving Metrics Support Path to Airport, Airline Rating Stabilization

Fitch Ratings-New York/Chicago/Austin-21 April 2021: A number of key rating considerations for airport and airline credits are improving, providing a steadier operating environment and basis for potential rating stabilization, Fitch Ratings says. Fitch is monitoring a number of conditions that could contribute to ratings stability and warrant a return to Stable Outlook for most US airport and airline credits. Currently, airports are better positioned for stable rating positioning by year-end compared with airlines, due to their more limited financial exposures incurred since the start of the pandemic.

All US airports were placed on either Rating Watch Negative or Negative Outlook, and two were downgraded in spring 2020, reflecting the unprecedented steep loss in traffic that severely affected operations. Airline downgrades in 2020 were accompanied by Negative Outlooks. Two airline Outlooks were recently revised to Stable, although these were accompanied by single-notch downgrades. Most airport and airline ratings retain Negative Outlooks, reflecting depressed traffic levels and uncertainty around recovery timing.

The most salient factor that would drive ratings stabilization is increasing evidence of a sustainable recovery in air travel continuing or improving at the current pace. For airport credits in particular, we would look for reported traffic levels performing to our current rating case recovery forecasts, with enplaned traffic levels exceeding 50% of pre-crisis levels, and continuing to rise in the coming months. Containing coronavirus variants and lifting travel restrictions would provide more visibility to airports and airlines, allowing for improved operations planning and capital management.

Airports that can fully apply the sound recovery frameworks of their respective airline agreements, coupled with improving revenue generation derived from non-aeronautical sources, are better placed for a return to financial and cost metrics in line with pre-crisis expectations. Fitch will assess whether airline and tenant performance under contracts is stable or improving, particularly when existing payment waiver or deferral periods expire. As traffic levels move closer to normalized levels, assisted by prudent use of federal aid, airports should be in position to charge airlines and tenants according to their respective agreements, after the existing accommodations to waive/defer charges and payments end.

Absent any new setbacks to aviation, Fitch anticipates that airport key credit metrics can be progressively restored to pre-pandemic forecast levels within the next four years. In most circumstances, cash reserves have been maintained at near historical averages and are likely to further improve as the recovery progresses. Ample federal support to airports as part of the three major federal stimulus bills provided substantial cashflow and liquidity and reduced the need to support finances through borrowing or equity.

Federal aid also helped sustain liquidity for some airlines, but some airlines are not expected to achieve credit metrics that support higher ratings until 2023 or later. Airlines will need to focus on cost control and expense reduction to enable a return to pre-pandemic margin levels. Fitch will look for increased financial flexibility, with a return to or sustained positive cash flow, as evidence of improvement in airport credit profiles. Airlines have increased leverage during the pandemic and some are heavily indebted; decreasing leverage will be necessary for ratings stabilization. This is more challenging for airlines with high capital spending needs, particularly airlines with older fleets.

Airlines with predominantly domestic routes and reliance on leisure travel are better positioned to recover, while those with material exposure to business and international travel will lag. Passenger traffic remains more than 40% below 2019 levels, but we expect it to return to 70%-75% of pre-pandemic levels by YE 2021, driven by increased traveller confidence and pent up demand. Fitch assumes that enplanements will return to 100% of 2019 levels by 2024.

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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.

GFOA Government Finance Review.

Budgeting is just as much about values and priorities as it is about dollars. This month's issue of *Government Finance Review* dives into priority-based budgeting. Learn more about working together to align revenue, expenditures, and community values.

S&P Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs

Key Takeaways

- All U.S. public finance (USPF) 2021 sector views, except higher education and not-for-profit health care, are stable following sector view revisions to states, local governments, charter schools, and transportation on March 24.
- Passage of the American Rescue Plan (ARP) will provide critical support to USPF issuers as they recover from a very difficult year. The funds will help stabilize operations, provide liquidity, and accelerate capital projects.
- Robust economic recovery prospects nationally mean a more even recovery across regions. Although there is some variation in growth projections for gross state product (GSP), retail sales, and unemployment, to date no region appears to be growing exponentially faster than another.
- Hospitality and tourism states remain challenged to overcome visitor drops during the pandemic, and lags in employment recovery will continue to pressure governments with concentration in the sector.

Continue reading.

16 Apr, 2021

S&P Pension Spotlight: Risk Sharing Dilutes Pension Burden For Five States

Key Takeaways

- U.S. state governments reduce pension stress when they share contribution volatility risk because the budgetary impact of poor returns doesn't fall solely on the sponsor.
- Sharing risk can offset some negative credit views of high return assumptions because it limits associated market volatility.
- Affordability through risk sharing features often leads to improved funded ratios.
- We examine five U.S. states–Oregon, South Dakota, Tennessee, Utah, and Wisconsin–to show how this risk-sharing practice can benefit them.

Continue reading.

21 Apr, 2021

[Fitch Ratings Returning to Pre-Coronavirus Stresses for U.S. Public Finance.]

Fitch Ratings-New York-22 April 2021: With a brighter outlook for the U.S. economy expected, Fitch Ratings is generally returning to the same standard analytical stresses for U.S. public finance that it was using prior to the onset of the coronavirus pandemic.

U.S. Tax-Supported Sector

As part of its standard rating process, the U.S. tax-supported sector utilizes a revenue stress from the Fitch Analytical Stress Tool (FAST) States & Locals model, which looks to each issuer's own historical revenue cyclicality and then relates that to GDP as a scaling factor.

Most tax-supported issuers utilize a June fiscal-year end. For all issuers that (when evaluated) have audited fiscal year 2020 results available, and where there is visibility into the balance of calendar-year 2020 indicating a relatively benign revenue experience for the full year, Fitch will incorporate the same moderate cyclical stress used prior to the onset of the pandemic. The moderate scenario assumes a GDP sequence of -1.0%, +0.5% and +2%, for years one through three, respectively, and CPI of 2% each year. For any issuer where there is a lack of visibility into full 2020 calendar year revenue performance, or where a significant revenue decline is indicated, a downside stress will be utilized.

U.S. Revenue-Supported Sectors

A range of revenue-supported issuers utilize a top-down stress as part of Fitch's forward-looking scenario analysis.

U.S. Not-For-Profit Hospitals and Higher Education

Issuers in the U.S. Not-For-Profit Hospitals and Higher Education sectors often have large investment portfolios that represent a financial cushion that is considered a credit positive in ratings. Fitch is replacing both of its more severe coronavirus-influenced scenarios by a moderate stress scenario calling for a still substantial 21% decline in equity values, which equates to an approximate -1.5 to -2.0 standard deviation movement, followed by an approximate -0.5 standard deviation event in year two, an approximate +1 standard deviation bounce back in year three, and trend level growth in years four and five. As implemented in Portfolio Analysis Model (PAM), the GDP input to reflect this is -1.5%, +0.5%, +3.5%, +2%, +2% for years one through five of the scenario, respectively. The new moderate scenario is meaningfully less negative than the previous downside scenario in particular, but is still conservative.

State Revolving Funds

State revolving funds utilize the portfolio stress generator from PAM to discount certain investments of two pooled-program ratings. Consequently, this stress would change consistently with that outlined above under U.S. Not-For-Profit Hospitals.

U.S. Public Power Sector

U.S. Public Power issuers utilize the FAST Econometric API (previously the FAST Public Power) model that generates a cyclical stress to demand over the course of a theoretical five-year cycle based on each issuer's own inherent volatility and an assumed top-down stress. Given that variations in demand are typically weather-related as opposed to being more tied to the business cycle, the standard stress has not changed over the course of the pandemic. Instead, other relevant sensitivities have been considered in the analysis where appropriate.

U.S. Water & Sewer Sector

FAST for issuers in the U.S. Water & Sewer sector apply a 10% top-down stress to capital over the course of a theoretical five-year cycle. Given the inherent stability in demand and typical rate structures within the sector, this stress has remained consistent over the course of the pandemic, though additional sensitization was considered where appropriate.

Other Sectors

Sectors including Life Planned Communities and Housing not noted above, do not use a modelled input assuming a standard top-down stress, as is done for FAST. For these sectors, the same central baseline and downside scenarios will be incorporated in ratings in the context of the current analytical framework utilized by those issuers.

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Additional information is available on www.fitchratings.com

Biden Spending Plan Seen Jolting Muni Green-Bond Sales to Record.

- **Parametric eyes record $30B to $35B of sales in 2021**
- **Boom would follow unprecedented $20 billion wave last year**

The municipal debt market may be headed for a second straight year of unprecedented green-bond issuance, in a boon for asset managers keen on deploying cash to such investments.

That's the view of Lauren Kashmanian at Parametric Portfolio Associates LLC as she analyzes the potential of President Joe Biden's $2.25 trillion spending plan. The proposal includes money for mass transit, green housing development, electric-vehicle charging infrastructure and strengthened water systems and electric grids.

Continue reading.

Bloomberg Green

By Danielle Moran

April 20, 2021, 10:30 AM PDT

Chicago Professor Jenkins Talks Inequality in Muni Market.

- **Academic's book studies postwar San Francisco muni finances**
- **Communities still structurally rely on market actors, he says**

Destin Jenkins is an assistant professor of history at the University of Chicago and author of "The

Bonds of Inequality: Debt and the Making of the American City." I was so taken by the book, which presents the postwar history of the San Francisco municipal bond market and which I reviewed on April 9, that I followed up with him, first to ask about how he came to write about municipal bonds, but also to bring his story into the present day. The interview, conducted via email, has been edited for length and clarity.

JM: Why the "critical and understudied" municipal bond market, as you refer to it?

DJ: Let me address the "understudied" part of the question since your readers will know well the importance of the bond market in financing the very things that make cities recognizable.

Since the 2008 financial crisis, historians have focused on the making of all kinds of markets. But my sense is that even this excellent work on the real estate market, stock market, or, for that matter, the Treasury bond market is governed by an assumption that these were the areas that most directly impinged on the lives of Americans. These markets, in other words, became ways of talking about the racial wealth gap, retirement savings, IPO's, inflation and interest rates. As it turns out, the municipal bond market is also a powerful mechanism for wealth, infrastructure, consumption, and so much more.

JM: How did your peers react to your tackling munis?

DJ: I would initially launch into a colorful story about how munis unlocked all kinds of processes, only to be interrupted by the question, "But what is a bond?" Many of my peers understood stocks, but not bonds, much less municipal bonds. Others wondered why I wasn't studying "the people," even though municipal bond financiers and raters are also people whose activities shaped the infrastructural quality of life for millions of Americans. Basically, the veiled world of muni bond finance and the disciplinary ideologies of history meant I had to really work to show that municipal finance was absolutely critical to the issues near and dear to most historians (change over time, inequality, democracy, race).

Because my peers were primed for understanding the consequences of a debt arrangement, I realized I had to first frame my work in terms of Detroit's bankruptcy and Puerto Rico's insolvency, and then work backward to explain the workings of municipal bond finance.

JM: The "infrastructural investment in whiteness" that you cite in your book — is this still going on?

DJ: This is a very good question. What I describe in the book as the "infrastructural investment in whiteness" is not a trans-historical, eternal relationship between cities, markets, and Americans. It refers to a specific crystallization of intra-racial (white) investment in, and across, class lines during the 30 or so years after World War II. I coined the term to focus on an arrangement whereby white workers in segregated building trades literally built the infrastructure through which white middle-class Americans consumed, and which was ultimately funded through the bondholding investments of a white upper-class. It refers to the distribution of a largely "segregated pie" in the form of wages, consumer activities, and wealth for the white working-, middle-, and upper classes, respectively.

But the white male middle-class subject no longer sits at the center of achieving local urban economic growth, in part because of the hollowing of the middle-class in America. The building trades are not nearly as segregated as they once were. And wealthy white investors, who relied on tax-exempt municipal bonds to shield their capital from high federal marginal tax rates, have far more opportunities, domestically and globally, to do so. To be clear, this does not imply that we are in a post-racial world. Rather, the class dimensions of whiteness and bond finance intersect in very different ways. (For instance, borrowing to adapt urban space for the increasingly affluent, or to invest in policing).

JM: Did the Detroit bankruptcy and Puerto Rico insolvency weaken “bondholder supremacy” or is it still a factor?

DJ: Bondholder supremacy is marked, in part, by commonsensical ways of understanding the world. Unquestioned promises to bondholders; the treatment of bond ratings and revenue projections as objective, transparent, apolitical readings of budgets; ingrained ideas about fiscal responsibility and appropriate spending levels — all of this is evidence of the supremacy of bondholders in articulating how cities, territories, and other political units should be governed. These common-sense ways of seeing are very much still a factor.

JM: You ask, why is it that raters should have so much influence on our collective social welfare. Is this still the case?

DJ: The fact is that waste management systems, the distribution of water, recreational spaces, among other aspects of modern life, are furnished through state power and the municipal bond market. This is no mere question of efficiency (i.e. the allegation that private markets are more efficient than other funding mechanisms at delivering services and resources). It is a question of power. Communities around the country remain structurally dependent on the activities and lending terms of market actors. We need to ask whether claims of market efficiency should take precedence over substantive democracy.

JM: How did (American) cities possibly survive the 1970s?

DJ: Cities are a paradox, at once profoundly dynamic yet remarkably durable. So what was at stake in the 1970s was not so much whether cities, as large durable structures, would survive, but the fortune, fate, and scope of governing coalitions, political regimes (especially urban liberalism), and the freedom dreams of marginalized populations.

On the one hand, cities turned to retrenchment. On the other hand, it was also during the 1970s that affirmative action policies and increased spending in the public sector created new opportunities for African Americans. Black women in particular found a foothold in the public sectors of health and hospitals, educational services, federal and local public administration, and welfare and religious services. These were the people who helped the city run. We might say they were the “essential workers” of the decade.

Bloomberg Equality

By Joseph Mysak Jr

April 22, 2021, 9:00 AM PDT

Why the Muni Bond Market Could See a Correction Soon.

A robust municipal bond market could be vulnerable to a modest correction after besting most other areas of the fixed-income markets so far this year.

Peter Hayes, the head of the municipal bond group at BlackRock, noted that the muni market was showing positive year-to-date returns of about 0.6% through early this week, based on the S&P

Municipal Bond Index, against returns of negative 2.5% to 3% for some major taxable-bond indexes.

Munis have been buoyed by modest supply and strong demand from retail investors, who have added $28.8 billion to muni funds in 2021, according to data from the Investment Company Institute.

“With all this demand and low supply, our relative valuation, how we look against other fixed-income asset classes, is not as attractive,” Hayes told Barron’s. “Retail investors really don’t look at that, but nevertheless we are pretty rich on that basis. We expect a little bit of a correction to take place over the next month or two.”

Benchmark triple-A 10-year muni bonds are yielding 0.92%, just 60% of the 10-year Treasury note. That ratio, which got as tight as the low 50s in February, has averaged in the 80% to 90% area for the most of the past few years, excluding the dislocations of last March.

Hayes doesn’t think the current ratio is sustainable over time. “At 70% to 75%, the market would feel a lot healthier,” he said.

Top federal income-tax rates are now 37% and potentially going higher. But even if taxes do go up, munis would offer little appeal relative to Treasuries. Most munis yield more than top-tier, triple-A bonds.

“We think there are some better opportunities ahead; we’re keeping some cash on the sidelines,” Hayes said. “We think rates need to go modestly higher and there could be better opportunities for people to enter the muni market.”

There is more yield below the triple-A tier, with double-A-rated long-term California general-obligation bonds yielding about 2.45% this week, slightly above the rate on the 30-year Treasury bond.

Muni credit fundamentals are in excellent shape, Hayes said, reflecting better-than-expected tax revenues and federal aid.

Hayes noted that there was a lot of discussion in 2020 about the impact of the pandemic. “The reality is that municipal credit has fared very well. The budgets deficits that had been predicted are turning into surpluses. We’re more positive on credit than we were six to nine months ago.”

BlackRock favors bonds from higher-quality state and essential-service revenue bonds as well as those issued by top universities. The firm is underweight on senior living and long-term care facilities.

Barron’s

By Andrew Bary

April 22, 2021 12:17 pm ET

Munis Benefiting From System 'Flush With Cash': Eagle Asset's Camp

In this week’s “Muni Moment,” James Camp, managing director of fixed income and strategic income at Eagle Asset Management, says the municipal bond market has been the beneficiary of U.S. fiscal stimulus efforts due to a “dearth of yield in safe assets.”

[Watch video.]

Bloomberg Markets: The Close

April 21st, 2021, 12:25 PM PDT

[Supporters Hope for Build America Bonds Revival in Infrastructure Plan.]

It won't likely be hard to find buyers for the program, designed to leverage increasing amounts of private funding for public works via taxable municipal debt.

The push to revive the federally subsidized Build America Bonds program as part of massive infrastructure legislation has investors and issuers champing at the bit.

Their appetite for the bonds, or BABs, was immense when they were briefly issued more than a decade ago by states, cities and local governments unable to finance their projects at reasonable rates during the Great Recession.

But with Uncle Sam's backing, they could. Treasury Department data showed rapid uptake, with issuance reaching one-fifth of the total municipal bonds market barely a year after launching in April 2009.

Supporters expect more of the same if the BABs program gets fresh life — supplying a durable financing tool to cover some costs in President Joe Biden's $2 trillion infrastructure plan.

"Market forces and economics have not changed," said Aaron Klein, senior fellow in economic studies at the Brookings Institution. "If BABs were brought back, they would work well."

It won't likely be hard to find buyers for the program, designed to leverage increasing amounts of private funding for public works via taxable municipal debt.

Investor draw: Unlike more traditional state and local municipal bonds, which provide tax-free interest to investors, BABs would be part of the increasingly popular taxable municipal debt market. Because of their taxable nature, this type of debt, known as tax credit bonds, offer higher interest rates, a factor that draws in a wide array of investors for whom tax-free municipal issuance is much less attractive.

The popularity is evident in data from Charles Schwab Corporation last year, which showed about 30 percent of all new municipal bonds that were issued were taxable, compared to nearly 10 percent of all issuance historically.

"There is incredible demand for yield in this market and, depending on potential structural changes, BABs could prove incredibly attractive to investors," said Isaac Boltansky of Compass Point Research & Trading LLC, an investment firm.

When initially available, BABs appealed to pension funds — which don't pay taxes anyway — hence their general disinterest in tax-free municipal bonds. Taxable municipal debt also makes good sense for insurance companies; some foreign investors for whom traditional municipal debt isn't as good an investment; nonprofits; individuals with moderate incomes; and other individuals and institutions that don't benefit from tax-exempt interest income.

Policy appeal: Drawing in an entirely new class of investors broadly benefits the state and local debt market by increasing investor competition, letting issuers lower the interest rates they offer on all their debt across the board though still at appealing-enough levels to attract buyers, Klein said.

Treasury research from 2010 shows that BABs saved issuers around $20 billion relative to traditional tax-exempt municipal debt, and they lowered costs even for state and local governments that stuck solely to traditional financing through tax-exempt bonds.

The 35 percent federal subsidy rate in 2009 and 2010 also reduced costs for the government entities that financed projects through the program. Overall, BABs proved positive for issuers' bottom lines, said Mark Ritacco, government affairs director for the National Association of Counties.

He said the group's members have begun pressing lawmakers and the Biden administration to bring back BABs as one of multiple avenues for funding infrastructure. The U.S. Conference of Mayors has staked out a similar position supportive of BABs or similar bonds as a supplement to tax-exempt bonds, though not as a replacement.

"Tax credit bonds and direct subsidy bonds are an excellent complement to traditional tax-exempt municipal bonds," the mayor of Columbia, S.C., Steve Benjamin, recently testified before the House Ways and Means Select Revenue Measures Subcommittee.

Fresh opportunity: The program was established on a temporary basis as part of former President Barack Obama's American Recovery and Reinvestment Act in 2009 and ran through 2010. It was meant to help state and local governments borrow more easily during the recession that followed the financial crisis, and more than $181 billion worth were issued in all 50 states, the District of Columbia and two territories, far exceeding internal projections.

But after Republicans took back House control in 2011, they let the BABs program expire.

Backers like Klein, a Treasury official when the BABs program existed, have argued for their renewal ever since, and an opportunity appears at hand as Biden presses massive infrastructure legislation. BABs would provide a direct interest subsidy to support infrastructure projects financed by state- or locally issued debt, potentially at no net cost to the federal government, depending on the subsidy rate.

Biden didn't include BABs in the initial outline of his proposal, but members of Congress key to advancing Biden's agenda are certainly interested. House Ways and Means Chair Richard Neal (D-Mass.) listed BABs among his own priorities for the infrastructure plan earlier this month, and his counterpart, Senate Finance Committee Chair Ron Wyden (D-Ore.) has regularly praised BABs for more than a decade.

"Build America Bonds were an overwhelming success in the Recovery Act," Wyden said. "I'm incredibly proud of that program, and a similar financing structure will be part of the conversation as we move forward."

Neither he nor Neal have divulged details of their ideas for reviving BABs, but parameters in the previous program could be tailored depending on desired outcomes. For example, a federal subsidy rate of 28 percent would make them revenue neutral for the federal government, Klein said.

Neal said talks are still underway to settle certain particulars like the subsidy rate and the potential to scale it up or down. But past experience indicates a winning formula is achievable, he said.

"The Build America Bond investment was performative in the downturn," Neal said.

However, critics have pointed out that the revenue-neutral projection assumes no subsidized bonding would have otherwise happened. Others said BABs were a solution to a problem in 2009 and 2010 that doesn't currently exist, given the larger degree of municipal revenue stability during the pandemic compared to the Great Recession, as well as billions of dollars in state and local transportation funding provided in pandemic relief packages over the past year.

"This is a different era than when Build America Bonds were created to fund infrastructure when the financial crisis constrained investment," said Rep. Kevin Brady (R-Texas), the GOP's top Ways and Means member.

Brady also criticized their original iteration as "overly rich subsidies." He said today's infrastructure conversation should focus on "better approaches to attract private investment, rather than exclusively relying on state and local financing, or tax increases that land on the backs of American workers."

A Treasury spokesperson declined a request for comment, but investors predict something will come of the talks.

"I think we will see some debates over the amount of the subsidy and other programmatic particulars, but the BAB structure is something that should be welcomed by investors, municipalities, and many on Capitol Hill," Boltansky said.

POLITICO

By AARON LORENZO

04/21/2021 10:47 AM EDT

SIFMA Statement on Reintroduction of the American Infrastructure Bonds Act.

Washington, D.C., April 22, 2021 – SIFMA today released the following statement from president and CEO Kenneth E. Bentsen, Jr. on the reintroduction of the "American Infrastructure Bonds Act":

"SIFMA commends Senators Roger Wicker (R-MS) and Michael Bennet (D-CO) on their commitment to infrastructure investment, seen today with the reintroduction of the American Infrastructure Bonds Act, and further appreciates Senators Roy Blunt (R-MO), Shelly Moore Capito (R-WV), Tim Kaine (D-VA), Cynthia Lummis (R-WY) and Debbie Stabenow (D-MI) for their support as co-sponsors of the bill. This bill authorizes a direct-pay subsidy for American Infrastructure Bonds, which allows state and local governments to attract taxable bond investors, such as insurance companies, pension funds and foreign investors, to invest in infrastructure projects. Increasing the demand for municipal securities is particularly helpful now, as state and local governments are experiencing much higher costs due to the COVID-19 pandemic."

American Rescue Plan Could Boost BAB.

It's been a while since the Invesco Taxable Municipal Bond Fund (NYSEArca: BAB) was one of the municipal bond ETFs generating buzz, but that could change and do so imminently thanks to the American Rescue Plan.

The $2.29 billion BAB tracks the ICE BofAML US Taxable Municipal Securities Plus Index, which uses a sampling methodology and "is designed to track the performance of US dollar-denominated taxable municipal debt publicly issued by US states and territories, and their political subdivisions, in the US market," according to Invesco.

BAB is a relevant near-term consideration for conservative, income-seeking investors because the recently passed American Rescue Plan features plenty of assistance to help states and cities shore up their finances.

"The $350 billion of funds support state and local governments by reducing the need to plug budget deficits with additional borrowing," according to Invesco research. "The aid also aims to keep more frontline workers and first responders employed during a time of budget pressure. Historically, local governments have used job cuts as a primary tool to counter the financial impact of economic downturns. Direct aid to states helps local governments, too, since a large portion of local budgets comes from state sources."

BAB Benefits
The Invesco ETF holds 567 bonds and sports a 30-day SEC yield of 2.28%, according to issuer data. Moreover, the recent legislation could bring stability to the municipal bond market.

"This second round of federal stimulus should further stabilize state finances since $195 billion is earmarked for states. According to Moody's, this amount is equivalent to nearly 16% of states' own revenue posted in fiscal 2019," adds Invesco. "The US economy is also poised for a comeback, especially as vaccines become even more widespread. In addition to stimulus, it is important not to overlook the fact that states and localities can raise taxes, and we think we will see tax increases in 2021. We view the current period as a multi-year budget rebuild, the same way the first few years after the global financial crisis were a time of economic rebuilding."

Fortunately, BAB doesn't subject investors to significant credit risk as 86% of its holdings are rated AAA, AA, or A on the S&P rating scale.

ETF TRENDS

TOM LYDON APRIL 22, 2021

What Is In the $1.9 Trillion American Rescue Plan Act For Local and State Governments?

Since the start of the COVID-19 pandemic, the United States government has distributed over $6 trillion in economic relief funds, entailing everything from direct economic impact payments, state and local government aid, extended unemployment benefits and financial help to small businesses – amounting to roughly over 25% of the annual U.S. Gross Domestic Product (GDP).

This spending also includes the most recent legislation signed by President Biden in March 2021 for $1.9 trillion, called the American Rescue Plan Act (ARPA). While the majority of the American Rescue Plan Act is geared towards bringing the pandemic under control and enabling local and state governments to craft a cohesive vaccine distribution strategy, there is $350 billion of allocation in assistance to states, counties, municipalities and other levels of governments to cover expenses and make up for lost revenue.

In this article, we will take a closer look at the different components of this most recent relief act and how it can help local governments combat the effects of the pandemic.

Continue reading.

dividend.com

by Jayden Sangha

Apr 21, 2021

U.S. States, Cities Await Guidelines on Spending Stimulus.

U.S. states and local governments are raring to tap billions of dollars coming their way in new federal stimulus funding, but are anxiously awaiting guidance to determine whether items on their wish lists are allowed.

U.S. Treasury Department guidance is also expected to clarify states' ability to cut taxes and may address using stimulus money to pay off debt.

The $1.9 trillion American Rescue Plan Act, signed by President Joe Biden in March, allocates $350 billion for states, municipalities, counties, tribes, and territories to help repair their coronavirus-damaged budgets and economies. The federal government has a tight deadline to start distributing the money.

"The clock is certainly ticking. They have to get the money out the door by May 10," said Mark Ritacco, government affairs director at the National Association of Counties.

Unlike the $150 billion governments received under last year's federal CARES Act, which was limited to pandemic-related spending, the new money can be used to replace revenue lost due to the pandemic, provide "premium pay" for essential workers, and to invest in water, sewer, and broadband infrastructure, according to the U.S. Treasury.

Governments have "tons and tons of questions" about eligible uses for the money including financing other capital improvements that were deferred due to the pandemic and parking stimulus funds in interest bearing accounts, according to Emily Swenson Brock, director of the Government Finance Officers Association's Federal Liaison Center.

"There's just this wide berth of interpretation in the (legislative text) and that's why we're a little anxious to see if the Treasury guidance makes limitations or if it allows for greater opportunity," she said.

Brock added that several state legislatures are talking about using stimulus money to pay off outstanding debt, a move not addressed in the act.

New Jersey has identified bonds that could be retired in the next few years if the state "is afforded greater flexibility," according to Jennifer Sciortino, spokeswoman for the state treasurer's office.

“At this point, it is entirely unknown if the federal government will permit us to use funds to pay off existing debts,” she said.

Illinois Governor J.B. Pritzker wants to use stimulus dollars to take out the remainder of the $3.2 billion his state borrowed last year through the U.S. Federal Reserve’s Municipal Liquidity Facility to ease a cash crunch.

The act does not allow the money to be used for pensions or to subsidize new state tax cuts.

The latter prohibition sparked five lawsuits against the Biden administration by Republican attorneys general in several states. Ohio filed the first case on March 17, contending “Congress lacks constitutional authority to limit states’ taxing power in this manner.” read more

With the case still pending, the Ohio House of Representatives on Wednesday approved a 2% income tax cut totaling about $380 million over two years.

Bills have been introduced in 16 other states as of April 6 to cut personal or corporate income taxes, according to the National Conference of State Legislatures.

U.S. Treasury Secretary Janet Yellen has said nothing in the act prevents tax cuts and that further guidance would be forthcoming.

Reuters

by Karen Pierog

April 26, 2021

[Toxic Alabama Private Prison Deal Falling Apart With Barclays Exit.]

A good investor loves a great deal. In traditional finance, we want to minimize risk and maximize return. We love a dependable counterpart with a great credit rating. And finally, we try to maximize the tax efficiency of any investment transaction.

Last week, London-based financial services company Barclays went out to market with a deal it thought fit all these criteria. It had coordinated with the state of Alabama and the Public Finance Authority (PFA) of Wisconsin to launch a muni bond, typically considered to be a highly tax efficient structure. The bond has an A- credit rating, and was structured with a prepayment mechanism to reassure investors. The bond would provide a government service deemed high priority by the state. Investors should be salivating over such a deal.

But the service that this deal would finance? The building of two Alabama mega-prisons with 7,000 beds, to be built and owned by private prison giant CoreCivic.

Continue reading.

Forbes

by Morgan Simon

Apr 21, 2021

Barclays Drops Prison Bond Deal at Last Minute After Furor.

- **Bond proceeds intended to build two prisons in Alabama**
- **Decision to pull out of deal is highly unusual in muni market**

Barclays Plc pulled out of its role as the lead underwriter of a municipal-bond sale that was set to build prisons for CoreCivic Inc. after criticism that the bank was backtracking on a pledge to no longer provide financing to for-profit jail companies.

KeyBanc Capital Markets, another manager, also said it was resigning from the transaction.

The $634 million bond issue was set to be sold as soon as last week through a Wisconsin agency to raise money for a CoreCivic-owned company that was planning to build two prisons in Alabama. The facilities were set to be leased and run by the state's Department of Corrections.

The bank's lead role in the deal drew controversy because it appeared to be at odds with Barclays' announcement two years ago that it would no longer provide new financing to private prison companies, whose model of profiting from incarceration has drawn controversy for years. Other banks, including Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co., also said at the time that they were severing ties with the industry.

The banks' last minute decision to abandon the deal was highly unusual and may reflect the growing clout of investors who are pouring into socially minded investment funds, creating a lucrative and growing business that financial institutions are eager to court.

Bloomberg News was first to report Barclays' involvement in the muni-bond deal earlier this month.

"We have advised our client that we are no longer participating in the transaction intended to provide financing for correctional facilities in the State of Alabama," Barclays said Monday through a spokesman in an emailed statement. "While our objective was to enable the State to improve its facilities, we recognize that this is a complex and important issue. In light of the feedback that we have heard, we will continue to review our policies."

KeyBanc Capital Markets has "resigned" from the transaction, a bank spokesperson said via email. A representative for Stifel Financial Corp., another underwriter, didn't immediately respond to a request for comment.

The banks' retreat may not derail the project, though the departure of the lead underwriter will almost certainly delay the financing. Alabama Governor Kay Ivey, a Republican who has spearheaded the overhaul of the prisons, said in a statement that the state was disappointed by the decision but would move forward with the projects.

CoreCivic spokesperson Amanda Gilchrist said in an emailed statement on Monday that the company is proceeding with efforts to "deliver desperately needed, modern corrections infrastructure to replace dilapidated, aging facilities."

"The reckless and irresponsible activists who claim to represent the interests of incarcerated people are in effect advocating for outdated facilities, less rehabilitation space and potentially dangerous conditions for correctional staff and inmates alike," she said.

The taxable municipal bond sale was expected to provide about 68% of the financing totaling $927 million, according to investor roadshow documents dated March 31. Those plans included the potential sale of $215.6 million in debt issued through a private placement and an equity contribution from CoreCivic.

Barclays had defended its work on the deal, saying it wasn't at odds with its 2019 decision because the money was financing facilities that would be run by Alabama. The state's officials said the deal with CoreCivic will help it improve conditions within its prison system after the state and its corrections department were sued by the U.S. Justice Department in December for failing to protect male prisoners from violence and unsanitary conditions.

Governor Ivey said in the statement that the new facilities would be safer and provide more secure correctional environments.

"These new facilities, which will be leased, staffed, and operated by the state, are critical to the state's public infrastructure needs and will be transformative in addressing the Alabama Department of Corrections' longstanding challenges," the statement said.

Barclays nevertheless drew fire from advocacy groups and the public portion of the debt sale was reduced last week, a step that usually indicates that a bank is having difficulty lining up buyers for securities.

Last week, the American Sustainable Business Council and partner organization Social Venture Circle, which represents 250,000 businesses to advocate for responsible practices and policies, announced that they would refund Barclays' membership dues. Barclays joined the group in 2019.

"We applaud Barclays' decision to not underwrite the Alabama private prison bonds," said David Levine, president of American Sustainable Business Council in a statement on Monday. He said that he invites the bank and other financial institutions to "chart a responsible and beneficial path forward for investing and rebuilding our communities, and our economy."

Bloomberg Business

By Danielle Moran and Amanda Albright

April 19, 2021, 5:17 AM PDT Updated on April 19, 2021, 9:05 AM PDT

Fitch Ratings Updates Public Finance and Infrastructure ESG Dashboard.

Fitch Ratings-New York/London-26 April 2021: Fitch Ratings has updated the interactive ESG dashboard for public finance and global infrastructure. This is a tool that shows the distribution of Fitch's ESG Relevance Scores (ESG.RS) for 2,720 issuers and/or transactions across the Global Infrastructure Group (Infrastructure), International Public Finance (IPF) Local and Regional Governments (LRG), IPF Government Related Entities (GRE), and US Public Finance (USPF) Tax Supported and USPF Revenue sectors.

Fitch has also updated the interactive ESG Public Finance Relevance Heatmap for 1Q21. The heatmap shows the highest ESG.RS for a given ESG issue that applies to a minimum percentage of rated issuers within a sector.

We updated scores for 529 issuers and/or transactions in 1Q21. IPF LRG had 34 issuers updated with two entities showing increased ESG.RS to a '5' from a '4' in governance and one entity with a decrease from a '4' to a low impact ('1' to '3') in environmental.

USPF Tax had 233 updates with two entities that increased to a ESG.RS '4' in governance issues in 'Data Quality and Transparency' and in 'Rule of Law, Institutional & Regulatory Quality, Control of Corruption'. USPF Revenue had 270 updates, with twenty-two increases to a ESG.RS of '4' or '5'. Most of the changes were seen in environmental issues, particularly in 'Exposure to Environmental Impacts', to reflect the rating impact of unprecedented winter weather conditions in Texas on public power issuers, and for one issuer in governance.

Infrastructure had 85 updates with two entities increased to a ESG.RS '4' in governance and environmental issues and one entity that decreased from a '4' to a low impact ('1' to '3') in social.

IPF GRE had 37 updates and remained stable in ESG.RS changes.

The report, 'Public Finance and Infrastructure ESG Interactive Dashboard – 1Q21', is available at fitchratings.com.

Barclays's Derailed Prison Bond Deal Shows Growing Might of ESG.

- **Bank withdraws as deal's underwriter after role scrutinized**
- **Wisconsin PFA is out as conduit issuer after Barclays exit**

The first sign of trouble came last week: A small group of investors circulated a letter lambasting Barclays Plc for helping to raise hundreds of millions of dollars to build two privately owned prisons in Alabama — two years after the bank publicly vowed to cut financing ties with the for-profit industry.

Before long, the initial marketing efforts for the municipal-bond sale showed signs of sputtering. A socially responsible business group threw the London-based bank out in protest, and students and activists in Alabama began an email campaign to derail the financing.

Together, the outcry turned what was supposed to be a relatively routine deal into an embarrassing black eye for the investment banking giant.

It also marked a rare victory for activists and investors focused on environmental and social causes in the $3.9 trillion municipal securities market, where it is highly unusual for a bank to pull out of a deal just before it's sold.

"It's absolutely a huge, unprecedented step forward," said Christina Hollenback, founding partner of Justice Capital, which was part of a group of investors that sought to derail the bond offering. "It's sending a really strong message to the finance industry overall."

ESG Clout

The bank's decision is a sign of the growing power of investors focused on financing projects that advance social and environmental causes. With billions of dollars flowing into so-called ESG funds, that's created a lucrative new line of business that banks are eager to court.

The prison business has long been targeted by activists who say the profit-motive gives an incentive to cut costs, hurting rehabilitation efforts.

The disparities in the broader criminal justice system have also drawn renewed scrutiny since the Black Lives Matter movement was galvanized by the killing of George Floyd by a Minneapolis police officer, whose trial is wrapping up this week. In Alabama, those disparities are especially evident: Black people make up over half of the inmate population, about twice their share of the overall state population, according to state and U.S. Census figures.

The $634 million bond sale was set to raise money for a CoreCivic owned company, Government Real Estate Solutions of Alabama Holdings LLC, to finance the new prisons that it's building for the Alabama Department of Corrections. The state is planning to lease and run the facilities.

State-run Facilities

Barclays initially defended its role in the bond sale, saying it was not at odds with its decision in 2019 to cut off new financing for private prison companies since the facilities would be run by the state. Bloomberg News was first to report Barclays' involvement in the deal earlier this month.

CoreCivic and Alabama officials said the project would alleviate overcrowding in the state's prison system and improve conditions for inmates. The state was sued by the U.S. Department of Justice in December for failing to protect male prisoners from violence and unsanitary conditions. The new facilities are intended to help remedy that.

Both said the project will move forward even though the financing has been temporarily derailed. On Monday, KeyBanc Capital Markets, another manager, also said it was resigning from the transaction.

"The reckless and irresponsible activists who claim to represent the interests of incarcerated people are in effect advocating for outdated facilities, less rehabilitation space and potentially dangerous conditions for correctional staff and inmates alike," said Amanda Gilchrist, a spokesperson for CoreCivic.

Key Alabama lawmakers urged Governor Kay Ivey to scrap the deal all together. Steve Clouse, a Republican who chairs the budget committee in the state's House of Representatives, said it would be better for the legislature to authorize a bond sale for the state to build and own the prisons, AL.com reported.

Deal Struggles

The deal's woes began last week when investors from firms including Justice Capital, Trillium Asset Management and AllianceBernstein LP signed onto a letter that asked investors not to purchase the securities because the purpose was to perpetuate mass incarceration. The letter cited the "historically incompetent" management of prisons by the state.

The publicly offered portion of the deal struggled to gain traction as Barclays sought to sell the securities last week, despite a strong influx of cash into the municipal-bond market. That portion of the debt sale was downsized by about $200 million and the bank increased the yields being offered on the sale in an effort to lure buyers.

Some investment firms declined to participate because they didn't want to purchase bonds being sold for prison projects, citing concerns with environmental, social and governance risks or certain investment mandates that their firms or funds have, according to people familiar with the deal who asked not to be identified.

Others had broader concerns. The bonds were being sold through a Wisconsin agency called the

Public Finance Authority, which rents out its access to issue municipal debt to businesses all over the country and has a high default rate compared to other issuers. On Monday, PFA, which had been brought in by Barclays as the conduit for the sale, also said it would no longer be part of the transaction.

Private Offering

Still, there was strong demand for a debt offering that would have been privately placed with investors, according to a person familiar with the matter. That portion of the sale was estimated at $215.6 million based on initial bond documents.

Then on Thursday, the American Sustainable Business Council and partner organization Social Venture Circle, which represents 250,000 businesses to advocate for responsible practices and policies, announced that they would rescind Barclays' membership in the group. Then a coalition of activist groups, including Alabama Students Against Prisons and Communities Not Prisons, began emailing people who work at Barclays in an effort to scuttle the deal.

On Monday, Barclays capitulated. "While our objective was to enable the State to improve its facilities, we recognize that this is a complex and important issue," the bank said in a statement. "In light of the feedback that we have heard, we will continue to review our policies."

Bloomberg Markets

By Amanda Albright and Danielle Moran

April 19, 2021, 5:13 PM PDT Updated on April 20, 2021, 5:35 AM PDT

— With assistance by Jennifer Surane

Brian Chappatta on Barclays Prison Bonds (Podcast)

Bloomberg Opinion columnist Brian Chappatta presents a column explaining that the decision by Barclays to back out from underwriting a municipal-bond sale for a private prison company shows that associating with unsavory offerings has a greater stigma than ever in today's markets.

Listen to audio.

Bloomberg

April 20, 2021

Barclays Has No Excuse for Private-Prison Drama.

The bank risked reputational harm by trying to thread the needle between lending and underwriting.

Barclays Plc probably should have seen this coming.

For more than two weeks, the London-based bank has been embroiled in controversy after Bloomberg News was first to report that the bank was serving as lead underwriter of a municipal-bond deal that would raise hundreds of millions of dollars for two Alabama prisons owned by CoreCivic Inc., a giant in the private-prison industry. The saga ultimately came to a close on Monday, with Barclays withdrawing from the offering after becoming the first company ever to be kicked out of the American Sustainable Business Council and its partner organization Social Venture Circle, which combined represent some 250,000 businesses.

Barclays doesn't have much of an excuse here. The bank pledged two years ago to no longer provide new financing to private-prison companies. Yet it certainly looks as if it saw the murky conduit-financing segment of the $3.9 trillion municipal market as something of a workaround to this commitment. After all, as lead underwriter, it technically wouldn't be funding the prisons itself. Rather, the debt would be issued by a Wisconsin agency called the Public Finance Authority on behalf of Government Real Estate Solutions of Alabama Holdings LLC, which is 100%-owned by Tennessee-based CoreCivic. The two new prisons would be leased and staffed by the Alabama Department of Corrections.

Barclays initially focused on Alabama's role in the deal. "At the direction of the State of Alabama, Barclays has worked alongside the state's representatives and advisors to finance the procurement of two new correction facilities that will be leased and operated by the Alabama Department of Corrections for the entire term of the financing," the bank said in a statement to Bloomberg News's Amanda Albright and Danielle Moran. "The commitment we made in 2019 not to finance private prison companies remains in place."

It's true that Governor Kay Ivey of Alabama, a Republican, favored the financing arrangement. "Leasing and operating new, modern correctional facilities without raising taxes or incurring debt is without question the most fiscally responsible decision for our state," she said in a February statement. "We are improving public safety, providing better living and working conditions, and accommodating inmate rehabilitation all while protecting the immediate and long-term interests of the taxpayers."

Still, the transaction was undoubtedly a boon for CoreCivic. Albright and Moran reported that as part of the offering, Alabama's corrections department agreed to prioritize lease payments above all other obligations to the extent allowed by law. That strong commitment, along with "a unique prepayment mechanism," led S&P Global Ratings to consider the $634 million deal investment grade, noting that the "insolvency risk during construction is shifted from the project to Alabama Department of Corrections." In other words, while the debt wouldn't sit on the state's balance sheet, Alabama was in some ways still putting its own creditworthiness on the line. And Barclays was helping to make that happen.

Then there's the Public Finance Authority itself. My Bloomberg colleague Martin Z. Braun has written extensively about the agency, which has no employees yet has issued billions of dollars of municipal bonds for projects across the country. Sometimes, these deals get into trouble. "In Roach-Infested Slums, a Muni-Bond Default Spurs Big Questions," read one headline about a company that used conduits including the PFA. "Las Vegas Charity Files Bankruptcy 20 Months After Debt Sale," said another. A man who pleaded guilty in January to running a Ponzi scheme had previously raised $11 million through the PFA. Obviously this doesn't represent all of its bond sales, but it happens enough that muni investors and reporters alike rightfully dig into the details of any project coming through the agency. Barclays shouldn't have been blindsided by the scrutiny.

Yet the bank appeared willing to barrel through a revolt among some investors. On Thursday, the offering was delayed, the public portion of the sale was downsized by about $200 million and yield spreads widened from pre-marketing levels. But that kind of pressure can simply be written off as part of the job of underwriting a large muni-bond deal from an unfamiliar borrower.

The broader reputational hit from the American Sustainable Business Council on Friday was something else entirely. “We abhor the hypocrisy represented here and renounce the continued investment in the broken, unjust system of incarceration of this country,” MaryAnne Howland, the council’s board chair, said in a statement. Some choice comments from other advocates: “Profiting from human suffering is just about the antithesis of social business;” “The days of empty corporate platitudes are over;” “We urge banks like Barclays to rethink their investment strategies for a healthier and more equitable world.”

That kind of blowback just isn’t worth the underwriting fee. “We have advised our client that we are no longer participating in the transaction,” Barclays said Monday. “While our objective was to enable the State to improve its facilities, we recognize that this is a complex and important issue. In light of the feedback that we have heard, we will continue to review our policies.” KeyBanc Capital Markets also resigned as an underwriter.

Trying to explain the difference between lending and underwriting can be tough enough in ordinary circumstances. When a private-prison company is involved, it’s a position that’s pretty much doomed from the start, even if it’s true that the new facilities would replace those that are old and dilapidated. Add the PFA and its spotty history into the mix, and it has all the makings for a volatile situation. This likely won’t be the last controversial deal to try to slide through the muni market, but Barclays learned the hard way that associating with unsavory offerings has a greater stigma than ever in today’s markets.

Bloomberg Opinion

By Brian Chappatta

April 19, 2021, 10:02 AM PDT

Alabama Prison Throws Spotlight on Wisconsin Bonding Agency.

Activists criticize state group’s role in financing planned privately owned penitentiaries

Update, Monday, 4/19/2021, 6:10 p.m: The Wisconsin-based Public Finance Authority announced Monday afternoon it was dropping out of the Alabama prison transaction after Barclays and KeyBank reported earlier Monday that they have withdrawn as underwriters for the bond issue.

A group of proposed privately owned prisons in Alabama has drawn scrutiny and criticism of the little known Wisconsin financing authority that is raising money for the project.

Nearly three dozen activists and investors have signed an open letter urging banks and investors not to take part in the project’s bond offering, originally for more than $600 million, to help finance the building of two new privately owned prisons that would be leased back to the state of Alabama.

Critics of the project in Wisconsin, meanwhile, are asking state and local government officials to take a stand against the transaction, and to challenge the Wisconsin-based Public Finance Authority’s decision to help secure financing for the project.

Continue reading.

wisconsinexaminer.com

By Erik Gunn – April 19, 2021

The Importance of Flexibility in the Municipal Bond ETF Space.

Today's interest rate environment puts a premium on flexibility – something not all bond strategies offer. That ability to evolve with the times is particularly important when it comes to municipal bonds.

The VanEck Vectors Municipal Allocation ETF (Cboe: MAAX) is up to the challenge.

MAAX is based off a proprietary model that incorporates momentum, along with both duration and credit risk indicators, to tactically allocate among selected VanEck Vectors Municipal Bond ETFs, which cover the full range of the risk/return spectrum in the muni market and includes five VanEck Vectors Municipal Bond ETF options.

"In late February, MAAX identified a higher interest rate risk. The Fund responded by reducing its interest rate sensitivity. It sold 10% of long duration bonds and re-allocated the proceeds to short duration bonds. The model effectively warned that higher interest rates were coming. The chart below illustrates the move in the yield of the 10-Year U.S. Treasury, which reached 1.74% last month. MAAX reduced duration when the yield was approximately 1.40%," notes VanEck portfolio manager David Schassler.

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ETF TRENDS

TODD SHRIBER APRIL 19, 2021

Corporate & Municipal CUSIP Request Volumes Climb for Second Straight Month.

Corporate Equity and Debt Issuance Up 16%, Municipal Volumes Up 20% in March

NEW YORK, April 13, 2021 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for March 2021. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a significant monthly increase in request volume for new corporate and municipal identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate equity and debt rose 15.5% in March from last month. The monthly increase was driven largely by U.S. corporate equity identifier requests, which increased by 22.7%. On a year-over-year basis, corporate CUSIP requests were down 18.7%, reflecting a significant year-over-year decline in January of 2021.

Monthly municipal volume also increased in March. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 19.5% versus February totals. On an annualized basis, municipal CUSIP identifier request volumes were up 10.0% through March. California led state-level municipal request volume with a total of 128 new CUSIP requests in March, followed by New York with 109 and Texas with 104.

"CUSIP request volumes have been climbing alongside interest rates for the last two months," said Gerard Faulkner, Director of Operations for CGS. "While we expect to see continued volatility in these numbers over the course of the year, it appears issuers are still taking advantage of the current low rate environment to secure financing now."

Requests for international equity and debt CUSIPs both increased in March. International equity CUSIP requests were up 53.2% versus February. International debt CUSIPs increased by 20.3% on a monthly basis.

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

Muni Market Issuance Can't Keep Up With Demand: Mysak (Radio)

MUNIS IN FOCUS: Joe Mysak, Munis Editor for Bloomberg Briefs: not enough supply, Fed's Municipal Liquidity Facility, and SALT tax. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

April 16, 2021

S&P Credit Rating Model: U.S. Local Governments General Obligation Credit Scoring

S&P Global Ratings uses the U.S. Local Governments General Obligation Credit Scoring Model to generate a standardized credit analysis to assist in assigning and surveilling U.S. local government general obligation (GO) ratings based on the applicable criteria methodology.

Purpose Of The Model

The U.S. Local Governments General Obligation Credit Scoring Model applies the "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions," published Sept. 12, 2013, criteria methodology. By standardizing the calculations and inputs used in our analysis, the model provides for the consistent application of the U.S. local governments GO criteria. S&P Global Ratings' U.S. local governments GO criteria explain the methodology and assumptions for assigning issuer credit ratings (ICRs) and issue ratings based on GO pledges by U.S. local governments (excluding special districts).

The model is used to perform credit analysis for new issuance and surveillance of GO ratings for U.S. local governments whenever a GO analysis of U.S. local governments is applied, which includes credit assessments or as an input to other criteria that utilize GO ratings, such as our appropriation-backed debt criteria. The model is also used to generate Institutional Framework (IF) and Metropolitan Statistical Area (MSA) scores, as defined by the criteria, which are inputs to our GO rating analysis.

Continue reading.

12 Apr, 2021

The ESG Bandwagon in the United States: Squire Patton Boggs

Bandwagon

(band-wa-g n) noun

often attributive meaning 1. a usually ornate and high wagon for a band of musicians especially in a circus parade; 2. a popular party, faction, or cause that attracts growing support often used in such phrases as “jump on the bandwagon”; and 3. a current or fashionable trend.1

The US Securities and Exchange Commission (SEC) recently announced the creation of a Climate and ESG Task Force in the Division of Enforcement2. The SEC press release stated that “Consistent with increasing investor focus and reliance on climate and [Environmental, Social and Governance] ESG-related disclosure and investment, the Climate and ESG Task Force will develop initiatives to proactively identify ESG-related misconduct.” This announcement was made the day after the SEC announced its examination priorities for 2021, which includes a greater focus on climate related risks.3 A subcommittee of the SEC Asset Management Advisory Committee (AMAC) is working on recommendations to be considered by AMAC regarding ESG disclosure and investment products, the December 2020 draft of which includes a call for more consistent disclosure regarding ESG risks from issuers and disclosure “best practices” for ESG investment products. The Government Finance Officers Association (GFOA) released a “best practice” regarding ESG, which followed a June 2020 research report released by GFOA concerning ESG risk factors. The Investment Company Institute (ICI), as well as other buy-side associations, have called for more consistent and fulsome disclosure regarding ESG risks and, particularly, climate-related risks.

The interesting aspect of all the ESG talk, particularly with the SEC’s announcement of its enforcement task force, is that there is currently no specific requirement in securities laws or regulations that identifies ESG as a separately identifiable topic with respect to risk disclosure.4

This has been noted several times by SEC Commissioner Allison Herron Lee, the current Acting Chair of the Commission. In August 2020, upon enactment of a final rule amending certain line-item corporate disclosures, Commissioner Lee lamented about the lack of inclusion of specific ESG information in a public statement titled “Regulation S-K and ESG Disclosures: An Unsustainable Silence.”5 Commissioner Lee has also directed staff of the Division of Corporation Finance to “enhance its focus on climate-related disclosure in public company filings” and has also called for public input regarding how the SEC should address climate and other ESG disclosure.6 To underscore the importance the SEC attaches to ESG, it announced on March 22, 2021, that it has created a separate webpage for all SECrelated actions addressing ESG risk and opportunities.7

The ESG bandwagon, while fully accommodating all passengers, has two distinct drivers. The first driver is a credit driver grounded in the desire for good solid disclosure regarding ESG risks and the effect on the credit of the issuer of debt securities (or equity securities in the corporate market for that matter). The second driver is the so-called "values-based investor"8 and investment funds that market to values-based investors. The contrast of these two drivers of the ESG phenomenon have been described as "value versus values."9 The credit investor is interested in little beyond the value of and return on the investment, while the values-based investor is motivated by sustainable investing in investments that are consistent with the investor's own value system. This is not to say that an investor cannot be both at the same time but it is easier to understand the legal distinction to be made regarding disclosure if these investor types are considered mutually exclusive.

Satisfying the disclosure needs of the credit investor with respect to ESG risk-related disclosure should be no different than the disclosure of any other material credit risk. It may require thoughtful analysis of potential threats and risks, particularly from environmental concerns, but one would expect that, in many, if not most, cases, the municipal issuer or corporate issuer is (or soon will be) addressing those risks internally as a matter of long-term and strategic planning.

The rise of the values-based investor has resulted in a growing issuance of both corporate and municipal bonds labelled as "green bonds" or "social bonds" and the like that are specifically marketed to values-based investors and funds. Because of the specific targeting of values-based investors and the labelling of the bond as a "green bond" or "social bond," one expects specific disclosure about the basis for the designation and continuing disclosure regarding the sustained or achieved "success." In primary market disclosure for a labelled bond, it would be hard to say such disclosure is not material to the targeted investor. While some labelled bonds are "self-labelled" by the issuer, a growing number of labelled US municipal bonds marketed in the last few years include a third-party verification of the associated label that confirms the issuer's satisfaction of the chosen designation criteria. With respect to enhanced ongoing reporting and disclosure regarding ESG in labelled bonds (whether self-labelled or independently verified), this requirement is expected and demanded by values-based investors and most issuers of labelled bonds recognize this need and have agreed to those demands.

But, what about non-labelled bonds, or, for that matter, equity securities for a corporation not describing itself as promoting sustainable concepts? Do issuers of non-labelled bonds owe a duty to all investors to provide additional disclosure of ESG policies and strategies beyond that necessary to disclose associated credit risks? Can or will the demand of valuesbased investors drive a requirement for disclosure of matters unrelated to business or credit risks in order for the valuesbased investor or fund to assess whether that security might meet its criteria for investing when those investors and funds have not been targeted by the issuer? And, if so, will that extend beyond primary market disclosure and become an ongoing obligation to provide metrics and data that the issuer may not currently track?

To view all formatting for this article (eg, tables, footnotes), please access the original here.

Squire Patton Boggs – Alexandra M. MacLennan

April 9 2021

Fitch: Rate of Pandemic-Related Downgrades Muted for U.S. Public Finance

Fitch Ratings-New York-13 April 2021: U.S. public finance downgrades again exceeded upgrades last quarter, though Fitch Ratings' latest quarterly rating actions report shows credit profiles for municipalities remained quite stable overall despite the fallout of the pandemic.

Fitch upgraded 14 U.S. public finance ratings while downgrading 32 ratings in 1Q21, compared to 22 upgrades and 38 downgrades in 4Q20. Of note were local governments (four coronavirus-related Downgrades, four Negative Outlooks) and state governments, six states of which carried Negative Rating Outlooks by Fitch at the end of last quarter.

Despite the increase in negative rating activity in 2020, the sector maintained overall credit stability amid the ongoing coronavirus pandemic. Fitch has affirmed ratings and maintained Stable Outlooks for the vast majority of its rated municipalities with upgrades representing roughly 1.6% of 1Q21 rating actions, and downgrades represented approximately 3.6%. "Substantial direct federal aid under the ARP, including $350 billion for state and local governments, could support stabilization of some Negative Outlooks if states utilize the receipts to restore fiscal resilience," said Arlene Bohner, Fitch's head of U.S. Public Finance.

Municipalities will continue to endure coronavirus-related pressures this year. The inadequacy of current infrastructure funding remains a concern despite ongoing efforts from states to address the challenges and recent and potential federal action. Medicaid also remains an ongoing budgetary pressure point for all states. That said, "most municipalities will be able to maintain their credit quality," said Bohner.

Fitch published its revised "U.S. Housing Finance Agencies General Obligation (GO) Rating Criteria" and "U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria" in January and March 2021.

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

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GFOA Recommended Guiding Principles for American Rescue Plan Spending.

The American Rescue Plan Act of 2021 ("ARPA") provides $350 billion in additional funding for state and local governments. The state funding portion is approximately $195 billion with $25.5 billion distributed equally among the 50 states and the District of Columbia and the remaining amount distributed according to a formula based on unemployment.

LEARN MORE

To Recover from COVID-19, Downtowns Must Adapt.

Contents

- Downtowns revolve around office space
- In some places, the Great Recession hurt downtowns worse than surrounding regions
- The post-pandemic office may be shaped by pre-pandemic trends
- Downtown revitalization requires creativity

Continue reading.

Tracy Hadden Loh and Joanne KimT

hursday, April 15, 2021

The Brookings Institution

Fitch: Employment Down Slightly for Some U.S. States, Notable Improvement Expected from March

Fitch Ratings-New York-15 April 2021: Employment improved marginally for most U.S. states with labor market momentum increasing, though Fitch Ratings' latest U.S. States Labor Markets Tracker shows employment recovery continues to stall for several states.

States who saw employment decline slightly over the last month include Vermont, Ohio, Wisconsin, Indiana, Iowa, Kansas, Missouri, Texas, Arkansas, Mississippi, Oklahoma. Additionally, Oklahoma has now re-joined states like New York, Illinois and California, all of which have recovered less than 50% of the jobs lost at the peak of the pandemic. "Most U.S. states have seen sizable employment rebounds, although solid gains have plateaued since fourth quarter of last year, however, notable employment gains are expected starting from March" said Senior Director Olu Sonola.

A lingering problem spot will continue be leisure and hospitality, which is responsible for 37% of all job losses nationally since February of last year. Full demand and revenue recovery for U.S. travel is not expected until 2024, while U.S. lodging revenue may not return to prior peak levels until 2025. "Stagnant travel and lodging revenues will weigh on states like Nevada and Florida, where leisure and hospitality job losses comprise approximately 50% or more of total job losses," said Sonola.

For many states, jobs recovery in leisure and hospitality is an important component of total jobs recovery. States like Arizona, South Dakota and Montana had total job losses of only 4% or less, though leisure and hospitality contributing more than half of the job losses in each state. Jobs recovery in other sectors have been significantly stronger in these states relative to leisure and hospitality, boosting overall jobs recovery.

'U.S. States Labor Markets Tracker' is available at 'www.fitchratings.com'.

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Fitch: Midwest U.S. Metro Job Recoveries Spike; West Falls

Fitch Ratings-New York-15 April 2021: The rate of job recoveries has stalled for most metropolitan statistical areas throughout the U.S., though Fitch Ratings highlights two notable outliers in its latest U.S. Metro Labor Markets Tracker.

Midwest metros saw the only notable increase in its median jobs recovery rate, rising to 64% in February from 61% in January and putting an end to the stagnation seen in the region over the last four months. Conversely, the median share of jobs recovered by major metros in the West fell to 49% in February, making it by far the lowest median in the country and the only one to experience a decrease in its median since last fall.

“Mobility has picked up among California metros more broadly as social distancing measures have eased but still remains well under its Western peers,” said Senior Director Olu Sonola. “This factor, in addition to better macroeconomic performance and the reduction in social distancing measures in many California metros, will likely pave the way for notable improvements in employment starting in March.”

Another factor Fitch is keeping a close eye on is the labor force of major metros, which is down roughly three million since last February. Metros with a larger percentage of labor force dropouts may suffer greater volatility in unemployment rates as individuals seek employment after a period of not actively seeking work.

Fitch is also monitoring improvements in harshly affected industries such as leisure and hospitality employment. Though accounting for just 11% of employment nationally, the sector has accounted for roughly 40% of jobs lost in major metros between February 2020 and February 2021. The sector’s recovery in major metros seems to have stagnated over the fall and winter as its employment recovery rate has ranged between 50% and 57% since August 2020.

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

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For Hiteshew, Fed Muni Backstop Sent Crucial Message.

- **Size showed Fed, Treasury were 'fully committed,' he says**
- **In interview, he says secondary-market facility was possible**

Kent Hiteshew is no stranger to the municipal market. In 2020, he helped the Federal Reserve put together the $500 billion Municipal Liquidity Facility. While the entity didn't make a lot of emergency loans, it did restore equilibrium after the pandemic shattered investor confidence.

The MLF stopped purchasing muni debt at the end of 2020. I caught up with Hiteshew via email last week to ask him about his time at the Fed. He joined the central bank after nearly three decades on Wall Street and a stretch leading the U.S. Treasury's Office of State and Local Finance. The interview has been edited for length and clarity.

JM: The MLF made only four loans to two issuers. Were you surprised more issuers didn't use the facility, or was this by design?

KH: At the time I joined the Fed last year and over the next two weeks as we developed and then announced the MLF, the market was in a state of unprecedented turmoil. During that period, we received many direct and indirect appeals for Fed intervention from both issuers and market makers.

Rather than an attempt at measuring actual loan demand, the $500 billion MLF sizing was based more on the goal of making sure the market understood that the Fed and Treasury were fully committed to using all of our resources to support stabilization and then restore normalization of the municipal market. So, although we believed there was a large but unknown need for the MLF when it was announced, we hoped that the full amount of the facility would never be needed. In the end, the market responded positively and very quickly — rates fell to historic low levels and issuance volume hit record levels. Most issuers who had expressed the need for a facility in March/April were able to access the public markets at interest rates much lower than those of the MLF. So, by the summer, barring a market reversal, we were not surprised by its limited use.

JM: Some people were disappointed that the Fed didn't buy munis in the secondary market, as it did for other asset classes. Did the Fed ever seriously consider doing so?

KH: The Fed certainly could have launched a municipal secondary market facility. But, based on feedback from issuers and other market participants, our first priority was ensuring the availability of operating liquidity to states and local governments so that they could continue to deliver essential services to their constituents during the pandemic. Remember, the federal income-tax filing deadline had just been extended 90 days and most state and local governments with income taxes had to follow suit. Income and sales-tax receipts were plummeting in response to the Covid lockdown and resulting economic seizure. The future was quite uncertain and we believed direct liquidity lending would be the fastest, most effective intervention.

Given the fragmented nature of the muni market, it would have taken longer to design and implement a secondary market facility. If the combination of all of the Fed's monetary policy tools, including the Money Market Liquidity Facility and the MLF, had been insufficient to stabilize the market, a secondary market facility could have been deployed. But, fortunately, that turned out to be unnecessary.

JM: How did your time at the Fed differ from your time at the Treasury?

KH: Much of my time at Treasury involved the Puerto Rico fiscal and economic crisis which required intensive interaction with both the White House and Congress resulting in Promesa. On the other hand, by the time I arrived at the Fed, the Cares Act was already in the midst of being approved by Congress and signed by the president. It provided the equity funding necessary to intervene in the credit markets while complying with the Fed's statutory obligation of protecting the taxpayer against loss. There was not really a question of whether the Fed would intervene in the municipal market but how it would do so.

My role was essentially working with senior Fed officials and the Board to design and execute the muni facility. However, since Dodd-Frank reforms were put in place in 2010, Treasury is required to approve any proposed market intervention by the Fed. So, ironically, I found myself working very closely and collaboratively again with some of my former colleagues at Treasury.

JM: Was all your work at the MLF done remotely?

KH: I worked from home during my entire tenure at the Fed. I had never previously known any of my Fed colleagues, nor did I ever meet any of them during my tenure — except virtually. I think this was pretty typical for all of us. But it was truly remarkable to be a part of an institution responsible for our country's monetary operations and policies that operated entirely remotely. I doubt that could have happened 10 years ago, if not even five.

JM: Were you surprised by how swiftly the municipal market rebounded?

KH: Yes, I think we all were. But I think we need to view the muni recovery within the broader context of the speed with which all of the capital markets and the economy recovered. The combined fiscal and monetary-policy responses of Congress and the Fed were unprecedented in both speed and magnitude. Unfortunately, the recovery has been a "tale of two cities." While the capital markets, including munis, recovered rapidly, we still have over 8 million fewer Americans employed than a year ago, including more than 1 million state and local government employees.

JM: What were (are) the Fed's biggest concerns in the muni market?

KH: I am no longer at the Fed and would not presume to speak for it. But I would point out that the Fed is not responsible for regulating the municipal market and probably does not have a singular policy view of munis. In any case, the Fed is very much interested in transparent and liquid functioning of all credit markets, including munis. Accordingly, I am very glad that the New York Fed has decided to add a full-time muni market specialist to its markets division — the hiring announcement of which should be forthcoming very soon.

Bloomberg Markets

By Joseph Mysak Jr

April 14, 2021, 10:00 AM MDT

— *With assistance by Amanda Albright*

(Joe Mysak is a municipal market columnist who writes for Bloomberg. His opinions do not necessarily reflect those of Bloomberg LP and its owner, and his observations are not intended as investment advice.)

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

During the first quarter of 2021 (Jan. 1-Mar. 31), S&P Global Ratings changed its rating or revised its outlook on 13 charter schools (six of these ratings were initially assigned) while maintaining 27 ratings.

The five positive rating actions taken during the quarter reflect an optimistic start to 2021. There were four positive outlook revisions and one upgrade in the first quarter, compared with only four upgrades and three positive outlook revisions in all of 2020. These actions reflect our recently revised stable view of the charter school sector. Revenue pressure at the state level has not materialized, and state budgets will likely be buoyed by federal stimulus in the near term, safeguarding per-pupil funding for now (see “State, Local Government, School District, and Charter School Sector Views Revised Back to Stable,” published March 24, 2021, on RatingsDirect). The positive rating actions in the first quarter were characterized by strengthening financial and demand profiles. New ratings are on pace with last year as well, with six new ratings assigned in 2021 to date.

Negative rating actions have outpaced positive ones over the past several years. We took two negative rating actions in the first quarter of 2021. In one instance, we revised the outlook to negative from stable on an issuer with maximum annual debt service coverage below 1x. In another, we placed the rating on CreditWatch with negative implications, based on the immediate refinancing risk associated with a bullet maturity.

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

Continue reading.

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

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

Download

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

S&P Global Ratings maintained 77 ratings and took 38 rating actions in the U.S. not-for-profit higher education sector in the first quarter of 2021. The 38 rating actions are broken out as follows:

- 10 downgrades
- 18 outlook revisions to stable
- Seven outlook revisions to negative
- One outlook revision to positive
- Two new ratings

All 18 outlooks revised to stable had been revised to negative in April 2020 as part of S&P Global Ratings' response to the heightened social and economic risks associated with the COVID-19 pandemic. Similarly, three of the 10 ratings we lowered had outlooks revised to negative from stable in April 2020.

Continue reading.

13 Apr, 2021

S&P U.S. Not-For-Profit Health Care Outstanding Ratings And Outlooks As Of March 31, 2021.

Below is the list of outstanding ratings as of March 31, 2021. These ratings have the following rating and outlook distributions.

Continue reading.

14 Apr, 2021

S&P U.S. Not-For-Profit Health Care Rating Actions, March 2021 And First-Quarter 2021.

S&P Global Ratings' Not-For-Profit health care rating actions for the first quarter of 2021 had five downgrades and no upgrades. There were also 15 favorable and eight unfavorable outlook revisions.

The rating activity during the first quarter continued the negative rating trend, which informed our affirmation of the negative sector outlook at the start of the year (see "Outlook For U.S. Not-Fo--Profit Acute Health Care: Navigating The Bumps While Getting Back On Track," published on Jan. 12, 2021).

However, outlook revisions without rating changes are trending more favorably this year compared with 2020. For those credits without rating changes, favorable outlook revisions were almost double the number of unfavorable revisions in the first quarter of fiscal 2021 while in 2020 unfavorable outlook revisions were almost triple the number of favorable revisions. We believe this shift reflects the resiliency of the sector with many organizations maintaining generally healthy balance sheets, taking decisive actions to manage operations through the pandemic, and benefiting from government stimulus and liquidity support.

Despite the negative outlook on the sector and continuing industry pressures, there has also been meaningful stability among many issuers, with 65 rating affirmations during the first quarter of 2021, representing about two-thirds of credits analyzed year to date. While affirmations have continued to represent most of our actions, even during the pandemic, as of March 31, approximately 76% of our acute care ratings carried a stable outlook compared with a more typical pre-pandemic average of over 80%. As the number of stable outlooks begins to return to a more historical percentage, underscoring the pace and sustainability of the post pandemic recovery and improvement in underlying credit factors, we will consider when to revise our sector outlook to stable from negative.

Continue reading.

15 Apr, 2021

S&P: U.S. Oil And Gas-Dependent States Are Out Of The Woods (For Now)

Read the S&P report.

Rep. Terri Sewell to Introduce a Bill to Reinstate Advance Refundings, Other Priorities.

We expect that later this morning Rep. Terri Sewell (D-AL) will introduce the "Local Infrastructure Financing Tools (LIFT) Act." The bill will include several BDA and MBFA priorities, including:

- Reinstate advance refundings as they were in pre-2018 tax law. This provision would take effect 30 days after the date of enactment.
- Expand bank-qualified bonds. The bill would raise the annual issuance limit for bank-qualified bonds from $10 to $30 million, an index that limits annually for inflation, and apply the issuance test at the level of the borrower, not the issuer, so that it will apply to small conduit borrowers. This would take effect upon enactment.
- Instate taxable, direct-pay bonds. The bill would establish a new category of tax-preferred financing for state and local governments to be known as Qualified Infrastructure Bonds (QIBs). Similar to the previous Build America Bonds program, QIBs would be an alternative to tax-exempt financing. Issuers would sell taxable bonds and receive a cash reimbursement from the federal government for a portion of their interest expense.

Reimbursement rates would vary based on the calendar year of issuance according to the following schedule:

- 2020-2024: 42%
- 2025: 38%

- 2026: 34%
- 2027 and thereafter: 30%

Reimbursement payments to issuers would be subject to sequestration, and projects financed with QIBs would be subject to Davis-Bacon prevailing wage laws.

Rep. Sewell, a member of the House Ways and Means Committee with jurisdiction over tax law, is a former bond lawyer and has been a long-time champion of tax-exempt finance. She intends to try to include her initiative in pending infrastructure legislation. BDA worked closely with Rep. Sewell on her legislation, and we will continue to work towards its advancement.

Please or write call with any questions.

Bond Dealers of America

April 16, 2021

Sewell Announces Bill to Expand Infrastructure Bond Financing.

SUMMARY BY TAX ANALYSTS

House Ways and Means Committee member Terri A. Sewell, D-Ala., in an April 16 release announced legislation “to provide our communities with tools to invest in a wide range of infrastructure projects” by restoring taxable direct pay bonds and advance refunding for municipal bonds, among other provisions.

Read more.

DATED APR. 16, 2021

Barclays Kicked Out of Business Group Over Prison-Bond Work.

- **Bond will finance two Alabama-run prisons owned by CoreCivic**
- **Bank in 2019 had said it would stop financing private prisons**

Barclays Plc’s membership in the American Sustainable Business Council was terminated by the advocacy group over the bank’s decision to underwrite a municipal bond for two Alabama prisons owned by CoreCivic Inc., two years after saying it would no longer provide new financing to private prison companies.

The council and partner organization Social Venture Circle, which combined represent 250,000 businesses to advocate for responsible practices and policies, announced Thursday they would refund Barclays’ membership dues. Barclays joined the group in 2019.

Barclays is the lead underwriter for the bonds offered through a Wisconsin agency to provide financing for a limited liability company owned by CoreCivic. The new prisons will be leased and staffed by Alabama’s corrections department.

Because Barclays isn't arranging the financing directly for CoreCivic, the bank has said that the "commitment we made in 2019 not to finance private prison companies remains in place." The bonds are being issued for Government Real Estate Solutions of Alabama Holdings LLC, an entity that's owned by CoreCivic.

The bond deal was initially planned to price on Thursday but has been moved to next week, according to two pre-marketing wires viewed by Bloomberg. The bank has cut the total par amount on the publicly offered bonds by about $200 million, the wires show. Barclays has seen strong demand for a private placement portion, according to a person familiar with the matter.

It's the first time the groups have kicked out a member, David Levine, co-founder of the council, said in an interview. The groups in a statement said they "refuse to perpetuate mass incarceration, systemic racism, and human rights abuses through the offering" of the bonds.

"This was a big move on our part," Levine added.

A spokesperson for Barclays declined to comment.

Alabama officials have said the deal with CoreCivic will help it improve conditions within its prison system. The state was sued by the U.S. Department of Justice in December 2020 for failing to protect male prisoners from violence and unsanitary conditions.

Kristi Simpson, a spokesperson for the Alabama Department of Corrections, said in an emailed statement that the new prisons will help provide a safer environment that will "better accommodate inmate rehabilitation and improve the quality of life for all those who live and work in them."

Isaac Graves, interim executive director of Social Venture Circle, said the group wanted to signal to other financial service providers that they shouldn't find a "creative way" to finance private prison companies — which is "exactly what they said they would not do."

While the prisons will be publicly-run, Levine said that the structure will still advance the prison system and ultimately profit CoreCivic.

"The fact that it is owned by a private company says it all," he said.

Bloomberg Business

By Amanda Albright and Danielle Moran

April 16, 2021, 12:39 PM MDT

Burned in Tobacco Deal, Cities in Drug Fight Target McKinsey.

- **Company says state deals end cases over role in opioid crisis**
- **Municipalities, tribes sue for their own compensation claims**

U.S. cities and counties are increasingly at odds with their own state governments over how to divvy up $641.5 million that consulting firm McKinsey & Co. has offered to settle its liability for work with the opioid industry.

In the past two months, McKinsey reached final agreements with all 50 states to resolve lawsuits claiming it helped boost sales of the addictive drugs. But since then, more than 20 cities, counties and Native American tribes have sued the consultant, hoping for their own payouts. Local governments in New York even sought to block the state's pact with McKinsey because it would harm their separate suits against the firm.

McKinsey says almost all the states agreed that the deal they signed covers any other claims, setting up a legal fight between the company and local governments pressing ahead with their cases. At the heart of the dispute is who decides the fate of money intended to combat addiction and crime linked to the U.S. opioid crisis that's killed hundreds of thousands of people.

"There's going to be a lot of litigation," said Alexandra Lahav, a University of Connecticut law professor who specializes in mass tort cases. "Every state takes its own view of the powers an attorney general has to resolve claims on behalf of local governments within the state's borders."

The outcome could have wider implications. Thousands of cities and counties are pursuing opioid lawsuits against drug makers like Johnson & Johnson and distributors like McKesson Corp. While lawyers for local governments are participating in settlement discussions with those defendants, the widening rift between states and municipalities could complicate future talks with companies that remain holdouts — including pharmacy owners such as Walmart Inc., CVS Health Corp. and Rite Aid Corp.

'A Pittance'

Local officials like Thomas Haine, the state prosecutor in Madison County, Illinois, want to avoid opioid litigation becoming a repeat of the 1998 settlement that ended smoking-related litigation, where much of the $246 billion that tobacco makers paid ended up in state general funds. His county of 263,000 people outside St. Louis sued McKinsey in February, just days before Illinois agreed to accept $19.8 million from the firm.

That amount is "a pittance when you quantify the damages caused by their actions," Haine said in an interview. "I felt we owed it to the taxpayers of Madison County, who have shouldered a heavy burden in dealing with the opioid crisis, to seek recovery from every party potentially at fault."

A growing number of local officials are also pursuing separate claims against McKinsey, including King County, Washington; Montgomery County, Ohio; Pembroke Pines, Florida; Green County, Kentucky; and Mingo County, West Virginia — one of the states hit hardest by the opioid epidemic.

McKinsey says its deal with the states means no additional payments or settlements are necessary.

"The state attorneys general are the chief law enforcement officers for their states and are in charge of managing investigations and settlements such as this one," D.J. Carella, a McKinsey spokesman, said in an email. "The funds provided by this settlement will be used by the state governments to support communities throughout those states."

The authority of the state to act on behalf of municipalities stems from a legal doctrine known as parens patriae which grants power to the state to protect its citizens, said Michelle Richards, a law professor at the University of Detroit Mercy in Michigan. That could mean separate claims for opioid cash by cities and counties may have a hard time surviving in court, she said.

Only two state attorneys general, Washington's Robert Ferguson and West Virginia's Patrick Morrisey, insisted that their deals with the consulting company wouldn't prohibit local officials from bringing their own lawsuits, according to McKinsey.

In New York, where Attorney General Letitia James accepted $32 million of the McKinsey accord, the question of whether the agreement prevents local officials from suing came up court hearings in February and March involving McKinsey, the state and municipalities.

According to a transcripts from the hearings, lawyers for the counties wanted the same assurances as Washington and West Virginia that they could pursue their own claims. David Nachman, a lawyer for New York, told the judge the deal did not block local claims, “but we also understood that McKinsey” may argue that it does. “We have not in any way interfered with the Counties’ rights.”

Hunter Shkolnik, a lawyer for several New York counties with opioid suits, said in an email that “McKinsey is flat wrong to believe the $641 million they paid the states wipes out all their opioid liability.”

‘Turbocharge’ Sales

Massachusetts in 2019 claimed McKinsey advised drug maker Purdue Pharma LP how to “turbocharge” sales of its OxyContin painkiller at a time when the legitimate market for the highly addictive pills was shrinking. McKinsey worked for other opioid makers, including Johnson & Johnson and Endo International Plc, though it has since said it would no longer advise companies that produce pain pills.

It’s unlikely many opioid companies will take as hard a line as McKinsey on negotiating opioid deals, especially if they want universal settlements, said Eli Savit, a University of Michigan law professor who has written about the conflicting rights of states and local government litigation. The strategy isn’t attractive because it “won’t give them any finality” as cities and counties pursue their own lawsuits, Savit said.

“Chances are, McKinsey’s legal strategists know they aren’t going to knock out all the city and county opioid cases,” said Carl Tobias, a University of Richmond law professor who specializes in mass-tort cases. “But by adopting this tactic, they may take out some of them.”

Some states already have worked out agreements with municipalities about how to allocate opioid settlements. In Ohio, all recoveries will be turned over to a foundation, which will distribute funds based on the per capita number of opioid deaths in an area. Similar plans are in place for other states, including Texas and New Hampshire.

They may soon have billions to distribute. J&J and drug distributors McKesson Corp., Cardinal Health Inc. and AmerisourceBergen Corp. are offering to pay a total of $26 billion to settle their liability — including with cities and counties — though the deal hasn’t been finalized.

Cases filed by Native Americans tribes, considered the legal equivalent of states, pose an greater risk for McKinsey and others hoping to only negotiate with state attorneys general, Richards said. Among those with new suits against the consulting company are the Kenaitze tribe in Alaska and the Cherokee Nation in Oklahoma.

“The states have been quite dismissive of the tribes’ efforts to position themselves to get a fair share of these settlements,” giving them more incentive to push separate claims after the opioid epidemic caused disproportionate suffering in their communities, said Lloyd Miller, a lawyer for the groups.

“Everyone involved in this opioid mess needs to be held accountable for their part in the profiteering, strategizing and conspiracy in creating and sustaining this crisis,” said Dr. Aaron Payment, chairman of the Michigan-based Sault Ste. Marie Tribe of Chippewa Indians.

Bloomberg Business

By Jef Feeley

April 15, 2021, 5:30 AM MDT Updated on April 15, 2021, 12:44 PM MDT

[MoMA Joins Museums Seizing on Low Rates to Refinance Bonds.]

- **Proceeds to refinance a 2016 borrowing, pay down credit lines**
- **Taxable offering priced at par and yield at issue is 3.22%**

The Museum of Modern Art in Manhattan, which houses one of the world's greatest collections of 20th century paintings and sculptures, sold $100 million of taxable bonds on Tuesday.

The MoMa joins others, including the Whitney Museum of Modern Art and the Los Angeles County Museum of Modern Art, that have seized on low interest rates to refinance debt and help soften the financial toll of the pandemic that shut them down for months last year. The deal priced at par, and the yield at issue was 3.22%, or 88 basis points above U.S. Treasuries, according to data compiled by Bloomberg. The proceeds of the bond sale will refinance some of the $278 million of debt the museum issued in 2016 and pay down what it owes on two credit lines.

The securities are rated Aa2 by Moody's Investors Service and AA by S&P Global Ratings, the third-highest ranks, reflecting its cultural significance and strong finances. Even with the museum shuttered in March by the pandemic, its annual revenue fell by less than 2% to about $226 million in the year through June because it gets only a small share of its income from ticket sales and memberships, according to figures disclosed in preliminary offering documents. It cut about $40 million of expenses to cope with the closure and reopened in late August at 25% capacity, according to a document circulated to prospective investors. Goldman Sachs Group Inc. underwrote the sale.

Moody's analyst Dennis Gephardt said the company has a stable outlook on MoMa's bonds because of "ongoing strength in operating discipline, gradual reduction of debt and measured recovery of visitor demand."

Matt Fabian, senior analyst for Municipal Markets Analytics Inc., said before the sale that the bonds should be in demand.

"There is a bigger and stronger market for taxables lately," he said. "MoMA is a very strong credit because of its role in American cultural life and its extensive resources in cash and real estate."

Bloomberg Markets

By Peyton Forte

April 13, 2021, 12:48 PM MDT

[MAAX Adds To Duration As Bond Yields Attempt To Stabilize.]

Summary

- The VanEck Vectors Muni Allocation ETF had a NAV total return of 0.74% vs 0.62% for the Bloomberg Barclays Municipal Bond Index for March.
- High yield was the top performer last month as optimism around the economic outlook continues.
- MAAX increased its exposure to long-duration bonds based on a declining duration risk score.

Continue reading.

Seeking Alpha

Apr. 16, 2021

Fixed Income Insights Digital Magazine – Spring 2021 – NOW AVAILABLE

To view the new spring edition online, please click here.

If you have any questions or about the magazine or the new app, please contact Rebecca Rodriguez at rcrodriguez@bdamerica.org

Bond Dealers of America

April 9, 2021

Chicago Academic Says Muni Market Promotes Inequality.

- **New book describes how muni bonds shaped modern San Francisco**
- **Black communities were 'continuously deemed unworthy of debt'**

Destin Jenkins is an assistant professor of history at the University of Chicago and author of a new book, "The Bonds of Inequality: Debt and the Making of the American City," and if the denizens of MuniLand haven't heard of him, they will soon.

That's because he has something to say that is very relevant to the discussions we're having right now about racial equality. He writes, for example, about things like the municipal market being used for "the infrastructural investment in whiteness."

This is a provocative book. The very first sentence of the Introduction says: "The history of inequality in twentieth-century America is, in part, the history of municipal debt."

I don't think I've heard that one before. Is, or was, the municipal market racist? I know the cast of characters involved was once mainly white and male, but the cast has started to change. Yet the subject, once broached, must now be discussed.

Jenkins's subject is how the city of San Francisco was shaped by the municipal bond market from 1945 to the 1990s. He doesn't quite end it there. On the very last page he asks why "bondholders and raters should have so much influence over our collective social welfare," which implies that his story continues into the present day. And last April, after the creation of the Federal Reserve's Municipal Liquidity Facility, he wrote a piece for the Washington Post. At the time, the Fed was focused on states and the biggest local governments. Jenkins wrote, "such a policy that privileges larger municipalities while trying to alleviate economic hardship seems to once again reinforce racial inequality." In June, the Fed expanded the emergency lending program to include smaller borrowers.

So let's say that Professor Jenkins isn't just interested in describing a single historical episode. That's why I think he will enjoy a season on the speaking circuit, when it finally revives. So you'd better be prepared.

The municipal market of 2021 isn't the municipal market of 1961, I know. But consider one of his main themes — and this is a sprawling book, for all its brevity at 229 pages of text — the choice of what San Francisco voters faced at the ballot box, and how they responded to it.

Of course there was the usual water and sewer financing, but then there were stadiums (for the newly arrived New York baseball Giants), and improvements to public transportation and parking, and arts and entertainment venues. Toss in some mixed retail and residential construction aimed at young professionals, and I see similar kinds of transactions listed on our bond sale calendar every week. They are pitched at attracting a very certain kind of consumer, one with money to spend. The end users are a little bit more diverse than they were in the 1950s and 1960s, but it's the same economic development model, and it's used from coast to coast. The basic idea for many of these projects seems to be to bulldoze the poor people who live in blighted areas right out of town.

What happened at those San Francisco bond elections is instructive. Between 1958 and 1964, San Franciscans passed 83% of the bonds on the ballot. Between 1965 and 1971, that number declined to 39%. Jenkins calls it "black bond politics," a "critique of spending priorities and of conscription into a debt arrangement that offered black folks very little." He writes, "black neighborhoods were continuously deemed unworthy of debt."

It wasn't only Black residents. Jenkins recounts the story of how, in 1969, one poor resident of Chinatown, George Woo "attempted to torpedo a $9.9 million bond measure." He continues:

Compared to the rest of the city, in Chinatown there were 4.5 times more people for each acre of recreational land. Woo asserted that between 1961 and 1969, the Recreation and Parks Commission had 'allocated to Chinatown an average of 10 cents per person for park and recreation purposes while allocating to the city at large an average of 67 cents per person. Having been 'deprived of equal benefit,' Woo was unconvinced by claims of the bond measure's citywide benefit. More debt for parks and recreation would further the pattern of disproportionate investment. Woo drew attention to how public space had come to mean white space, while Chinatown residents were enlisted to pay for soccer fields elsewhere or to rehabilitate Golden Gate Park, one of the city's 'most famous attractions.'

And so the Black community and other San Franciscans rebelled against the inequality of debt, as Jenkins puts it in a chapter entitled "Revolt." They didn't support bond measures that didn't benefit them. In the long run, these efforts failed, as bankers and bond lawyers and public officials devised numerous ways to get around the will of the voters.

Jenkins observes, "One of the more complex aspects of the postwar history of racial inequality in America is how, in the absence of explicitly racist rules and laws, resources still flowed along white middle- and upper-class lines; how public infrastructure and services, and with it, access to social protections, benefits, and upward mobility, were distributed in unequal ways."

Jenkins has done a remarkable job of historical excavation in his book. Now let me try to address the larger question for today's municipal market. It finances public schools, affordable housing, parks and recreation — the full gamut of things that make up neighborhoods — and a more activist citizenry and judiciary tries to ensure that these things are distributed more fairly.

But it doesn't always do a perfect job, and every day we can read about the appalling conditions still faced by the poor.

Jenkins is a pretty good writer. He's probably an even better debater. I look forward to hearing him on the stump.

"The Bonds of Inequality" was published this month by the University of Chicago Press.

Bloomberg Markets

By Joseph Mysak Jr

April 9, 2021, 9:29 AM MDT

(Joe Mysak is a municipal market columnist who writes for Bloomberg. His opinions do not necessarily reflect those of Bloomberg LP and its owner, and his observations are not intended as investment advice.)

Riskiest Higher Education Bonds See Gains as Vaccines Rev Up.

- **High-yield education index sees top returns in March**
- **Barclays calls higher education 'attractive asset' class**

The expansion of the nation's vaccination campaign to younger adults is bolstering the outlook for higher education bonds amid growing optimism for a more normal return to campuses in the fall.

The Bloomberg Barclays index of the riskiest municipal securities for education — which includes those sold for student housing and other facilities — climbed 1.93% last month, the biggest gain among high-yield muni sectors. That marks a turnaround from the 10% decline in March 2020 as colleges nationwide sent students home and moved classes online. The high-yield education index is also the second-best performer this year among the riskiest muni debt, only surpassed by returns for convention center bonds.

Optimism has climbed in the past month after states began to lower age eligibility for Covid-19 shots, colleges started to announce vaccination mandates for the coming school year, and the American Rescue Plan earmarked about $40 billion in aid for higher education. Moody's Investors Service on March 22 raised its outlook on higher education to stable from negative, citing "improved revenue prospects" over the next year to 18 months. The rating firm expects more students returning this fall along with greater federal support and steadier state funding.

"They're not as vulnerable as they thought they were," Clare Pickering, a Barclays Plc municipal analyst, said in an interview Wednesday. "It's still an attractive asset class."

Barclays has a strong outlook on higher education because of the Centers for Disease Control and Prevention's eased social distancing guidelines, the stimulus funding and an expanding national vaccine campaign that will bolster the creditworthiness schools that had been upended by the pandemic, according to Pickering. A return to campuses in the fall would support the finances of dormitories and housing, frequent issuers of high-yield debt that were suddenly vacated when outbreaks sent students home last year.

Risks remain even as the outlook for higher education is favorable in the intermediate term, she said. These institutions still face elevated risk "due to uncertainty on the duration of the COVID-19 pandemic," according to a report April 5 by S&P Global Ratings, which kept its negative outlook on higher education.

Fitch Ratings, which also has a negative outlook on the sector, is closely watching the next admission cycle and state funding as factors that could shift its outlook to stable, said Emily Wadhwani, senior director of U.S. public finance for the firm.

The negative outlook is based on the depressed enrollment environment for this academic year, but March and April are key months for admissions, she said. Any changes to loosen travel restrictions, adjustments to immigration policies and more funding from states could all impact higher education, she said.

"The stakes are higher because we are building momentum and the level of expectations are growing as we proceed for a return to campus," Wadhwani said in an interview. "All those things bode well for a more favorable admission cycling, increasing enrollment picture and a return to an on-campus environment."

Bloomberg Markets

By Shruti Singh and Nic Querolo

April 7, 2021, 12:23 PM MDT

The Role of a Trial Court in Cases Featuring Concurrent Inverse Condemnation and Tort Claims: Nossaman

When a property owner suffers damage as a result of the actions of a public agency or public improvement, the owner typically pursues typical tort causes of action against the agency, along with a claim for inverse condemnation. While liability for the tort claims is decided by a jury, liability for inverse condemnation is determined by a judge. So what happens when both claims are pursued simultaneously — should the judge rely on the jury's determination of causation, or should the judge make his or her own findings?

Recently in *Amedee Geothermal Venture I v. Lassen Municipal Utility District*, the Third Appellate District Court issued an unpublished opinion outlining the responsibility of a trial court in reviewing evidence for cases involving concurrent inverse condemnation and tort claims for the same underlying conduct. The opinion explains that the trial court has a duty to make its own independent factual findings on the causation element of an inverse condemnation claim and may not rely upon a jury verdict for other tort claims.

Factual Background

Plaintiff Amedee Geothermal Venture I ("Amedee") was a geothermal power plant located in Lassen County which utilized energy from local hot springs to generate electricity for sale to the Pacific Gas & Electric (PG&E) company. While it generated electricity while operational, the Amedee plant required electricity supplied by the Lassen Municipal Utility District ("LMUD") in order to begin operations each time. In 2009, LMUD replaced the prior 34.5 kilovolt power line to the Amedee plant with a 12.47 kilovolt capacity line. Later, there was a catastrophic failure of one of the plant's generators, which Amedee alleged was caused by LMUD's power line replacement activities.

Trial Court Opinion

Amedee brought an unsuccessful action against LMUD in federal court before filing this case in San Francisco Superior Court. The case was subsequently transferred to Lassen County and the claims for negligence causing a dangerous condition and breach of contract were tried to a jury. The jury first returned a defense verdict in favor of LMUD on the tort claims. Subsequently, the trial court held a bench trial on Amedee's inverse condemnation claim in which it also found in favor of LMUD.

The trial court highlighted the fact that there were several chronic problems with the Amedee plant both before and after LMUD's power line replacement. For the inverse condemnation claims, the trial court noted the defense verdict on the tort claims, but explained that "[a]s to the question of whether or not the court is bound by the jury's findings that [LMUD's] line change did not negligently create a dangerous condition, suffice it to say that the court intends to render its independent opinion on the matter giving due regard to the jury's findings as best they can be determined." Reviewing the evidence, the trial court ultimately found that Amedee was "unable to prove that LMUD substantially caused the synchronous generator accident by a preponderance of the evidence." Therefore, it denied Amedee's inverse condemnation claim.

Appellate Court Opinion

On appeal to the Third Appellate District, with respect to the inverse condemnation claim, Amedee claimed the trial court's ruling "on the inverse condemnation claim must be reversed because the court improperly relied on the jury's verdict on Amedee's 'dangerous condition' claim."

The appellate court denied Amedee's appeal, instead finding that the record showed that "the trial court engaged in independent and detailed fact finding before determining Amedee had not proven its inverse condemnation claim." The appellate court noted "[t]he trial court's findings on causation are detailed and establish that the trial court undertook an independent examination of the evidence before ruling on the inverse condemnation claim. The trial court did not rely on the jury verdict to evade its duty to make its own findings on the inverse condemnation claim."

Conclusion

This appellate opinion is a good reminder that the trial court must conduct an independent analysis of the facts for inverse condemnation claims — even where there may be a separate jury trial on the concurrent tort claims. Inverse condemnation is a unique and complex area of the law and property owners and public agencies involved with such claims should ensure they are represented by experienced inverse condemnation counsel.

Nossaman LLP – Bradford B. Kuhn and Willis Hon

April 3 2021

[Local Alliances Put Some Cities on the Fast Track to Recovery.]

Economic development agencies have created comeback plans for several midsize cities

that will position them to quickly rebound from the pandemic.

As vaccination rates increase and businesses start to reopen, cities across the country are cautiously moving forward with economic recovery plans to coax workers back into offices and revive real estate markets pummeled by the pandemic.

Some midsize cities — like Austin, Texas; Boise, Idaho; and Portland, Ore. — may be poised to rebound faster than others because they have developed strong relationships with their local economic development groups. These partnerships have established comeback plans that incorporate a number of common goals, like access to affordable loans, relief for small businesses and a focus on downtown areas.

The partnerships are also encouraging investments in infrastructure as lures for new business activity. Last Wednesday, President Biden announced a $2 trillion infrastructure plan to modernize the nation's bridges, roads, public transportation, railways, ports and airports.

"Recovery plans create an agenda for rebuilding the metropolitan area," said Richard Florida, professor at the University of Toronto, who helped prepare a plan for northwest Arkansas.

In Tucson, the revitalization plan, which goes into effect this month, calls for assessing the effect of the pandemic on important business sectors, including biotech and logistics. Other provisions advocate recruiting talented workers and preparing so-called shovel-ready building sites of 50 acres or more.

Demand is high for industrial sites in Tucson. More than 80 percent of requests about real estate in the city are geared toward industrial facilities, according to Sun Corridor, the regional economic development agency that sponsored the recovery plan. And 65 percent of the inquiries deal with space for new factories.

City leaders are building on a five-year, $23 billion growth plan in industrial and logistics development in the Tucson region that resulted in 16,000 new jobs before the pandemic, according to Sun Corridor. Caterpillar and Amazon moved into the region, while Raytheon, Bombardier and GEICO were among the many prominent companies that expanded operations there.

"In hockey terms, we're not playing where the puck is; we're trying to skate to where we anticipate it is going to be," said Joe Snell, Sun Corridor's president and chief executive. "We're making sure that we have the inventory of building sites so when they do come knocking, we can fill the order."

Other cities are struggling to recover after pandemic restrictions emptied their central business districts. The question is how much these downtowns will bounce back when the pandemic ends.

"The pandemic caused big changes in how we work, and the geography of where we work," Mr. Florida said. "The office as we know it, a space to work, is dead."

Experts disagree about what comes next. Several economic trends, like growth in hiring and the acceptance of remote work, are colliding, said Richard Barkham, global chief economist at CBRE, the commercial real estate firm.

After a 3.5 percent decline in economic activity in 2020, the U.S. economy is expected to grow 6.5 percent in 2021, he said, which bodes well for construction. But CBRE also projects that office employees will spend 36 percent of their time working remotely, up from 16 percent before the pandemic.

“We see a temporary downturn in demand for new offices,” Mr. Barkham said. “We also see that being whittled away over two or three or four years until centers come back.”

Travel and entertainment sectors were shut down during the pandemic, but companies that engaged in innovation, technology and information boomed, said Tracy Hadden Loh, a fellow at the Brookings Institution. Growth in the development of office space for tech jobs was especially strong in Austin; Charlotte, N.C.; Phoenix; and San Francisco, she said, adding that office construction for the knowledge economy would revive after the pandemic.

But she tempered her prediction because of another trend: “The number of square feet per worker has declined really dramatically since 1990,” she said. Couple that with recent announcements from companies like Google, Microsoft, Target and Twitter about remote work, and some cities could see less office construction activity.

These challenges are not limited to midsize cities. Larger metropolitan areas like Los Angeles and New York are certainly in distress, but they have shown the capacity in the past to rebound from calamity. In San Francisco, municipal authorities said that there was no way to predict postpandemic construction activity but that expectations were high.

“This isn’t the first recession here,” said Ted Egan, San Francisco’s chief economist. “We’re expecting people to come back to the office.”

But the cities that have a strong alliance with business development agencies are expected to recuperate faster.

For instance, the Downtown Austin Alliance, a business development group, is convening focus groups and workshops, and conducting interviews and surveys to stir fresh interest in its downtown office market. Before the pandemic, 11 buildings encompassing roughly 3.5 million square feet were under construction, nearly half of all downtown office space.

Boise established a 16-member Economic Recovery Task Force made up of city officials, academics and executives of professional organizations. In September, it issued recommendations to “enhance economic resilience and agility.”

And the Greater Portland Economic Development District formed a partnership with the Metro Regional Government to prepare a plan to recover from the economic shock of the pandemic, which wiped out 140,000 jobs and shuttered 30 percent of the region’s small businesses. Among their recommendations is to direct funds and technical assistance to small businesses through local Community Development Financial Institutions, part of an affordable-lending program from the Treasury Department.

Some cities are already seeing success. A year ago, Boston abruptly suspended construction for nine weeks in an effort to halt the spread of the coronavirus. During the moratorium, the Boston Planning and Development Agency prepared a recovery plan that focused on reviewing permit decisions for major projects remotely. With its 250-member staff working from home, and in some cases outfitted with new software and digital equipment, the planning agency held 220 virtual public meetings and digitally reviewed architectural plans and land-use proposals.

“We identified a methodology to conduct our reviews and resume public participation,” said Brian P. Golden, the agency’s director. “Honestly, it worked better than we could reasonably have expected.”

The city approved 55 significant development projects last year encompassing 15.8 million square feet and valued at $8.5 billion, the most in Boston’s history. The largest was $5 billion Suffolk

Downs, a 10-million-square-foot, mixed-use development with 10,000 housing units rising on a shuttered horse-racing track.

Tucson is also intent on resuming construction. Along with identifying sites for industrial development, the Sun Corridor recovery plan calls for resuscitating the city's downtown.

The pandemic closed 85 downtown restaurants, eliminated 10,000 travel and tourism jobs and cut revenue in the sector by $1 billion. The antidote is to persuade city and county leaders to make loans and grants available to small businesses tied to the tourism industry, the focus of commercial space in central Tucson.

Mayor Regina Romero said the city was investing $5 million — $2 million more than last year — in the city's tourism marketing group. Tucson also distributed $9 million from the federal relief legislation passed in March 2020 in grants ranging from $10,000 to $20,000 to small businesses, many of them in tourism.

"We're working together as a region," Ms. Romero said. "That's one of the most important steps that we can take for the recovery."

The New York Times

By Keith Schneider

April 6, 2021

[CDFA Community Facilities Technical Assistance Program.]

The CDFA Community Facilities Technical Assistance Program brings together CDFA's knowledge of development finance programs, along with the strategic support from private sector partners, to create a transferrable toolkit of finance programs and other resources capable of leveraging community facilities infrastructure in rural communities throughout the nation. This program includes resources accessible to every rural community, including a Rural Finance Resource Center, Rural Finance Newsletter, and Rural Finance Toolkit, along with targeted technical assistance support to six rural communities.

CDFA has worked with the USDA to develop an innovative technical assistance approach to support rural communities that have recently experienced a natural disaster. The goal of this program is to help rural communities utilize the USDA's Community Facilities Program along with identifying other potential development finance tools to aid in the rebuild and recovery after a natural disaster.

Click here to learn more.

[State And Local Governments Get Shot Of Stimulus.]

Summary

- The recent passage of US President Joe Biden's $1.9 trillion COVID-19 relief package, "The American Rescue Plan Act of 2021," not only includes checks for individuals, but also allocates

funds for state and local governments.
- The new relief package allots $195.3 billion for states, territories and tribal governments, and $130.2 billion for cities and counties.
- How this stimulus will impact the municipal bond market is an important question.
- We caution that this sort of blank spending check comes with a potential moral hazard, so good governance at the state and local level will be paramount in terms of allocating these funds judiciously, in our view.

Continue reading.

Seeking Alpha

Apr. 10, 2021

How States Can Avoid Costly Pitfalls While Rebuilding Their Economies.

3 ways to increase the effectiveness of economic development incentives and control spending

In 2010, Michigan's economy was reeling. The Great Recession had hit the state hard and U.S. automakers were struggling to survive. Seeking to ease the pain, state officials authorized tax credits under the Michigan Economic Growth Authority (MEGA) program as part of long-term deals with distressed automakers. But the program did not include fiscal protections to control the state's costs. This would prove to be a damaging misstep years later when Michigan had to close a multi-million dollar budget gap with spending cuts after automakers began claiming credits in larger amounts than expected.

How did this happen? When developing the agreements, the state relied on unrealistic estimates of the number of jobs the companies would create and the salaries they would pay. The companies hired more workers at higher than anticipated salaries, qualifying for more tax credits and driving costs higher than expected. Fortunately, such situations can be avoided.

An unexpected decrease in revenue is one of the most challenging budget situations that state governments can face, as recent experiences grappling with the impact of the pandemic show. Policymakers are also feeling pressure to get their economies back on track. If economic development incentives are part of a state's recovery strategy, leaders should take three steps to increase predictability and effectiveness:

Continue reading.

The Pew Charitable Trusts

April 6, 2021

The Washington Weekly: Infrastructure in Trouble?

Even with Congress in a two-week Easter recess, news continues to trickle out of Washington, DC, potentially putting the infrastructure package in jeopardy.

This week Senator Manchin put his mark on the debate, continuing to flex his muscle as the swing vote in the 50-50 split Senate. The Senator from West Virginia continues to push back against raising the corporate tax rate from 21% to 28% while urging the Administration not to use the budget reconciliation process again to circumvent the need for Republican votes.
At this time, a true bipartisan deal feels out of reach, so it is expected that Senator Manchin will likely receive some concessions from the White House including a corporate rate of 25%.

While trouble seems to be brewing in the Senate, on the House side, munis remain a focal point in the ongoing debate. This week, the House Municipal Finance Caucus submitted a letter to the House Committee on Ways and Means stating their support for municipal bonds. The effort was co-signed by 50 bipartisan Members of the House, a strong show of support for tax-exempt financing, as Ways and Means Chairman Richard Neal (D-MA) simultaneously continues to promote munis. Last week the Chairman reiterated his support for inclusion in the eventual package, a Committee priority for the post-Easter legislative session.

More on muni provisions below.

Bottom line: While we expected an infrastructure package that includes many municipal bond provisions to pass Congress this year, compromise will be key from this point forward to get the bill across the finish line in either a bipartisan or reconciliation scenario.

****The Municipal Bonds for America council is launching a new initiative highlighting the role of municipal finance in American infrastructure and capital improvement.**

Infrastructure in America: Munis Since 1812

By analyzing projects of the past, present, and future, will tell the story of how municipal bond market financing has built American infrastructure with efficiency and low cost literally since 1812.

This is an American story of schools, roads, bridges, ports, community centers, hospitals, airports, and much more.

Muni Watch:

House Bill, to Reinstate Tax Exempt AR Introduced-More to Come?

Last week, the Co-Chairs of the House Municipal Finance Caucus, Reps. Dutch Ruppersberger (D-MD) and Steve Stivers (R-OH) reintroduced legislation that would fully reinstate tax-exempt advance refundings. Much like the companion legislation in the Senate, H.R. 2288 was introduced with strong bipartisan support of 25 cosponsors.

As a long-standing priority for the BDA and a top priority for the MBFA, the introduction signals a turn to infrastructure and public works in both Chambers of Congress and sets the foundation for municipal bonds to play a major role in the future package.

It is widely expected that additional municipal bond provisions are to be introduced in the House in the coming days. This includes BDA and MBFA priorities such as legislation to increase the bank qualified debt limit and create a new direct-pay bond.

Timing and details on the release are still in flux, but as the House Committee on Ways and Means continues to put together the financing portion of an infrastructure bill, additional legislation is expected to be released in short order.

The BDA and MBFA continue to work with our partners on Capitol Hill and the Administration to ensure all muni priorities are addressed and included in the Committee's first draft and will continue to provide updates when new developments are available.

Bond Dealers of America

April 9, 2021

[There's Another Way to Pay for Infrastructure Projects.]

Rather than raising taxes, we can finance bridge and road improvements by packaging and selling data on their usage.

It's no secret that the roads, bridges, water and sewer systems that have shaped how our communities developed over the last century are, in too many cases, operating on borrowed time. Infrastructure is — after all — the collective of services that allows a society to function.

In its recently released infrastructure report card, the American Society for Civil Engineers (ASCE) counted more than 45,000 of the nation's bridges as structurally deficient. Despite the poor condition of these overpasses, they carry 178 million trips every day. While our drinking water system has improved in the past few years, there's still a water main break every two minutes somewhere along its 2.2 million miles of pipes. Those are just two examples of the many U.S. infrastructure services that need to be fixed and future-proofed—and urgently.

It's promising to hear that President Joe Biden is prioritizing infrastructure with a multi-trillio--dollar plan. To address the nation's infrastructure needs by 2029, ASCE estimates the infrastructure finance gap between needs and available funding at $2.68 trillion across the multiple categories defined in the report card. These include surface transportation, water and stormwater, energy, schools, inland waterways and ports, airports, solid waste management, levees and dams, and broadband, to name a few. If we are going to truly tackle the scale and breadth of these challenges, we have to turn to new financing and funding models.

Typically, governments use a combination of public and private financing instruments to pay for major infrastructure projects. The main public financing comes from municipal bonds that are funded by taxpayers or project-specific revenue streams, revolving loans and grants. The rest comes from private financing through public-private partnerships such as toll roads and other user-fe--based arrangements. But neither approach will raise enough money to eliminate our roads' potholes, make all of our bridges safe and deliver clean drinking water that every member of the public can trust. The cost of borrowing enough is simply too high, or politically unpalatable, for cities and towns to collect in taxes. And the options on today's menu of public-private partnerships won't cover it in fees.

There is a better way. Based on my work with financing mechanisms that integrate performance or structural health metrics, there are ways to unlock new revenue streams for projects, tie the cost of borrowing to metrics (which lowers the risk), and decrease the cost of infrastructure operations using smart contracts. These new financing opportunities don't require raising taxes, making it easier for them to garner bipartisan support. We can do it with smart city infrastructure, but replacing existing systems won't be instantaneous. The race is on to define transformative practical applications in road design, solar energy, water distribution systems, solid waste and port management.

Financing With Data

Increasingly, our roads and bridges, drinking water and sewer pipelines, buildings, ports and hospitals are outfitted with sensors and other data collection systems. An urban internet of things is emerging, and its data have the potential to generate an incredible amount of added value. We can harness this technology to deliver insights that will make financing more efficient and to develop the next generation of public-private partnerships.

Sensors can pull data on water flow, traffic congestion, air pollution and more—all of which can be processed to illuminate how to deliver services more efficiently and cost-effectively. The data are attractive to insurance companies because they help to hedge risk, and to investors because the information can give rise to new revenue streams, or create value well beyond the infrastructure itself.

For example, sensors on roads and bridges can monitor deterioration as well as the impacts of trucking. These insights could be used to price a fee structure for logistics companies based on how they reduce lifetime use or maintenance requirements. Models like this are being explored in the Netherlands and Germany. Rather than charge tolls, public agencies in those nations are considering farming out bridge portfolios to asset management companies that are collecting anonymized data on traffic volume, truck weights and structural health. In turn, those companies can sell that data in derivative markets to materials suppliers, insurance companies, marketing firms and hedge fund investors.

In pilots that couple a new financing instrument with sustainability goals, utilities in Washington, D.C., and Atlanta, and Buffalo, New York, have issued “environmental impact bonds” for green stormwater infrastructure. Rather than financing construction of more “gray” pipes at a fixed interest rate, they’ve tied the cost of these bonds to outcomes. Sensors measure stormwater runoff, and the performance of the infrastructure can be quantified and translated into operational savings for the utility. In turn, the utility pays out some of the savings to investors. Because the financial returns are uncorrelated to the broader market, interest from investors in this type of performance bond is ballooning.

The ‘Stock’ of Infrastructure

Indeed, just like data from smartphone apps create value, the data from physical infrastructure will lead to a new marketplace in which public infrastructure is a lot more attractive to private capital than it is right now. Data contracts can be securitized like mortgages, repackaged and resold in various business-to-business data markets.

Not only does data have the potential to add new revenue streams, it also improves the liquidity of investments. Most investments in infrastructure take the form of debt or equity and cannot be easily converted to cash, limiting the type of money that invests in it. Data provides near real time insights into performance, structural health and use, much like share prices update as new information becomes available to inform buyers and sellers. Data represent the informational ‘stock’ of infrastructure, which allows for better pricing of its value and can improve liquidity of investments.

This is good news for cities, counties and states — the public asset owners — and at a difficult time. At the start of the pandemic some city and state budgets faced financial challenges that threatened to further defer the financing of infrastructure and exacerbate existing deficiencies and societal inequities. The federal stimulus relief has helped eased those strains, but many of the areas that were hardest hit by the pandemic have the greatest needs in upgrading infrastructure. Smart financing can serve as an equalizer for high- and low income communities alike.

So instead of merely issuing new debt and raising taxes, let us begin to look beyond the cement, steel or fiber-optic cables that make up our physical infrastructure to the data it can generate. Let us view data as a new inheritance or windfall that can lift the nation's foundational systems toward a more resilient future.

Bloomberg CityLab

Peter Adriaens

April 7, 2021, 10:59 AM MDT

Peter Adriaens is the Director for the Center for Smart Infrastructure Finance and a Professor of engineering, finance and entrepreneurship at the University of Michigan, Ann Arbor.

How Higher Taxes Will Impact the Muni Market: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, on muni markets and higher taxes. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

April 8, 2021

Would Punishing Panic Sellers Doom Bond Mutual Funds?

More widespread use of "swing pricing," which penalizes withdrawals during times of market stress, is gaining momentum among regulators.

"If the ETF came first, the SEC would never approve the mutual fund structure."

I keep thinking about this quote from Matt Hougan, former chief executive officer of Inside ETFs, which I cited in a Feb. 19 column titled "Mutual Funds Are Not Long for This ETF World." I argued that the Federal Reserve's unprecedented intervention in the U.S. corporate bond market was a plot to rescue fixed-income mutual funds from potential disaster and that the coronavirus crisis would only hasten the rise of exchange-traded funds in their place.

Since then, two of the most influential U.S. policy makers have been candid about the fact that bond mutual funds pose a unique and serious problem during times of market stress. First was Fed Governor Lael Brainard during a March 1 speech on preliminary financial stability lessons from a year ago:

Continue reading.

Bloomberg Opinion

By Brian Chappatta

April 9, 2021, 4:00 AM MDT

Municipal CEF Sector Update.

Summary

- We take a look at the Municipal CEF sector which has been buffeted over the past few months by rising Treasury yields.
- Fundamentals are in good shape with tax collections down just 1% year-on-year, the stimulus package exceeding budget shortfalls, and potential infrastructure spending coming.
- We continue to favor the credit or high-yield part of the sector though the easy gains are largely behind us.
- We also highlight a few attractive funds such as CMU, NMCO, and NID.

Continue reading.

Seeking Alpha

Apr. 12, 2021

Fitch Rates Nuveen Muni CEF Preferred Shares 'AA'

Fitch Ratings – New York – 12 Apr 2021: Fitch Ratings has assigned an ‘AA’ rating to the $182,000,000 of Series 2028-2 Adjustable-Rate MuniFund Term Preferred Shares (AMTP shares) issued by Nuveen Quality Municipal Income Fund (NAD), a municipal closed-end fund (CEF), in connection with the fund’s reorganization.

Continue reading.

Municipal Bond Mutual Fund Performance and Active Share.

Abstract

This article evaluates the performance of actively managed US open-end municipal bond mutual funds between 1999 and 2020. Fund classifications span national short, intermediate, and long-term, as well as high-yield and single-state portfolios. An initial investigation reveals that municipal securities manifest characteristics of a distinct asset class. Performance measures include benchmark-adjusted returns and single- and multifactor pricing models. During the sample period, only 8% of funds generated returns that beat their benchmark indexes, and 29% produced positive excess returns (alpha) based on a four-factor pricing model. Longer-maturity funds generally performed better than short-maturity funds. Based on portfolio performance, managers specializing

in single-state issues do not manifest unique knowledge or insight. Active share for the aggregate sample was 25%, implying an active expense ratio exceeding 3% and annualized active alpha below −3%. The evidence overall suggests that active management of municipal bond portfolios is not a value-enhancing activity.

Key Findings

■ Municipal bonds possess several characteristics that satisfy traditional criteria qualifying them as a distinct asset class. In this first evaluation of the performance of actively managed open-end municipal security mutual funds, the authors find that the vast majority of funds underperform their benchmark indexes. They also document significant underperformance when accounting for four fixed-income market systematic risk factors.

■ The performance results vary by fund type, with short-term funds underperforming more acutely than intermediate- or long-term funds. Single-state funds are among the worst performers, suggesting that managers do not possess unique insight about the issuer domicile and its securities.

■ Portfolio active share for muni bond funds is about 25% (similar to what extant work finds for equity funds), which implies an annualized active expense ratio of about 3% (similar to fees charged by some hedge funds).

Read the full article.

The Journal of Investing

by Joshua A. Gurwitz, David M. Smith and Gerhard Van de Venter

June 2021

Cash-Flooded Muni Market Beats Treasuries by Most Since 2009.

- **State, local bonds are set to post a small quarterly loss**
- **Buyers swooping in for tax-free income, low risk profile**

Mom and pop investors are helping the municipal-debt market stand firm in the face of broader fixed-income pain in 2021.

State and local debt is poised to outperform U.S. Treasuries by the most in any quarter since 2009, according to Bloomberg Barclays indexes. While municipals have been pressured by the selloff in Treasuries — they're on pace for a 0.3% quarterly loss — the flood of cash coming in has helped the market avoid a major slump. Treasuries, in comparison, are down 4.2%.

Muni funds have pulled in a net $26.18 billion this year through the week ended March 24, according to Refinitiv Lipper data that include municipal exchange-traded funds. State and local-debt ETFs alone are poised for their second-best quarter of inflows on record, reaping about $5.1 billion this year, according to Bloomberg Intelligence data. Meanwhile, there's been an outflow of around $1.3 billion from government-focused ETFs during the period, mainly consisting of Treasuries, the data show.

Bonds have tumbled in 2021, driving Treasury yields to the highest in more than a year, amid expectations for a rapid economic recovery. But the money flowing into state and local debt is providing a cushion. Barclays Plc strategists said in a March 26 note that mutual funds' large "cash buffers" would likely limit a selloff, because the funds are ready to step in and start buying if yields rise to more attractive levels.

"We've had such ridiculously high fund inflows," said Peter Block, head of municipal strategy at Ramirez & Co., who said he expects the demand to continue.

The bonds are luring investors because of their status as a haven where defaults are rare. They also pay interest that's tax-free, which is appealing at a time when the Biden administration is discussing tax increases. It also helps that wealthy Americans — some of the core buyers of municipals — have grown richer during the pandemic, which could be driving some of the demand.

"There's a lot of money that needs to be put to work," said Jason Ware, managing director at 280 CapMarkets. The influx of cash has meant that new deals are being gobbled up in the primary market and there are few sellers, Ware said.

See here for more on munis and inflation expectations

When municipals do see short periods of underperformance, investors are jumping in, he said.

"It seems like buyers are kind of waiting to pounce on any of that," Ware said.

Bloomberg Markets

By Amanda Albright

March 30, 2021, 11:43 AM MDT

— With assistance by Danielle Moran, and Katherine Greifeld

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5 Muni Market Incentives to 'Build Back Better.'

The White House is formulating a massive infrastructure package. Here are cost-cutting ways for Congress to help states and localities float the bonds to fund their share. Muni "flower bonds," anyone?

With Transportation Secretary Pete Buttigieg, a former mayor, leading the charge to make good on President Biden's campaign pledge to "Build Back Better," state and local officials are daring to hope that a massive new federal infrastructure program will pay for upgraded roads and bridges, transit lines, civic and school buildings, water and sewer systems, and the jobs that building and operating them would bring.

But no matter what shape a congressional deal takes, many if not most intergovernmental grants will require local matching funds to be raised with bond issues and repaid over the life of the new facilities. As Congress plays poker on the overall package, it must also make it easier and more cost-effective for states and localities to finance their matching shares. The federal jackpot will sit just there if governors and mayors can't pony up their ante.

The traditional vehicle for funding public works at the local level has been tax-exempt municipal bonds, which usually enjoy a lower interest rate than equivalent-quality taxable corporate bonds. In the 1988 case of South Carolina v. Baker, the Supreme Court held that this muni bond tax exemption was just a privilege granted by Congress, not guaranteed by the 10th Amendment. Conservative muni finance advocates (and self-interested underwriters) are keen to preserve this privilege and avoid rocking the boat with alternative financing schemes. So don't be surprised to hear some pushback on innovative policy options — especially those that displace the bond peddlers — despite their obvious economic merits. Here are five fiscally efficient ideas that ought to be aired with the White House and the Treasury:

1. Rebrand BABs as B4s. In 2009, responding to the global financial crisis, Congress gave states and localities the option to issue their bonds with taxable interest, with a generous promise to cover 35 percent of the interest costs for the life of the bond. They were called Build America Bonds (BABs). That program expired in 2010. Economists can demonstrate that a more modest, yet ultimately equivalent upfront federal project subsidy today of 25 percent could be more economical for many local taxpayers than allowing wealthy investors to avoid taxes on muni bond interest. Nobody can argue that the muni market wouldn't benefit from having a portion of its bonds taxable, expanding the pool of buyers by making them attractive to pension funds, IRAs and foreign investors who don't care about tax exemption. Call them "Build Back Better Bonds" (BBBBs, or B4s).

2. Go bigger with cheap muni money, right now. Municipalities are required to spend bond proceeds within a limited time period to prevent profiting from playing off short-term taxable money-market interest rates against tax-free muni bond rates. Violations risk loss of tax exemption. This rule makes no sense in today's low-rate market. Congress should actually encourage states and localities to issue the largest possible long-term bond issues they can afford right now, at today's skimpy interest rates. Just eliminate restrictions on investment income before 2026 for muni bond sales in 2022 with a 10-year or longer average life. Only issuers that fail to break ground by 2026 should forfeit any investment profit on the bond proceeds. This can help accelerate infrastructure expenditures in the next two years, when the economy is still recovering, and "bank" low-cost bond proceeds for immediate deployment later, when opportune. Let's outrun inflation in construction costs and inevitably higher interest costs by selling as many munis as possible now, while the Federal Reserve remains accommodative.

3. Open the FFB window to Build Back Better. I've previously suggested that the Federal Financing Bank, an arm of the Treasury, could provide lower-cost loans to states and state bond banks. In today's skewed capital markets, taxable Treasury bonds carry lower interest rates than AA-rated tax-exempt munis, so a straight pass-through would be a win-win for both federal and muni taxpayers. For qualifying deals in 2022-23, the FFB could charge states for principal only, with Congress paying the interest expense until 2025. In today's low-rate marketplace, the FFB's interest cost would then be less than the income tax subsidy now enjoyed by tax-exempt munis. Conceptually, if every municipal bond sold nationwide in 2020 were instead funded this way using 10-year Treasury notes, Uncle Sam's total cumulative net cost would be less than $30 billion over the standard congressional 10-year budget scoring period, about $3 billion annually. That is just a rounding error in a multi-trillion-dollar infrastructure plan.

Of course, an interest-free window that big would put the entire muni bond underwriting industry out of work, which is sure to invite heated muni underwriter and bond counsel opposition cloaked as principled conservatism. A more politically palatable strategy would allow FFB access only for specified priority initiatives. That could include health and safety hazard remediation (including water systems and bridges), mass transit and green initiatives, while keeping this brief FFB borrowing window a limited experiment.

4. Provide a tax break for qualified P3 bonds and dividends. An infrastructure bonanza will undoubtedly include pitches for public-private partnerships, dubbed "P3s" by the trade. Various projects to fund facilities that can be financed by user charges are ripe targets for such privatization or semi-privatization.

What if private partnerships that work collaboratively with public agencies could issue their bonds or preferred stock with payouts subject to preferentially lower tax rates? Normally such income from partnerships is taxable at higher ordinary income tax rates, so the financial incentive would be meaningful. The advantage here is that state income tax revenues would not be reduced, but actually bolstered when compared with tax-free muni bond interest. To qualify, such projects should clearly benefit public purposes and cut carbons while requiring revenue- or profit-sharing with a public agency.

5. Protect bond investors from inflation. All this deficit spending has investors worried about future inflation, which has nudged interest rates higher lately. If future inflation arises, it's arguably a problem caused by Congress and the central bank, not states and localities. To protect fixed-income investors, Congress can add inflation protection to Treasury bonds held at least 10 years by a pension fund or a qualified retirement account, or purchased through local banks as a retail savings bond. Public pension funds can employ these useful tools for various portfolio strategies, including sophisticated swap transactions to attach the inflation protection to their diversified bond portfolios. Congress could also reimburse an inflation adjustment of principal at maturity of taxable municipal bonds (the B4s described above), which would be ideal investments for pension funds and insurance companies.

A novel tax-exempt muni bond enhancement could borrow conceptually from special redemption privileges attached to low-rate Treasury bonds in the late 20th century. They were known as "flower bonds" (as in lilies at a funeral) because they were redeemable at their face value for settlement of federal estate taxes. For zero-coupon muni flower bonds — which would pay no interest and be sold at a discount — that are issued before 2024, Congress could reimburse Federal Reserve System banks for tax-free make-whole redemptions at their accreted value when held by retirees for at least 10 years, or in settlement of estate taxes. That would enable today's issuers to enjoy the lowest borrowing rates of a lifetime while protecting investors from future inflation. All of these inflation protections would reduce municipal borrowing costs, and if future inflation remains as tame as many economists and public officials continue to predict, it would be a win-win for everybody.

GOVERNING.COM

GIRARD MILLER, FINANCE COLUMNIST | MARCH 30, 2021

Biden's $2.25T Plan Will Impact Every Muni Sector, Hilltop's Kozlik Says.

In this week's "Muni Moment," Tom Kozlik, head of municipal strategy and credit at Hilltop Securities, says President Joe Biden's "extraordinarily comprehensive" infrastructure spending plan will "potentially impact every single sector of the municipal bond market."

Watch video.

Bloomberg Muni Moment

March 31st, 2021

[Build America Bonds May Stage a Comeback in Biden's Infrastructure Plan.]

March 31 (Reuters) – Build America Bonds may return after a 10-year absence as part of U.S. President Joe Biden’s $2.3 trillion plan to tackle the nation’s infrastructure needs, although some past issuers are wary about selling more of the federally subsidized debt.

The popular bond program was created under the Obama administration as part of an economic stimulus law, allowing states, cities, schools, airports, mass transit agencies, and others to sell for a limited time taxable debt with the federal government contributing 35% of interest costs.

Between April 2009 and when the authorization expired at the end of 2010, $181.5 billion of the so-called BABs were issued to fund construction projects aimed at helping the nation recover from the financial crisis.

Over the last 10 years, BABs on average have outperformed corporate bonds, U.S. Treasuries, and municipal bonds due to factors including the debt’s hefty coupons and scarcity.

Now the $3.9 trillion U.S. municipal bond market is buzzing with speculation that with Democrats in control of the White House and the U.S. Congress, legislation for Biden’s plan will bring BABs back.

“Build America Bonds successfully delivered significant savings to New York City, and if the Biden administration reintroduces the program, it could bolster the city’s economic recovery from the pandemic,” the city’s comptroller Scott Stringer said in a statement.

U.S. Transportation Secretary Pete Buttigieg told CNBC late last week that BABs show “promise.”

“Democrats have been trying to relaunch BABs since BABs expired,” said Matt Fabian, a partner at Municipal Market Analytics, adding that Congress was likely to leverage bond-related ideas like BABs that were already discussed or included in past legislation.

Katie Kramer, vice president of the Council of Development Finance Agencies, said BABs’ reinstatement was part of a big infrastructure bill the House passed last summer and that House Ways and Means Committee Chairman Richard Neal “is very fond of that particular tool.”

Fabian cautioned that Republican opposition to BABs could be a problem in the future if the party returns to power and interferes with the program. Another concern is that the subsidy has been subject to across-the-board federal spending cuts known as sequestration that were as high as 8.7% in 2013.

“I would support giving communities the choice to use direct subsidy bonds – another tool in the toolkit, as they say, with the condition that they are protected from sequestration and that the protections are binding,” said M. Elizabeth Reich, chief financial officer of the City of Dallas, Texas.

She said sequestration created mid-year budget problems for many issuers including Dallas, which lost more than $4.5 million in credit for debt service between 2013 and 2019.

Wisconsin, which sold $1.1 billion of BABs, would have been better off issuing fewer BABs and more tax-exempt bonds due to the impact of sequestration, according to David Erdman, the state’s capital finance director.

“We’d take a look at (BABs) if there were some protections,” he said. “But are protections really protections? Laws can always be changed."

Reporting By Karen Pierog in Chicago; Editing by Alden Bentley and Marguerita Choy

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Build America Bonds May be Key to Financing Biden's Infrastructure Plans.

KEY POINTS

- The country's overall infrastructure needs over the next 10 years total nearly $6 trillion, and lawmakers are split on how to pay for it.
- Citigroup's head of Citi's municipal bonds strategy, thinks he has the answer: a resurrection of Build America Bonds.
- The bonds allow states and counties, which manage the majority of U.S. infrastructure, to float debt with interest costs subsidized by the federal government.

Republicans and Democrats agree that the U.S. is in dire need of a major infrastructure overhaul, and at the very least, that Congress should authorize significant repairs to roads and bridges.

The fierce disagreement between the two parties begins over which provisions are worthy of running the federal deficit higher, as well as over how to finance such a massive undertaking.

And while Wall Street worries about potential increases to corporate and individual income tax rates, Democrats may soon turn to an Obama-era tool to finance their infrastructure plans: Build America Bonds.

BABs are special municipal bonds that allow states and counties to float debt with interest costs subsidized by the federal government. That underwriting not only served to ease jittery investors in the aftermath of the financial crisis, but also made municipal debt even more attractive with rates sometimes north of 7%.

This approach could be especially helpful in President Joe Biden's infrastructure push, especially after the hefty price tag of his $1.9 trillion Covid-19 relief package. Even by the most modest estimates, the cost to repair the nation's infrastructure reaches into the trillions of dollars.

The country's overall infrastructure needs over the next 10 years total nearly $6 trillion, according to a report published earlier in March by the American Society of Civil Engineers. It says there's a $125 billion backlog on bridge repairs, a $435 billion backlog for roads and a $176 billion backlog for transit systems.

Those sums, merely for repairs already deemed necessary, come before the expansive and innovative technologies Democrats hope to include in Biden's forthcoming bill. The White House is expected to pitch a bill worth at least $3 trillion and include a litany of infrastructure and social assistance programs.

Biden for BABs?

Vikram Rai, head of Citi's municipal bonds strategy, thinks Build America Bonds are the answer.

Build America Bonds entered U.S. markets more than a decade ago as the Obama administration sought ways to finance capital projects across the country and jumpstart the economy in the aftermath of the Great Recession.

The beauty of subsidizing the interest associated with muni bonds, Rai argues, is that every dollar spent by the federal government works to reinforce the integrity of larger spending projects that, legally, only states and localities have the power to pursue.

The federal government owns less than 10% of the nation’s infrastructure, while the rest is operated by states, cities and the private sector.

“This price tag of $2 trillion, $3 trillion — that’s not really accurate because the price tag is only that big if the federal government is going to give state and local governments grants,” Rai said in a phone interview earlier in March.

Instead, when the federal government underwrites BABs, it allows states and cities to issue far more debt than investors would otherwise accept without astronomical interest costs and doubts over whether they would be able to repay.

“What a lot of people don’t realize is that just some tax raises — like increasing the corporate tax rate or implementing a carbon fuel tax — even those very marginal tax increases will be more than enough to fund the initial outlay of infrastructure projects,” Rai said.

“These projects are, ultimately, self-sustaining,” he added. “There’s a magnifier effect, a stimulative effect: It generates employment, it generates tax revenues. So, it’s a no-brainer.”

Rai added at the time that it’s almost certain the White House is considering BABs among a variety of financing options.

Transportation Secretary Pete Buttigieg confirmed later Friday, after this story was initially published, that the administration is considering the bonds amid other financing options.

“I’m hearing a lot of appetite to make sure that there are sustainable funding streams,” Buttigieg said. Build America Bonds show “a lot of promise in terms of the way that we leverage that kind of financing. There have been ideas around things like a national infrastructure bank, too.”

A critical feature of BABs is that unlike 83% of the market for municipal bonds, they are taxed by the federal government.

Most bonds issued by state and local governments under “normal” conditions are attractive to investors because the interest is generally exempt from federal income taxes. As a result, U.S. investors are willing to accept a lower interest rate than they would otherwise demand.

For foreign investors, however, the interest on U.S. municipal bonds is still taxable by their home country, so they are generally apathetic low-yielding debt issued in the U.S.

But by making BABs subject to federal taxes, state and local governments are forced to offer higher interest rates on their bonds to guarantee investors the same effective rate of return.

Given that foreign investors, with their multitrillion-dollar demand base, have expressed an unwavering interest in investing in U.S. infrastructure, they would be keenly interested in a taxable structure. This is because from their perspective, BABs are indistinguishable from a conventional taxable bond, according to Rai.

Political perils

The drawback of BABs, though perhaps more impactful than grants written for the equivalent amount, is that the federal government is still on the hook for billions of dollars' worth in interest costs until the BABs mature.

The Obama-era program, which had no annual caps and subsidized interest costs at 35%, expired at the end of 2010 after states and municipalities sold more than $180 billion of the bonds, far more than the federal government initially expected.

Some lawmakers, such as Sen. Ron Wyden, D-Ore., remain supportive of the program and open to the possibility that they could play a role again in future infrastructure initiatives.

"Build America Bonds were an overwhelming success in the Recovery Act," Wyden, chairman of the Senate Finance Committee, told CNBC on Wednesday. "I'm incredibly proud of that program, and a similar financing structure will be part of the conversation as we move forward."

Leading Republicans, on the other hand, had grown sick of the costs associated with BABs by 2011. GOP lawmakers said the federal government's commitment to subsidize 35% of the interest payments on local bonds was too high.

Former Sen. Orrin Hatch, then the ranking Republican on the Senate Banking Committee, said in February 2011 that the bonds were "simply a disguised state bailout" that disproportionately helped New York and California.

"These bonds rightly expired at the end of 2010 and it is my hope the Obama administration does not try to resurrect such a nonsensical provision in their upcoming budget," he said at the time.

Sen. Pat Toomey, R-Penn., a member of the Senate Finance Committee, is a "no" on resurrecting the bonds.

"State and local governments have never been more flush with cash. In addition to record tax collections last year, Congress sent them $500 billion. Despite all that, two weeks ago, Congress sent them an additional $350 billion they didn't need," he told CNBC on Friday. "So no, I do not support misallocating billions of dollars more to incentivize potentially unworthy projects and to encourage insolvent or irresponsible state and local governments to take on even more debt."

Rai conceded that appetite for BABs could vary based on each state's creditworthiness, with states like New York with stronger balance sheets perhaps a more appealing bet than Illinois.

He countered, however, that even cities in Illinois could see significant revenue generation via BABs if the state works to backstop local municipal bonds. The federal government's commitment to subsidize interest costs could be lowered from 35% to 30% or even 28%, as Democrats proposed in 2011, Rai said.

But with the nation's infrastructure in dire straits, some Republicans may view BABs as a compelling option to fund infrastructure projects that, in time, eventually pay for themselves through job creation and tax revenues.

Mississippi Sen. Roger Wicker, the GOP's ranking member on the Commerce Committee, co-sponsored a bill with Sen. Michael Bennet, D-Colo., in 2020 that called for a revival of BABs with certain improvements.

Like BABs, their so-called American Infrastructure Bonds program would create a class of "direct-pay" taxable municipal bonds to help struggling governments finance critical public projects.

Wicker and Bennet's bonds would be exempt from sequestration, the process by which Congress has gradually eroded the size of its payments toward financing the original class of BABs.

"Empowering our local leaders to start important infrastructure projects is a proven, cost-effective way to help our communities emerge from severe financial hardship with assets that provide value to the area for years to come," Wicker said in a July press release.

cnbc.com

by Thomas Franck

MAR 26 2021

President Biden Touts Outline for $2.2 Trillion Dollar Infrastructure Plan.

Yesterday, President Biden spoke on his Administrations's initial outline of a $2.2 trillion dollar infrastructure plan, laying the groundwork for the second major initiative of the Administrations Build Back Better plan following the recent passage of a $1.9 trillion dollar COVID relief package. **While the plan did not discuss financing in great detail, including bond financing, the outline provides many opportunities for bonds to be included as Congress begins to work on the plan in earnest.**

The fact sheet can be viewed here.

The MBFA statement can be viewed here.

Some additional funding details provided in the outline include:

- Raising the corporate tax rate from 21% to 28%;
- $621 billion into transportation infrastructures such as bridges, roads, public transit, ports, airports, and electric vehicle development;
- Direct $400 billion to care for elderly and disabled Americans;
- $300 billion into improving drinking-water infrastructure, expanding broadband access, and upgrading electric grids;
- $300 billion into building and retrofitting affordable housing, along with constructing and upgrading schools; and
- $580 billion in American manufacturing, research and development, and job training efforts.

The BDA and MBFA continue to advocate for key muni priorities to be included in this robust infrastructure package.
These priorities include:

- Restoration of tax-exempt advance refundings;
- Expansion of PABs including for ESG uses;
- Raising the BQ debt limit; and
- Creation of direct-pay bonds exempt from sequestration.

We will continue to provide updates as they become available.

Bond Dealers of America

April 1, 2021

Ways and Means Chair Neal Reiterates Support for Bond Financing in Infrastructure Package.

Following the announcement of the Biden infrastructure plan, House Ways and Means Chairman Richard Neal (D-MA) signaled that he plans legislative changes to the original draft, including ensuring that bond financing plays a role in the final package. **His statements this week reiterate what the Chairman discussed during the *BDA'sEngage Capitol Hill 2021* event last week.**

The Chair stated,

"The Congress will offer some suggestions — we will accept some of what he is proposing. If we can improve upon the president's proposal, we want to do that. I intend to guard them in the committee."

These comments were in reference to:

- Creation of a new direct-pay bond program similar to the Build America Bonds program;
- Expanding the New Markets Tax Credit, low-income housing tax breaks; and
- Expanding the credit for rehabilitating historic buildings.

The BDA and MBFA continue to work with our partners on Capitol Hill and the Administration to ensure all muni priorities are addressed and included in the Committee's first draft.

The Chairman has placed a July 4th timeline on the release of the draft.

Bond Dealers of America

April 2, 2021

Illinois Owes Georgia Voters a Debt of Gratitude.

The state is no longer at risk of Moody's cutting its credit rating to junk soon, and bond traders like the prospect of federal support.

Before the U.S. elections in November, I wrote that the fate of Illinois's investment-grade credit rating was on the ballot. I got that right — but I wrongly assumed that the state's voters would make or break its fortunes.

Instead, it turned out to be Georgians who pulled Illinois back from the brink of junk. The state owes them a huge debt of gratitude, given just how much Illinois taxpayers are poised to save in the municipal-bond market because of the January runoff victories for Democratic Senators Jon Ossoff and Raphael Warnock.

The yield spread between 10-year Illinois bonds and top-rated tax-exempt debt shrunk last week to 111 basis points, the smallest since the start of the Covid-19 pandemic. It's a narrower gap than at any time between mid-2014 through 2019, a feat all the more impressive when considering that muni bonds held their ground in the first three months of the year as interest rates increased around the world, outperforming U.S. Treasuries by the most since 2009. Illinois already saved millions of dollars when it borrowed $1.26 billion in mid-March. That sale included bonds due in 2024 that yielded 1.09%, a sharply lower rate than the 3.42% coupon on $2 billion of similar-dated debt that the state placed with the Federal Reserve's Municipal Liquidity Facility in December.

The origins of this muni market windfall for the lowest-rated U.S. state may seem to begin in November, but clearly the Jan. 5 runoff elections in Georgia marked a turning point. The extra yield on Illinois 10-year bonds plunged 34 basis points the next day, when it became clear that Democrats would win both races and divide the Senate 50-50. That was a bigger drop than any day in the previous two months except for Nov. 6, when results indicated that there would in fact be two runoffs in Georgia and a chance for an evenly split Senate. Illinois debt outperformed again in February after Vice President Kamala Harris broke a tie to clear the path for a sweeping fiscal stimulus package to become law without Republican support. That included sending hundreds of billions of dollars in aid to state and local governments.

By March 9, about a week before Illinois's bond sale, S&P Global Ratings had seen enough to raise its outlook on the state's general obligation bonds to stable from negative, removing the risk of an imminent downgrade. Any borrower would welcome such a move, but it's especially beneficial for Illinois, which is rated BBB-, just one step above junk.

Then came arguably the biggest vote of confidence: Moody's Investors Service on March 26 also improved the state's outlook to stable from negative, which it says effectively removes the possibility of a downgrade in the next year or two. Moody's has historically taken a harsher view on Illinois and Chicago than S&P and Fitch Ratings. For instance, in June 2016, when political deadlock left the state headed toward a second consecutive year without a budget, Moody's swiftly cut its rating to Baa2, one step lower than the BBB+ grade assigned by S&P and Fitch. Moody's also shocked the muni market in 2015 when it dropped Chicago's credit by two levels to junk. At that time, S&P had the city at A+, the fifth-highest rank.

Moody's is forthcoming that its change of heart comes down to fiscal stimulus. "State and local government funds expected under the latest federal aid package may help the state repay deficit financing loans, support its financially pressured local governments and spur employment, income and tax revenue growth," lead analyst Ted Hampton wrote. He cautioned, however, that "the longer-term challenges associated with the state's very large unfunded post-employment liabilities remain."

Of course, Illinois isn't out of the woods entirely. Fitch still has a negative outlook and could always pull a shock downgrade, though it seems unlikely to do so now given that it held steady even after state voters rejected a constitutional amendment that would have repealed its 50-year-old flat-rate income tax and raised levies on the wealthiest residents. That was what I was referring to when I said the state's credit rating was on the ballot. Illinois still needs to put in the hard work to chip away at its large pension burden. But Moody's raised Connecticut's rating last week, its first upgrade in two decades, so a turnaround isn't impossible.

Georgia voters made this Herculean task just a bit easier. Even if federal aid is only a stopgap for a couple of years, that's enough time to save Illinois tens of millions of dollars in interest costs alone. Those savings, in turn, can be deployed to buoy both its post-pandemic economy and its pension funds. Contrary to some rhetoric coming out of Washington, the state isn't being "bailed out" by any stretch — but it has another chance to remain investment grade. That's more than enough reason for Chicagoans to send some deep dish pizza down to Atlanta.

Bloomberg Markets

By Brian Chappatta

April 5, 2021, 7:08 AM MDT

Rodney Slater on the The American Jobs Plan: Squire Patton Boggs

On March 31, 2021, President Biden officially unveiled the planned $2.25 trillion infrastructure bill, marking the beginning of what promises to be a lengthy debate over the appropriate size and scope of infrastructure investment and economic recovery in the country. Who better to guide you through it than our partner, Rodney Slater, former Secretary of Transportation in the Clinton Administration. Rodney appeared on Bloomberg TV and on Bloomberg's SoundOn podcast to offer his insights.

By Johnny Hutchinson on April 1, 2021

Squire Patton Boggs

Barclays Bond Deal Shows Limits to Vow on Financing Prison Firms.

- **Barclays had joined banks vowing to halt financing to industry**
- **Bank underwriting bonds to build two CoreCivic-owned prisons**

Two years ago, Barclays Plc joined a chorus of major banks announcing that they would no longer provide new financing to private prison companies, whose model of profiting from incarceration has drawn controversy for years.

But the bank is now poised to raise $634 million for Alabama lockups to be built and owned by carceral giant CoreCivic Inc.

Barclays is the lead underwriter for a bond issue scheduled to be sold through the Public Finance Authority, an agency in Wisconsin set up to rent its access to the municipal-debt market. In this case, the debt is being sold on behalf of an entity fully owned by Tennessee-based CoreCivic. The proceeds will be used to build two new prisons to be leased and staffed by the Alabama Department of Corrections.

While Barclays isn't directly lending to CoreCivic, the bond deal illustrates just how entangled private prison companies remain in the financial system and the limits to banks' pledges to avoid them.

"At the direction of the State of Alabama, Barclays has worked alongside the state's representatives and advisors to finance the procurement of two new correction facilities that will be leased and operated by the Alabama Department of Corrections for the entire term of the financing," the bank said in an emailed statement to Bloomberg News. "The commitment we made in 2019 not to finance private prison companies remains in place."

After facing pressure from Democrats in Washington and prison reform activists to sever ties with the industry amid heightened use of immigrant detention centers under former President Donald Trump, Barclays in 2019 joined Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co. in saying that it would stop providing new financing to private prison companies. The London-based bank said in 2019 it would allow a then-existent credit facility to expire.

Alabama officials have said the deal with CoreCivic will help it improve conditions within its prison system after the state and its corrections department was sued by the U.S. Department of Justice in December 2020 for failing to protect male prisoners from violence and unsanitary conditions. Alabama Attorney General Steve Marshall said in an emailed statement that the lawsuit disregarded the "immense progress" that the state has made in improving its prisons.

"Leasing and operating new, modern correctional facilities without raising taxes or incurring debt is without question the most fiscally responsible decision for our state," Alabama Governor Kay Ivey said in a February statement on the lease agreements with CoreCivic. "We are improving public safety, providing better living and working conditions, and accommodating inmate rehabilitation all while protecting the immediate and long-term interests of the taxpayers."

The $634 million of bonds, for which Barclays is serving as the lead underwriter, won't be considered CoreCivic debt. They're being issued for Government Real Estate Solutions of Alabama Holdings LLC, which is 100%-owned by CoreCivic, which is listed in the prospectus as the project's sponsor. The new prisons will be leased and staffed by Alabama's corrections department.

A spokesperson for the Alabama governor's office declined to comment on Barclays' involvement in the deal, and a representative for CoreCivic directed a request for comment to the bank.

Another $215.6 million in debt may also be sold through a private placement, according to offering documents. The deal was outlined to investors in a March 31-dated roadshow presentation by CoreCivic executives, including Chief Executive Officer Damon Hininger, and Barclays bankers.

Lease payments made by Alabama will be used to pay off the debt. The corrections department has agreed to prioritize the lease payments above all other obligations to the extent allowed by law, according to the investor roadshow. Through state appropriations, the Alabama corrections department has committed to make payments that will cover outstanding debt service obligations in the case of an instance like a lessor default.

Because of the state's commitments under the lease agreement, the bonds are expected to receive an investment-grade credit rating, according to a person familiar with the matter. The bond sale is scheduled to price later this month.

Alabama Department of Corrections Commissioner Jeff Dunn said in a statement in February that the facilities would provide a safer environment to deliver "effective, evidence-based rehabilitative programming" to people who are incarcerated.

"Leasing, staffing, and operating modernized prison infrastructure that is owned and strictly maintained by the private sector minimizes our short- and long-term risk for an initiative of this necessary magnitude," he said.

Bloomberg Markets

By Amanda Albright and Danielle Moran

April 2, 2021, 5:24 PM MDT

— With assistance by Davide Scigliuzzo

Grading State Budget Practices at a Turbulent Time.

The Volcker Alliance's latest state budget report cards come as the pandemic has tested public finances and as historic sums of federal aid flow toward states and localities.

It's been a rollercoaster for state budgets over the past year. When the coronavirus outbreak hit the U.S. last March, it led to a round of dire revenue forecasts, in many cases revised upwards as tax revenues turned out better than expected. Still, states faced significant unplanned costs tied to the pandemic response and some, especially those with economies linked tightly to sectors like tourism and oil and gas production, have struggled with serious shortfalls.

Then, the largely mixed picture for state budgets brightened early last month when President Biden signed a massive coronavirus relief bill into law that included about $360 billion in state and local recovery funds, including nearly $200 billion earmarked for states and the District of Columbia. And now, the White House and Democrats in Congress are backing a $2 trillion infrastructure bill that could send even more federal money gushing to the state and local level.

It's in this context that the Volcker Alliance, a good government group, this week released its latest edition of *Truth and Integrity in State Budgeting*, a 162-page report that includes in-depth report cards grading how each state manages its finances. The Alliance has been scrutinizing state budgeting practices with reports like this since 2015 and this year's report, like the one issued last February, just before the U.S. covid outbreak, catalogs many overall improvements.

Some of the strides states made during the years leading up to the pandemic—during the longest economic growth cycle dating back to the 1850s—left them better equipped to deal with the Covid-19 crisis. This is especially true when it comes to budget reserves.

In the decade after the Great Recession, states beefed up their so-called rainy day funds, and some established new policies to guide how they are used. The accounts held a record $79 billion by 2019, according to the Volcker report. The report notes that in fiscal years 2020 and 2021, as the virus battered the economy, at least 21 states tapped the funds to close budget gaps.

"While no one could have foreseen the immense economic and fiscal stresses caused by Covid-19, actions taken by many states during recent boom times left them better prepared than they would have been only a few years earlier," William Glasgall, the alliance's senior vice president and director of state and local initiatives, said in a statement.

"The report analyzes the budgetary foundation states laid in the five years prior to the pandemic, which directly impacted how well-equipped states were to deal with the fiscal crisis," he added.

Volcker grades states in different areas on a A to D-minus scale. In the reserve funds category, its latest report notes that 17 states received A averages for fiscal years 2015 through 2019 and just two states, Illinois, known for its chronic budget problems, and Kansas averaged Ds.

In addition to evaluating savings, Volcker grades states in four other areas.

One is budget forecasting, which looks at how states estimate revenues and spending. Another is budget maneuvers, or one-time moves to cover recurring costs. Then there's a "legacy costs" category that looks at how well states are meeting pension and retiree health care obligations. And, lastly, budget transparency, which digs into issues around the disclosure of budget information, including debt, tax breaks and deferred infrastructure maintenance.

When looking at the grades for fiscal 2015 to 2019, for each of the five areas that the report evaluates, all five categories saw improvement and three had B averages. In two areas—budget forecasting and legacy costs—the average grade was a C.

With budget forecasting, the report says that grades were held back by a lack of estimates prepared jointly by governors and legislators, and also by a limited number of states issuing longer-term projections. “A one-year estimate does little to reveal structural deficits that may burden subsequent budgets,” the report cautions. Only 10 states averaged A grades in this category, while eight scored Ds and three—Alabama, Missouri and North Dakota—checked in with D-minuses.

Legacy costs, both pensions and retiree health care, hang heavy over some state budgets. One major contributor to this problem over the years has been state lawmakers approving pension benefits for public employees, but then failing to set aside adequate funding to cover the costs. Another issue is states using unrealistic estimates for what the returns will be on pension fund investments—those investment earnings help to cover benefit payments.

The Volcker report highlights $1.3 trillion in unfunded pension liabilities states have stacked up. The figure is a projection of how short states will be on what they owe to retirees in future years, based on current pension funding levels. In addition, the report notes over $600 billion in obligations for “other postemployment benefits,” which mainly consist of retiree health care.

On the upside, the research finds that the number of states making their full recommended contributions to public pensions rose to 39 states, from 33 between fiscal 2015 and 2019. Even so, 33 states had an average mark of C or below in this category.

The report points to a number of other issues as well.

For instance, how states failing to disclose deferred maintenance costs for infrastructure can be a transparency issue. Deferred maintenance on public infrastructure is around $1 trillion, according to a figure cited in the report. Only five states, Alaska, California, Hawaii, Illinois and Tennessee provided data on these costs as of 2019, the report says.

Volcker also takes the position that it would be easier for states to balance their budgets transparently if they adopted what’s known as “modified accrual” accounting, instead of a “cash-based” method.

The cash option doesn’t count budget expenses until a bill is paid, instead of at the time when expenses are incurred. Cash accounting opens the door for lawmakers to balance budgets by simply pushing off the timeframe when costs will be paid, while committing the state to spending in the meantime.

Route Fifty

By Bill Lucia,

APRIL 1, 2021

Century Housing Municipal Bond Awarded Sustainability Bond of the Year.

Century’s First Municipal Bond Helped Investors Respond to the Global Pandemic

CULVER CITY, Calif., March 31, 2021 /PRNewswire/ — Century Housing's 2020 Sustainability Bond, which raised $85 million to directly support quality affordable housing throughout California, today received the Sustainability Bond of the Year Award from Environmental Finance in the US muni bond category. These Awards seek to recognize those bonds that excel, innovate in and contribute to the successful development of the market for environmental bonds.

With its June 2020 bond offering, which was twelve times over-subscribed receiving more than $1 billion in orders, Century Housing became the first Community Development Financial Institution (CDFI) to come to market with a municipal bond CUSIP. Century was also the first CDFI to be rated by two leading public credit rating agencies, Fitch and S&P (rated AA and AA-, respectively). The bond carried a second-party opinion by Sustainalytics attesting to both the environmental and social benefits of the housing created and preserved by this bond. Underwritten and marketed by Wells Fargo Securities as sole manager and offered through the California Municipal Finance Authority, the bond was California tax exempt and federally taxable.

Alan Hoffman, Senior Vice President and CFO of Century Housing, said, "It is heartening to see the overwhelming investor interest in affordable housing, especially at a time when the COVID pandemic exposes how vulnerable our low-income families, seniors, and veterans really are to the lack of safe, secure, quality housing. We are honored that the Environmental Finance Bond Awards' judges have recognized Century for its ability to innovate and execute with this bond and hope that the award also reflects our commitment to sustainable, energy-efficient affordable housing in a time of tremendous need."

Century provides financing for all stages in the development of affordable housing including acquisition, bridge, construction and permanent loans. For more than 25 years, Century's expertise and quick, reliable execution have allowed affordable housing developers to secure the financing they need, including all-important early stage financing, allowing them to take advantage of programs including Low Income Housing Tax Credits and current COVID-related federal aid like Project Homekey.

About Century Housing

Century Housing Corporation is a mission-driven CDFI that finances quality, affordable housing throughout California to provide dignified homes, healthy and hopeful futures, and economic independence to the people we serve. From our start as a state agency and through our past 25 years as a nonprofit public benefit corporation, Century has invested more than $2 billion to create and preserve close to 50,000 homes while creating thousands of construction jobs. Century-financed developments showcase a unique legacy of serving our triple bottom line: positive financial, social, and environmental outcomes supporting a more just and sustainable future in the places where help is needed most. Century Housing has offices in both northern and southern California. For more, visit www.century.org/invest.

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Retirees and Bond-Market Volatility: 3 Tips for Navigating Rising Rates

If you're a retiree who bought bonds to stabilize your portfolio, the recent surge in rates has been unsettling. You likely already have been hit with losses, and more are coming if interest rates keep rising as prices and yield move oppositely.

The easiest way to protect yourself is to put your money in short-term bonds less affected by swings in interest rates. Cash is even safer. The problem is that such investments pay little or no interest currently and will drag down the performance of your portfolio over time.

Figuring out which bonds to own is particularly important for retirees who have already started spending their savings. If they suffer a big loss and have to sell depleted assets, their portfolio may never fully recover. While bonds are less volatile than stocks, the Vanguard Long-Term Treasury Index Fund (VLGSX) is down more than 12% to date. That’s a big loss for the supposedly safe part of their portfolio.

So where to turn? Barron’s talked to bond fund managers, market researchers, and financial advisors about when it makes sense to go long for your bond investments and when it makes sense to stay short. The rise in rates has steepened the yield curve. That makes intermediate-term bonds a more attractive investment without all the risks of long-term bonds, our experts told us. In addition, people with brokerage accounts may want to consider higher-yielding bond alternatives like fixed-rate annuities from insurers or savings accounts from online banks, which tend to yield more than brick-and-mortar banks.

Despite the recent surge in interest rates—the yield on the 10-year Treasury bond has shot up more than a point since August—nobody can say where they’re heading now. Some fear that the economy will overheat with all fiscal stimulus from the federal government, and that rates are likely to climb a lot more. Others say any uptick in inflation or interest rates is likely to be brief as the Federal Reserve remains committed to keeping rates low to ensure the economy has recovered from the pandemic.

Mark Kiesel, chief investment officer global credit for bond giant Pimco, is among those who believe that inflation isn’t going to take off and that the rise in interest rates is mostly over. He adds: “You’re looking at a longer-term environment where inflation will be contained around 2%. In that environment, bonds could look interesting.”

If you own bonds or are pondering buying them, here are key takeaways:

Measuring interest-rate risk: When you buy a bond fund, bond ETF, or individual bond, pay attention to its duration. That reflects how sensitive it is to interest rates changes. If interest rates rise by 1%, the value of a bond should drop by 1% for each year of duration.

Longer bonds, because more of their cash flow is far out in the future, are more affected by interest rate drops. The Vanguard Long-Term Treasury Index fund has dropped sharply this year because it has an average duration of 18 years. This fund has a yield of 2.22%, meaning it could take years for it to recover its losses this year.

On the other extreme, the Vanguard Short-Term Treasury Index Fund (VSBSX) has a duration of two years. It has barely been affected by the rate run-up; it is down 0.09% year to date. But it’s not making any money either. Its current SEC yield is a mere 0.10%.

Many investors are best served staying between the two extremes, buying bonds or bond ETFs with an average duration of four to five years, says Larry Swedroe, chief research officer for Buckingham Wealth Partners. The Vanguard Intermediate-Term Treasury Index (VSIGX) has a duration of 5.4 years and yields 0.85%. It’s down just 2.76% this year despite a rapid rise in rates.

“Four to five years has traditionally been the sweet spot on the curve,” says Swedroe, who wrote the book The Only Guide to a Winning Bond Strategy You’ll Ever Need.

Rolling down the yield curve: As a bond owner, it’s important to look not just at the level of rates but also their relationship to each other. A year ago, the yield curve was flat, meaning that longer-term bonds didn’t pay much more than shorter-term instruments. But over the past year, yields on longer- and intermediate-term bonds have climbed sharply while those on shorter instruments have barely budged.

This steeper curve makes it more attractive to hold bonds because of something called rate rolldown. In an upward yield curve like today, bonds naturally pick up value as they age. Currently, five-year Treasuries yield 0.97% and three-year Treasuries yield 0.39%. If you buy that five-year Treasury and sell it two years hence, and rates stay the same, you’ll get a hefty premium on top of the interest you’ll collect. That’s because it is now a three-year Treasury but pays more interest than newly minted three-year Treasuries. The market equalizes this by increasing the price of your bond until the yields are equivalent.

The reality is that interest rates will change during the next two years. But with a steep yield curve, as long as they don’t rise as high as the yield curve is signaling, you’ll be better off buying longer bonds.

“When the curve is flat, you want to be on the shorter side,” says David Plecha, global head of fixed income at investment firm Dimensional Fund Advisors. “When the curve is steep, you want to be on the longer side.”

Dimensional Fund Advisors, which uses techniques pioneered by economist Eugene Fama, analyzes yield curves around the world and buys bonds in the steepest portions to enhance its returns.

Ordinary investors aren’t going to do that sort of analysis. But they will still see their bond returns improved by steeper yield curves if interest rates don’t shoot up.

Don’t forget why you bought bonds in the first place: In an era when rates are low, the temptation is to venture into riskier investments like high-yield bonds to get better returns. If you own bonds to stabilize your portfolio, resist it.

“We view fixed-income in the portfolio as ballast before anything else,” says Scott Keller, director of investment management at Truepoint Wealth Counsel, a Cincinnati financial advisor. “It’s not about maximizing income.”

Lower-quality corporate bonds perform more like equity, rising and falling sharply with the economy, or with the prospects of particular companies. That means when your stocks get hammered, these issues are likely to tumble instead of stabilizing your portfolio.

Bond managers study credit curves just as they study yield curves. When there’s a premium for investing in riskier bonds, they go out further on the credit curve, taking on riskier issues

That’s not happening now. Credit spreads have tightened since last summer as the economy improved. Rob Galusza, who manages short- to intermediate-term diversified bond funds for Fidelity Investments, says he has become more selective in which corporate issues he buys.

“We generally become more defensive when spreads are tight,” he says.

Barron’s

By Neal Templin

April 3, 2021 8:00 am ET

[Unconstrained Bond Funds Struggled in Good Times. But They Might Just Be the Answer as Yields Rise.]

Be careful what you wish for. Bond investors, who have spent the past decade bemoaning the difficulty of finding yield, are now contending with losses caused by rising yields in their bond funds. The solution may come from an unloved sector—unconstrained bond funds.

Like liquid alternatives, unconstrained bond funds emerged in the wake of the financial crisis, as fund managers anticipated that the economic recovery would cause the Federal Reserve to raise interest rates, driving up Treasury yields and pushing down prices of long-term bonds.

The idea was that star bond fund managers—once freed from the constraints of traditional style boxes—would be able to go further afield than traditional core bond funds, which usually limit themselves to high-quality government and corporate bonds. Instead, unconstrained (also called nontraditional) funds were designed to protect investors against losses that come with rising yields by making unconventional calls, such as betting on Treasury-market losses and delving into riskier and more esoteric corners of debt markets, sometimes even owning stocks.

It didn't work out that way. While the category saw assets grow more than tenfold between 2008 and 2015, according to S&P Global, it was soon beset by concerns about high fees, risks introduced by the unusual level of manager autonomy, and the inherent difficulty of evaluating a diverse category without a clear benchmark or theme. The category's assets now total $148 billion, according to Morningstar, only about 6% more than they had in 2015, when Josh Brown of Ritholtz Wealth Management wrote that investing in the category was "the biggest mistake" investors were making.

"The next time the [stock] market goes offsides, I want Treasuries," says Michael Batnick, director of research with Ritholtz Wealth Management. "If rates do continue to rise and we get a regime change, this would be a better opportunity for non-traditional bond funds, because the past five years have been pretty tough."

In other words, if there were ever a time for unconstrained bond fund managers to prove their worth, this is the year. Bond markets have been hammered by rising Treasury yields. Safer corporate and government bond markets have near-record levels of duration, or sensitivity to increases in benchmark yields. In fact, the non-traditional bond fund category is up 0.7% so far this year, compared to a loss of 3.2% for corporate bond funds, according to Morningstar.

"Unconstrained bond funds can be a lot more tactical, can dial down the duration, and opportunistically go into markets like emerging-market debt or high yield when those sectors make sense," says Bob Michele, chief investment officer for fixed income at J.P. Morgan Asset Management.

Nontraditional funds' flexibility is important today because investors don't have many good options in fixed income. "Safe" bonds, which investors typically use for capital preservation, have experienced significant losses as Treasury yields rise. For example, the $1 billion JPMorgan Unconstrained Debt fund (ticker: JSIAX), which Michele manages, had investment-grade corporate bonds and mortgages as its biggest allocations earlier this year, which are relatively sensitive to yields. The fund has posted a 0.2% loss so far this year, according to Morningstar. While that lagged behind the category, it still easily beat the 2.6% loss posted by core intermediate bond funds.

High-yield bonds remain fairly attractive, Michele says, as riskier companies should keep benefiting from the recovery. His fund has 28% of assets in high-yield or unrated bonds.

“Nothing is cheap,” says Gene Tannuzzo, head of global fixed income at Columbia Threadneedle Investments. “In many rising-rate environments, you can substitute credit risk for interest-rate risk and perform better. There’s some truth to that still, but you have to be careful when your starting point is that credit spreads are already tight.” He compared today’s markets to the first nine months of 2018—while there was no pandemic overhang, there was plenty of concern about the economy overheating, which drove up long-term bond yields.

Tannuzzo helps manage the $6 billion Columbia Strategic Income fund (COSIX), which has been buying residential mortgages that aren’t guaranteed by agencies, since they offer better valuations than the high-yield bond market more broadly.

Treasury yields are expected to keep rising—for a while, at least—as the government’s $1.9 trillion in Covid-19 aid boosts the U.S. recovery. Losses in the iShares 20+ Year Treasury Bond exchange-traded fund (TLT) have added up to nearly 13% this year.

“That’s equity-like returns, but in the wrong way,” says Rick Rieder, chief investment officer of global fixed income at BlackRock, who manages the $39 billion BlackRock Strategic Income Opportunities fund (BASIX). “People don’t expect AAA-rated assets to be down [that much] in three months.”

The near-term outlook isn’t much better for other highly rated bonds. Corporate debt valuations are near, and in some cases richer than, levels from before the pandemic. And the investment-grade bond market’s duration, or its sensitivity to changes in Treasury yields, reached an all-time high last year. It is still higher than it has been at any time before 2020, after companies issued record amounts of debt with low coupons and long maturities to refinance debt sold to weather the pandemic.

Even with the recent rise, bond yields remain very low relative to inflation: The ICE BofA Corporate Bond Index yields 2.2%, while market gauges reflect inflation expectations around 2.6% over the next five years.

Yields are so low that Rieder is buying stocks; they make up more than 5% of assets. He says stocks provide a free-cash-flow yield that easily beat yields on Treasuries—and stocks aren’t going to keep posting quarterly losses if yields rise further. Rieder is also bullish on floating-rate loans, bank debt, floating-rate preferred shares, and plays on the recovery.

Rieder isn’t alone venturing into equities, which creates questions about the role of unconstrained funds in a portfolio; fixed income is often seen as a portfolio hedge to offset stock market declines. But as the market’s interest-rate sensitivity has climbed in recent years, the performance of more staid sectors have seemed unusually volatile. Corporate bond funds, for example, lost 2.5% in 2018, and then returned 13% and 9.2% in 2019 and 2020, respectively.

Unconstrained managers say they can help diversify and offset losses investors might experience in years like this one, because the funds are meant to provide exposure that isn’t strongly correlated with the broader bond market.

“We wouldn’t be pounding the table for people to get out of traditional [bond] funds, but to look for diversifiers, or enhanced flexibility in an overall portfolio,” says Marc Seidner, manager of the $3.7 billion Pimco Dynamic Bond fund (PUBAX).

One larger reason for caution is that unconstrained managers are able to make larger, more concentrated bets that can go wrong. The $13.8 billion Templeton Global Bond fund (TPINX) saw a 4.4% loss last year after betting that the Treasury market would fall, before yields dove during the pandemic. The firm closed the bet in the first quarter of 2020, but still experienced the most outflows of any fixed-income fund last year, according to Morningstar.

While it is difficult to anticipate a pandemic, the losses do highlight a risk of active management that’s ever-present in unconstrained funds: Managers have the ability to make large bets that can go wrong. And broadly, investors need to do extra research before buying nontraditional funds, which don’t fit neatly into style boxes or invest in a single market.

For example, some invest primarily in international debt, such as the $4.3 billion T. Rowe Price Dynamic Global Bond fund (RPIEX). Others, such as the MetWest Unconstrained Bond fund (MWCRX), are invested in investment-grade residential mortgage-backed securities—some sectors offer higher carry because of technical quirks, says manager Steve Kane.

Some of the funds in the category are focusing on securitized markets, which can provide extra yield because of their complexity and difficulty of access. The $370 million FPA Flexible Income fund (FPFIX) was launched in 2019 as a slightly riskier companion to the $10.5 billion FPA New Income (FPNIX) profiled by Barron’s last year; it is also invested in auto loans and collateralized loan obligations with low durations.

It is important to note that investors can now find more protection from an economic slowdown—if not inflation-adjusted yield—in higher-quality bonds than they could at the beginning of this year. Pimco’s Seidner has been tiptoeing back into longer-term debt after this year’s selloff.

“It’s not inconceivable to see a 10-year yield above 2%, but we’re starting to enter the zone where longer-term value is being created in the bond market,” he says, in areas like higher-quality debt and Treasuries. Yields are also likely to top out at lower levels than in the past, he says, thanks to longer-term trends like demographics and technology changes.

Broadly, investors should keep in mind that any higher-yielding funds they buy—no matter which category they’re in—are getting their yield from some type of risk. And this year’s selloff in long-term debt should remind investors that defaults aren’t the only problem bonds can face: Interest-rate risk can be a problem too. When managed well, unconstrained funds may help contain it.

Barron’s

By Alexandra Scaggs

April 2, 2021 6:57 pm ET

Bond-Market Penalties Fade for States Seeing a Federal Windfall.

- **Coming influx of federal cash eases prior credit concerns**
- **New York bond spreads dip to lowest levels in three months**

As far as Wall Street bond traders are concerned, President Joe Biden's rescue has effectively erased the fiscal problems of America's states.

The nearly $200 billion of direct aid coming to states from Washington is promising to make up for the fiscal hit of the pandemic, with the amount for some poised to be more than enough to close their budget shortfalls.

The coming influx of cash has eased some of the credit concerns for states that were looking for ways to cover revenue losses and right their finances at the height of the pandemic. That means investors aren't pricing in a lot of risk when it comes to states, leaving the yields on most of the state bonds tracked by Bloomberg hovering within basis points of each other.

"The stimulus is a game changer" said Cooper Howard, director of fixed income strategy at the Schwab Center for Financial Research, noting that most state and local governments suffered a less substantial financial hit from the pandemic than they were initially expecting. "Essentially, they're getting a lot of money on what was already an OK starting point."

The yield on New York's 10-year general-obligation bonds has dropped to 4 points less than the AAA benchmark, according to Bloomberg BVAL indexes, even though the state doesn't have the highest rating. Minnesota's yields are also below the benchmark, while Ohio and Washington state bonds are paying just 5 basis points above it.

Overall, general-obligation bond spreads for 16 of the 20 states tracked by Bloomberg are within 15 basis points of each other. Even for an outlier like near-junk rated Illinois, the yield penalty it's facing has dropped to 1.2 percentage points from as much as 4.4 percentage points in May.

Those narrow credit spreads, which shows that investors see little difference in the risks, are likely to persist, said Jeff Lipton, a managing director and municipal debt analyst for Oppenheimer & Co. He attributed those low yield differences to the federal aid, an improving economy, and a steady tide of cash flowing into municipal bond funds.

"The multiple rounds of fiscal relief has certainly contributed to renewed credit stability and preservation of currently tight spreads," Lipton said. "Market technicals will remain a driving force for muni performance."

Bloomberg Markets

By Fola Akinnibi and Anastasia Bergeron

March 25, 2021, 11:04 AM PDT

— With assistance by Danielle Moran

Municipal Markets and the Municipal Liquidity Facility.

Municipal bond markets experienced a significant amount of strain in response to the COVID-19 crisis, creating liquidity and credit concerns among market participants. During the economic shutdown resulting from the pandemic, income tax revenues were deferred and sales tax revenues decreased beginning in spring 2020, while the cost of borrowing significantly increased for municipal issuers. To aid municipal borrowing needs, the Federal Reserve implemented the

Municipal Liquidity Facility (MLF) on April 9, 2020. In this analysis we describe the municipal market conditions as they evolved during 2020, we document the response by the Federal Reserve to municipal market distress with a focus on the MLF, and we conduct an event study to examine MLF-related impacts on market index yield spreads. We detail two case studies that compare yield spreads for two issuers that had sold debt to the MLF and find that yield spreads in secondary market transactions for these two issuers were notably reduced after a public announcement of intent to sell debt to the MLF. Our results present additional evidence that the MLF had a positive impact on municipal market functioning during the pandemic period.

Read the paper.

Federal Reserve Bank of Cleveland.

03.22.21

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

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

Download

Fitch: U.S. State Employment Growth Largely Flat to Start 2021

Fitch Ratings-New York-25 March 2021: State employment began the year essentially stagnant, though Fitch Ratings' latest U.S. States Labor Markets Tracker points to a more promising second half of 2021.

States seeing marginal employment declines in January were California, Hawaii, Arkansas, Nebraska, North and South Carolina, Louisiana and Tennessee. The January official unemployment rate improved overall, though the Fitch-adjusted rate weakened for six states (Connecticut, Louisiana, Minnesota, Missouri, Texas, and Vermont), given declines in those states' labor force.

"Economic activity is expected to pick up in the second half of the year with additional fiscal support and greater vaccination rates allowing for lifting restrictions, supporting a stronger jobs recovery," said Senior Director Olu Sonola. However, severe delays or setbacks in immunization strategies remain a key risk and will weigh on the pace of economic and labor market recovery well into 2021.

Minnesota, New York, New Jersey, Louisiana, Wyoming, Washington, Alaska, Oregon, Illinois, California, New Mexico, North Dakota and Hawaii have recovered less than 50% of the jobs lost at the peak of the pandemic. Employment losses are still largely dominated by the leisure and hospitality industries, representing 40% of all state job losses since February 2020, despite making up only about 11% of total employment before the onset of the pandemic. These sectors continue to show significant signs of weakness, given government travel restrictions and consumer reluctance to travel.

Fitch's latest "U.S. States Labor Markets Tracker" is available at www.fitchratings.com.

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Fitch: Healthcare Expansion Under ARP Positive for NFP Hospitals

Fitch Ratings-New York/Austin-24 March 2021: The American Rescue Plan (ARP) contains a number of measures that would subtly improve the revenue profile and reduce cost pressures for not-fo--profit (NFP) hospitals, Fitch Ratings says. In contrast to the Coronavirus Aid, Relief and Economic Security (CARES) Act, which allocated funds directly to hospitals based on size and coronavirus caseload numbers, the ARP only provides direct aid to rural providers. However, the ARP will help support hospital patient revenues by reducing the number of those who are uninsured, which is a credit positive for hospitals.

The most significant measures temporarily subsidize healthcare coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA), subsidizing the premium at 100% through the end of September; provide additional funding/incentives to expand Medicaid coverage in those states that have not yet done so; and expand Affordable Care Act (ACA) premium subsidies.

Medicaid expansion would have a materially positive effect on providers in states that choose to expand, as it will reduce exposure to uninsured patient revenue risk with a commensurate increase in Medicaid volume. The law increases the Federal Medical Assistance Percentage (FMAP) by 5pp for two years for states that have not already expanded Medicaid. States that expanded during the public health emergency may also receive the coronavirus 6.2pp FMAP increase. When Medicaid expanded in 2014–2015, upgrades of Fitch’s rated credits outpaced downgrades by 3:1.

The ARP reduces insurance premium costs for plans offered through the ACA by increasing tax credits along with capping premium contributions at 8.5% of income for mid-level health plans. Those who earn 100% to 150% of the federal poverty level will not pay any premiums. Congress could potentially make some of these measures permanent, supporting the Biden administration’s goal of improving access to healthcare.

In line with greater Medicaid coverage, the law increases Medicaid coverage for coronavirus testing and treatment and clarifies that the federal matching rate for vaccinations is 100% for those covered by Medicaid. The ARP also allocates $50 billion for the Disaster Relief Fund, which could be used to help hospitals with personal protective equipment and other supplies.

The recent confirmation of Xavier Becerra as Secretary of the U.S. Department of Health and Human Services, who is considered a strong supporter of ACA expansion, is seen as further confirmation of the expected direction of healthcare policy. The Centers for Medicare and Medicaid Services (CMS) announced earlier this year that it plans to rescind approvals granted by the Trump administration that allowed states to implement work requirements in order to qualify for Medicaid.

S&P: State, Local Government, School District, And Charter School Sector Views Revised Back To Stable

Key Takeaways

- S&P Global Ratings has revised its 2021 sector views for the U.S. state, local government (including school district), and charter school sectors to stable from negative given our view of stronger economic growth for 2021 and beyond.
- Federal funds through the American Rescue Plan (ARP) provide significant financial support to these sectors and other provisions of ARP will accelerate recovery from the pandemic and the recession.
- Material cuts, deferrals, or delays in funding to schools and local governments is unlikely given stronger-than-budgeted state revenue performance coupled with federal stimulus funding.

Continue reading.

Citigroup, Baird Diverge Over Risk in Student-Loan Muni Debt.

- **Citi says lack of transparency makes risk gauging ‘impossible’**
- **Baird, a big owner of loan agency debt, sees it differently**

Citigroup Inc., one of the biggest Wall Street underwriters, on Monday advised investors to avoid bonds sold by state student loan agencies, citing the risk that more graduates will need to get temporary reprieves from their debts.

A big buyer of the bonds disagrees.

Baird Advisors, which by the end of last year owned almost $200 million of municipal bonds sold by student-loan agencies, disputed Citigroup’s view that a “lack of transparency makes it impossible” for an investor to judge the risks if growing numbers of borrowers default.

Student-lending agencies in New Jersey, Missouri and Pennsylvania are among those that post quarterly loan updates and servicing reports for bondholders, said Joe Czechowicz, a portfolio manager at Baird. In addition, investors are protected from temporary cash-flow interruptions because, in most cases, the collateral for muni student-loan bonds exceeds the amount issued.

“The forbearance rates are not that high and there’s enough overcollateralization that if there was an extension of one year it shouldn’t be a credit issue for any of these borrowers,” said Czechowicz, citing bonds sold by New Hampshire in February that would still be able to provide full payments if almost 40% of the loans defaulted. “If 50% of the portfolio goes into forbearance, yes, we’re going to have a completely different discussion in terms of what these student loan authorities can handle.

But we’re nowhere near that.”

Lighter Regulations

The debate highlights how the loose disclosure rules that govern the $3.9 trillion municipal market can pose challenges to even the most astute professionals, given lighter regulations that apply to state and local debt issues.

Vikram Rai, Citigroup’s lead muni analyst, declined to comment.

State agencies have about $18 billion of bonds backed by student loans outstanding, about $380 million of which will mature in the next 12 months, according to data compiled by Bloomberg. Since 2010, state student loan agencies haven’t issued federally guaranteed loans, though some state agency bonds that packaged such securities remain outstanding. Currently, states issue bonds to make private loans that aren’t federally backed.

When the coronavirus shuttered the economy last March, throwing tens of millions out of work, the U.S. Department of Education suspended loan payments, stopped collection on defaulted loans and adopted a 0% interest rate on its loans. The government extended the forbearance multiple times and President Joe Biden’s administration recently extended the period to Sept. 30. Some private lenders also offered forbearances for as much as 90 days.

Baird primarily invests in private student loans, which have lower forbearance and default rates and tend to be offered to graduate or medical students with high credit scores and better earnings potential, said Czechowicz.

“You’re not looking at the nineteen year old or twenty year old kid going to undergrad; you’re looking at the 35 year-old in that last couple years of residency of a medical program,” he said.

Balance Sheet

Citigroup’s analysts in their note Monday said there’s a risk that bonds maturing in the coming year will default. The analysts didn’t say how many bonds were at risk.

Jeff Wagner, an investment banker at the Royal Bank of Canada who specializes in student loan bonds, said he wasn’t aware of any impending defaults.

“It’s true that the Biden Administration extended the payment moratorium on federal student loans, but we see no looming crisis ahead because of legal final maturity issues on nonprofit or state agency transactions secured by them,” Wagner said.

RBC managed almost $7 billion of muni student loan bond sales between 2016 and 2020, according to a spokesman. The firm underwrote more than 60% of new deals during the period, according to data compiled by Bloomberg.

When student loans are in forbearance, state student loan agencies can use their balance sheet to ensure bondholders are paid on time, said Czechowicz. State student loan agencies also have the power to intercept tax refunds if students become delinquent and New Jersey’s agency even has the power to garnish wages and even withhold tuition aid grants.

“Those types of levers provide an extreme incentive to continue to pay and or work with the issuer itself,” he said.

Bloomberg Markets

By Martin Z Braun

March 23, 2021, 10:29 AM PDT Updated on March 23, 2021, 11:54 AM PDT

Inviting Danger: How Federal Disaster, Insurance and Infrastructure Policies are Magnifying the Harm of Climate Change

EXECUTIVE SUMMARY

Many government policies create incentives for people to make economically detrimental decisions, including settling and building on land exposed to hurricanes, floods, and wildfires. These policies already cost taxpayers tens of billions of dollars annually and may cost a lot more by distorting the allocation of trillions of dollars of capital into danger-prone areas. Market forces that are normally powerful arbiters of risk are blunted by the assumption that losses, if they happen, will be repaid by government. Worse, where these policies amplify dangers that effect is likely to become more severe due to the impacts of global warming.

We introduce a framework for analyzing how federal spending patterns under current and possible future policies may shield or remove individuals, firms and local governments from some of the financial harm created by decisions they take—what economists often call “moral hazard.” Whereas these actors are often in a good position to make decisions that reduce exposure and damage from natural perils, in the presence of moral hazard they could make different decisions that, in effect, shift the cost of their choices.

What’s new in this paper is a framework for looking at individual policies and government programs according to how they affect the damages associated with natural disasters. We focus on the subset of those disasters that could be affected by climate change and thus exclude earthquakes, tsunamis and others whose incidence is unlikely to change in a warmer world. We distinguish between those that merely aim for simple recovery after peril hits—thus prone to create moral hazard if they discourage efforts to reduce dangers—and policy programs that aim to improve resilience against future perils. While there are many diverse domains of federal policy, we focus on policy programs in three areas: a) disaster response, b) building and maintenance of infrastructure; and c) subsidization of insurance for perils such as flood and crop losses.

Such a framework is essential because these policies are often highly complex, with varied goals that implicate agency action that are diffused across the whole of the federal government. For example, even within a single agency implementing a common core set of statutes—the Federal Energy Management Agency (FEMA)—some programs aim at resilience while most focus only on recovery. In FEMA’s case, we find that just 14 percent of the 81 billion dollars in total disaster grant funding spent since 2005 have gone to programs that aim to advance resilience to climate related disasters—smart building and rebuilding. Outside that tiny fraction, most of FEMA spending has gone into activities, such as rebuilding, that have the unintended effect of encouraging risky siting decisions and other behaviors that may discourage those best prepared to address these risks from being fully responsible for adverse outcomes. Loans and grants managed by Housing and Urban Development (HUD) also exhibit funding differences that can propagate behavior that could invite risk rather than build resilience. Flood and crop insurance programs can create similar incentives that insulate homeowners, farmers, and businesses from the consequences of risky behavior.

Federal infrastructure investments also, for the most part, focus on recovery and response to today's patterns of disasters rather than planning for the changing climate of the future.

The value of a framework is the ability to look across the entirety of the federal government. Quantifying the exact impact of the misallocation of risk costs, or moral hazard aspects of these programs is very difficult not just because they are diffused across government but also because the programs that create these adverse incentives co-mingle worthy policy goals (e.g., protecting vulnerable populations that are living on the edge already) with unintended consequences that can create moral hazard and shift the costs of that hazard to the federal government. Assessing how spending affects behavior—ultimately by individual homeowners and others—is outside the scope of this paper. Our purpose is to take the first step in such a full blown analysis, understanding the allocation of policy effort, that can create the conditions for moral hazard.

A central finding from applying this framework is that there is currently a 7:1 ratio of disaster recovery to resilience funding across the federal government. While there is substantial evidence that resilience funding generates large social returns, in practice federal spending on climate-related disasters appears to be heavily weighted away from resilience. We find this ratio can be as high as 40:1 depending on the accounting system used. The exact size of this cost differential is hard to pin down, but a central estimate today suggests that the federal government currently spends at least about $46 billion per year responding to and recovering from large natural disasters, and only $6 to 7 billion on resilience towards future perils. However, that number does not account for the full federal backstop—the implicit promises of assistance that are widely assumed to exist when massive losses, such as extreme hurricane seasons, arrive. That backstop has been tested periodically—for example, by superstorm Sandy—and found robust (and thus valuable and costly but hard to measure).

The practice of focusing federal disaster policy on recovery reflects many political forces, including support for important humanitarian goals. However, there are three reasons to expect that the cost will grow and, plausibly, become unsustainable politically and also more distortionary economically. First, population migration already trends toward dangerous areas—such as hurricane-beset Florida and Texas. Second, property values rise as these more crowded populations get wealthier. These two factors alone explain the majority of the rise in extreme storm losses over the last 3 decades, and that trend is likely to continue. The third factor—climate change—is newer and will magnify these effects. By mid-century, it is plausible that the flow of annual federal expenditures on climate related disasters will need to rise significantly, and by later in the century the increases due to climate change will exceed the effects from population and economic growth. We compare current average annual payments for FEMA declared disasters over the last decade against the expected economic loss in 2012 if the climate conditions projected for last decades of the century existed in 2012 and find the latter to be 1000 times greater on average, with lots of variation across the country. The Congressional Budget Office (CBO), Government Accountability Office (GAO) and other agencies, along with some academics and many state policy makers and experts in the corporate sector, have begun to look closely at this because it is so fundamental to public finance and to expectations for the size and character of future natural hazard policies.

Policy reform will be challenging. At present, federal policies are shrouded in deep layers of political defense, which is why these widely known problems with the current arrangements have not led to much durable reform. There are many encouraging pilot efforts to re-align incentives and reduce moral hazard—for example, FEMA's efforts to buy out properties that suffer repeated losses rather than simply funding rebuilding that leads to repeated cycles of loss. Such efforts, overall, have only small effects on overall expenditure and many come unglued politically when they operate as intended. Reforms to raise flood insurance premiums in 2012, a good idea, came unglued politically when homeowners and the real estate industry balked; Congress rolled the premiums back just two years later.

Mindful of the political challenges, it is essential to pursue policy reforms in advance of accelerating impacts of climate change. We explore scenarios that could open a window of opportunity for reform. A massive event is one such scenario, for such shocks allow for a reordering of political forces. This happened briefly after superstorm Sandy when special Congressional appropriations allocated between one-third and one half of funding for smart rebuilding—a share much larger than normal disaster recovery programs. The probability of such an event is rising, and the country needs to recalibrate and plan for how it might respond not just immediately but in terms of larger disaster policy reforms. When Hurricane Andrew hit Florida in 1992 it caused $26.5 billion in total economic damages; the same event today, with more people and value at risk, would be $80-100 billion. And it's not just large events that can create a crisis. Other scenarios see multiple small and medium size events over a short period of time that ripple through the insurance markets and create cascading financial stress. Florida, even with one of the most sophisticated private-public frameworks for funding disasters in the U.S., is primed for such an unravelling. With its $2.6 trillion of exposed insured residential values through public and private insurers, the Florida economy would be dependent on the viability of post event financing and assessments of policyholders and taxpayers to recover financially from an unusually severe hurricane season.

We outline reforms, with an emphasis on the value of tracking the difference of recovery vs. resilience spending so that the full picture (and its potential imbalances) can be understood. Such improved situational awareness will require more action in Congress to account for spending along with more analysis of how moral hazard may be amplifying the nation's exposure to natural disasters. No regular government accounting activity tabulates the full extent of programs that may create moral hazard through federal policy. We also see a role for the US National Climate Assessment, a regular analysis of the possible impacts of climate change on the country, as one of the places where better understanding of how federal and state policies are affecting behavior could alter the actual damages the country suffers from climate change and the response strategies that might reduce those damages. In addition to better awareness of the effects of these federal policies, we identify ways for the whole of the federal government to operate more strategically in this domain. Finally, we suggest that major reforms of disaster assistance, while politically challenging, would benefit from more explicit political design so they contain interlocking elements that are likely to be more durable. A policy commission, similar to the commissions that help design policies for closure of military bases (a politically fraught topic with many of the zero sum dynamics that make disaster reform difficult) could be helpful. We also suggest that reforms are most likely in the context of crisis, and thus there is a need for realism about when reforms can be accomplished—laying the foundation of more situational awareness and more politically savvy reform packages will lay the groundwork for change when the opportunity arises.

Over the last few cycles of executive control, it has become apparent that neither political party has a strategy for realigning disaster assistance in ways that make it more financially sustainable nor create the right incentives to make society more resilient in the face of climate change. Most policies have focused on "building back the same," and the public for the most part has been supportive. While that might have been tolerable in an era of modest impacts from natural disasters, that era is ending. An urgent national priority is creating the right incentives so that private and public sector investments reduce the future damages from climate change and make the country more resilient.

Download the full report

The Brookings Institution

by Sadie Frank, Eric Gesick, and David G. Victor

Wednesday, March 24, 2021

[S&P: U.S. Not-For-Profit Transportation Infrastructure Sector View Is Now Stable For Airports, Mass Transit, And Toll Roads]

Key Takeaways

- We have updated our forward-looking sector view on the U.S. airport, mass transit, and toll road asset classes to stable from negative due to improving health and safety conditions, higher economic growth forecasts, encouraging demand trends, and, in particular, more than $38 billion in additional direct federal grants authorized for transit and airport operators under the $1.9 trillion American Rescue Plan (ARP).
- The significant level of federal grants will provide flexibility for transit and airport management teams to achieve sustainable and balanced financial operations as activity levels recover.
- The sector view for parking revenue-secured ratings remains negative as we monitor how the recovery extends to more local and regional demand drivers for this asset class. Our stable sector views on the port and federal grant-secured asset classes are unchanged.
- We will review negative outlooks assigned to specific ratings as activity levels improve and could revise them to stable in groups or individually if credit-specific conditions warrant.

Continue reading.

24 Mar, 2021

[Build America Bonds May Be Key To Financing Biden's Infrastructure Plans.]

KEY POINTS

- The country's overall infrastructure needs over the next 10 years total nearly $6 trillion, and lawmakers are split on how to pay for it.
- Citigroup's head of Citi's municipal bonds strategy, thinks he has the answer: a resurrection of Build America Bonds.
- The bonds allow states and counties, which manage the majority of U.S. infrastructure, to float debt with interest costs subsidized by the federal government.

Continue reading.

CNBC

by Thomas Franck

FRI, MAR 26 202

[$3T Biden Infrastructure Plan a 'Catalyst' for Munis: Invesco's Paris]

In this week's "Muni Moment," Mark Paris, head of municipals at Invesco, discusses the impact of U.S. President Joe Biden's infrastructure spending plan on the municipal bond market. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

March 24th, 2021

White House Infrastructure Details Slowly Emerge.

BDA and MBFA Continue to Engage with Hill and Administration Promoting Bonds

While nothing has been officially released, details continue to trickle out of the White House on the parameters of a likely $3 trillion spending plan on infrastructure. As part of the Biden Administrations Build Back Better plan, following the passage of COVIDstimulus, infrastructure is next on the docket. More on this belowThe BDA and MBFA continue to engage senior staff on both Capitol Hill and the Administration on the inclusion of muni infrastructure priorities in the package.

This week, the BDA Board is hosting House Ways and Means Chairman Richard Neal (D-MA) to discuss the Committee agenda for bonds and timing for passage. Later in the week, the MBFA Steering Committee is hosting the legislative staff of Senator Roger Wicker (R-MS), the sponsor of the *LOCAL Infrastructure Act* that would fully reinstate tax-exempt advance refundings in recent weeks.

Initial WH Plan Details

While bonds are expected to play a significant role in the formalized plan, initial leaked details lay out a massive spending plan aimed at a significant investment in a broad range of infrastructure.

These details include:

- $400 billion in spending to combat climate change including $60 billion for infrastructure related to green transit and $46 billion for climate-related research and development;
- The plan also would aim to make electric vehicle charging stations available across the country;
- $200 billion for housing infrastructure, including $100 billion to expand the supply of housing for low-income Americans.

We will continue to provide updates as they become available, including read-outs of both Hill-related events this week.

Bond Dealers of America

March 22, 2021

Fully Funded U.S. Public Pensions Not Necessary to Ensure Benefits.

March 24 (Reuters) – Most U.S. state and local government pension systems are not facing imminent crisis and do not need to achieve full funding to ensure benefits are paid to retired workers, according to a paper released on Wednesday by the nonprofit public policy Brookings Institution.

Retirement plans for state and local government workers have nearly $5 trillion in assets, but would need an additional $4 trillion to meet all of their obligations to current and future retirees, according to the paper.

Concerns over unfunded liabilities have weighed on credit ratings for some governments and sparked fears that certain systems could run out of money.

The study found that cash-flow pressures should start to ease in 20 years due to pension reforms that lowered or eliminated annual cost-of-living adjustments to pension payments and reduced retirement benefits for new hires.

“We find that pension benefits payments in the U.S., as a share of the economy, are currently near their peak and will remain there for the next two decades,” the paper said. “Thereafter, the reforms instituted by many pension funds will gradually cause benefit cash flows to decline significantly.”

Instead of striving for full funding, the paper suggested that under conservative discounting of liabilities and modest asset investment return assumptions, many systems can achieve financial stability with “relatively moderate” adjustments to their pension contributions.

“Plans can be sustainable in the sense that benefits are payable for the foreseeable future, while pension contributions are stable without being fully funded,” said Louise Sheiner, a Brookings policy director and co-author of the paper.

The study, which examined 40 state and local retirement systems to determine if or when they would become insolvent under their current benefit and funding policies, said reduced pension spending would allow governments to increase funding in areas like education and infrastructure.

(Reporting By Karen Pierog Editing by Marguerita Choy)

Wed, March 24, 2021

The Sustainability of State and Local Government Pensions: A Public Finance Approach

What must state and local governments do to make their public employee pension plans sustainable? Less than many analyses conclude, according to a paper discussed at the Brookings Papers on Economic Activity (BPEA) conference on March 25.

The paper—by Jamie Lenney of the Bank of England, Byron Lutz of the Federal Reserve Board, Finn Schüle of Brown University, and Louise Sheiner of the Brookings Institution—suggests that, for the United States as a whole, state and local pension debt can be stabilized with relatively moderate fiscal adjustments. (They offer an important caveat: Plans vary significantly, and some do require very large funding increases.)

Their findings, however, imply that many state and local governments may be able to spend more than assumed on improving their educational systems and economically important infrastructure.

Continue reading.

The Brookings Institution

by Jamie Lenney, Byron Lutz, Finn Schüle, and Louise Sheiner

Wednesday, March 24, 2021

TD to Buy Headlands for Push Into Quantitative Bond Trading.

- **Headlands provides fully automated market-making services**
- **Toronto-Dominion has said it's open to deals amid downturn**

Toronto-Dominion Bank agreed to buy Headlands Tech Global Markets LLC, a quantitative fixed-income trading company, to help expand in the municipal and corporate bond markets.

Headlands, with 15 employees and offices in Chicago and San Francisco, was founded in 2013 and has proprietary software that offers fully automated market-making services, Toronto-Dominion said in a statement Tuesday. Financial details of the purchase weren't disclosed, but the bank said it will have a "minimal impact" on capital.

"This acquisition further strengthens our electronic bond-trading infrastructure and underscores our commitment to delivering data-driven innovation and growing our global platform," TD Securities Chief Executive Officer Bob Dorrance said in the statement.

Toronto-Dominion said in January it was open to acquisitions that take advantage of the economic downturn, and much of the speculation was that the bank might look to add to its U.S. retail footprint. The bank has about C$12 billion in capital beyond what it would need to maintain the 11% common equity tier 1 ratio that banks generally target, meaning it has capacity for a large acquisition.

So far though, the bank has announced only relatively small takeovers this year. In addition to the Headlands deal, Toronto-Dominion in January said it was buying Wells Fargo & Co.'s Canadian direct equipment finance business, which has about C$1.5 billion in assets and 120 employees across the country. Financial terms of that deal weren't disclosed either.

Toronto-Dominion was little changed at C$82.10 at 9:50 a.m. in Toronto. The shares have risen 14% this year, matching the gain for the S&P/TSX Commercial Banks Index.

Banks have benefited from a surge in trading volume as the pandemic roiled markets, boosting results in their capital markets divisions. In the fiscal first quarter, Toronto-Dominion reported wholesale-banking revenue of C$1.31 billion, up 25% from a year earlier, on higher trading-related revenue and loan, underwriting and advisory fees.

Toronto-Dominion gets a relatively small portion of its revenue from capital-markets activities. The lender generated only about 11% of its fiscal 2020 revenue from wholesale banking, while rival Royal Bank of Canada got 21% of revenue from its capital-markets division.

Bloomberg Markets

By Kevin Orland

March 23, 2021, 4:31 AM PDT Updated on March 23, 2021, 6:52 AM PDT

— With assistance by Steve Dickson

S&P: Across U.S. Public Finance, All Sectors Stand To Benefit From The American Rescue Plan

Key Takeaways

- The American Rescue Plan's funding will support credit quality of issuers across all U.S. public finance sectors.
- The plan's flexibility will afford issuers the opportunity to address unique financial and economic challenges associated with the pandemic.
- Many of the initiatives will support a more robust economic recovery across the country.

Continue reading.

March 18, 2021

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

Read the S&P Report.

March 18, 2021

When State and Local Governments Can Expect to Receive Stimulus Funds.

The Treasury Department is still working on guidance that will better inform states of how they can use the money. But aid for cities and counties must be distributed within 60 days of the law's passage.

It could be weeks before state and local jurisdictions begin receiving payments from the federal government as part of a $350 billion direct aid program included in the massive coronavirus relief bill passed this month.

Local governments are likely to begin receiving money before states, due to stipulations in the American Rescue Plan Act. The Treasury Department has 60 days from the law's enactment to release the first tranche of funding to cities and counties—in this case a mid-May deadline.

"We have not heard major concerns about that timeline and how those funds will be administered," said Eryn Hurley, associate legislative director at the National Association of Counties.

Once counties receive the money, Hurley expects they “will be able to use that very quickly and effectively.”

The process for states could take longer as the Treasury Department is still working on guidance that will help administer the payments. States are required to sign certification documents attesting they will spend the money only in certain ways prescribed by the law. Those documents have yet to be published, but after states certify, the department has 60 days to release initial aid payments to them.

Some state officials have already expressed concern over a last-minute addition to the law that restricts states from using the money to pay for tax cuts. Republican attorneys general have asked the Treasury Department for more clarity on how that mandate will be enforced.

The Treasury Department did not respond to repeated requests for comment on the timeline for distribution to state and local governments or progress on drafting guidance on the law for states.

“The real concern is when the guidance from the Treasury Department will come out. That is a total unknown,” said Anna Horevay, an attorney at McGuire Woods who advises local governments on the relief bill.

It took weeks for the department to issue guidance for state and local governments on CARES Act money, Horevay said. Even then, guidance on how that funding could be spent kept changing, leaving officials unsure whether they could use the money for expenses like payroll costs for public safety workers.

“That created confusion,” Horevay said.

States are going to be cautious about how they use American Rescue Plan funds because the law allows the Treasury Department to claw back the money if it is not used in the ways required, she added.

The certification that state and local governments were required to sign for the CARES Act was a simple, one-page document. If the Treasury Department relies on a similar certification process, it would help streamline the process, Horevay said.

“Hopefully the certification is short and doesn’t take a lot of effort from the states’ side to sign it and then they can start the 60-day clock ticking,” she said.

Local governments will receive $130 billion in direct aid, with the funding divided evenly between cities and counties. States and the District of Columbia will receive $195 billion.

The law divides the payments to local governments into two tranches of money. Cities and counties will receive 50% of the money initially and the other half of the money 12 months after the first payment. The Treasury Department can choose to withhold up to 50% of funding from states from its initial distribution, so with further guidance outstanding, it remains unclear whether states will receive payments in one or two tranches of money.

Route Fifty

By Andrea Noble,
Staff Correspondent

MARCH 19, 2021

Brian Chappatta on State and Local Aid (Podcast)

Bloomberg Opinion columnist Brian Chappatta presents a column explaining that the most straightforward sign that federal assistance for states and municipalities was necessary is the level of state and local government employment, which remains near its lowest level in almost two decades.

Listen to audio.

March 16, 2021

Federal Covid-19 Aid Aims to Help Cities, States Avoid Cutting Jobs and Services.

Biden administration seeks to avoid prolonged budgetary strain; Republicans say $350 billion is too much

WASHINGTON — The Biden administration has pitched its $1.9 trillion Covid-19 aid package as a way to forestall what it saw as a major risk to the economic recovery: a prolonged budget squeeze for state and local governments. Republicans say much of the aid isn't needed, and at least one GOP lawmaker is urging mayors and governors to give some of it back.

As part of the package enacted last week, cities, counties and states will get $350 billion to distribute vaccines and cover other pandemic-related costs and to invest in infrastructure, such as expanded broadband access.

Administration officials have said the money will help avoid the same outcome as the previous recession, when years of budget shortfalls forced local governments to cut spending, curtail services and lay off workers, all of which weighed on the recovery.

Continue reading.

The Wall Street Journal

By Kate Davidson

March 18, 2021 5:30 am ET

What Does the COVID-19 Exodus Mean for Large Cities and Counties?

For decades, many large U.S. metropolitan cities have seen their rental markets reach new heights with sky-high rents and shortage of living spaces – however, all of which came to a screeching halt during 2020.

Initially thought to be short term, work-from-home directives became the new norm. With this new reality, increasingly more large cities are seeing young professionals leaving for mid-to-small sized cities throughout the U.S. – creating vacancies and driving down the rent prices in larger metropolises like NYC and San Francisco . On the contrary, the flight of population from large cities can be a worrying sign for local and regional governments, as much of their finances depend on the flourishing real estate markets and consumer spending.

In this article, we will take a closer look at a few of the large metropolitan cities and how the COVID-19-related migration may impact their fiscal positions.

Continue reading.

dividend.com

Mar 17, 2021

S&P Health Care Credit Beat: $1.9 Trillion Stimulus Package Provides Temporary Boost To The Sector

On March 11, President Joe Biden signed the $1.9 trillion stimulus package known as the American Rescue Plan (ARP) into law. The massive package includes direct payments to households, aid to state and local government, and aid to small businesses that are intended to catalyze the nation's economic recovery and pandemic efforts.

At the same time, the ARP is also an important piece of U.S. health care legislation because it creates funding for health coverage expansion and financial assistance at a time when it is greatly needed. Overall, S&P Global Ratings views the ARP as a modestly positive credit event for the health care sector. However, we expect no direct rating actions due to the temporary nature of many of the health care provisions.

Key Takeaways

- We see the $1.9 trillion ARP as a positive development for the health care sector, though we do not expect any direct rating actions.
- The ARP's health care provisions will improve revenue for many subsectors by expanding health coverage, aiding state Medicaid budgets, and accelerating vaccine and testing efforts.
- The ARP's focus on the pandemic means that many of its provisions are temporary, setting the stage for future policy debate on whether to make the changes permanent.
- Moreover, budget reconciliation limited the scope of health care policies that could make their way into the ARP, so sector risks such as "the public option" could resurface.

Continue reading.

17 Mar, 2021

Fitch Ratings Updates U.S. Public Finance Tender Option Bond Criteria.

Fitch Ratings-New York-16 March 2021: Fitch Ratings has published the following updated report: "U.S. Public Finance Tender Option Bond Rating Criteria." This report updates the prior report published on March 25,2020. The key elements of Fitch's tender option bond rating criteria remain consistent with those of its prior criteria report.

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Additional information is available on www.fitchratings.com

Moody's Launches Comprehensive Suite of Climate Solutions.

Moody's launches its new Climate Solutions Suite incorporating physical and transition climate risk data into Moody's best-in-class risk management solutions and economic models. Read the press release from Moodys:

LONDON- (BUSINESS WIRE) – Moody's ESG Solutions Group today announced the launch of Climate Solutions, a comprehensive product suite that provides market participants with enhanced risk measurement and evaluation tools to better understand, quantify and manage climate risks and opportunities. Climate Solutions incorporates physical and transition risk into Moody's best-in-class risk management solutions and economic models to enable banks, insurers and investors to better assess climate risks and comply with the emerging regulatory requirements for stress testing and disclosures.

"Climate change has a profound impact on the world's economies and societies," said Mark Kaye, Chief Financial Officer and Executive Sponsor of Moody's ESG Solutions Group. "Moody's is committed to offering science-driven, objective analytics to advance strategic resilience and to help market participants navigate the transformation to a low-carbon, climate-resilient future."

Powered by Moody's affiliates Four Twenty Seven, a leader in climate risk data, and V.E, a leading global provider of ESG research, data and assessments, Moody's Climate Solutions includes:

- Forward-looking, physical and transition climate risk assessments for over 5,000 listed companies and more than 10 million real estate properties; dynamic, on-demand scoring for listed and unlisted companies, and SME support in risk identification, reporting and screening are also available;
- Climate-adjusted Probability of Default (PD) for listed and unlisted companies that leverage Moody's Analytics award-winning Expected Default Frequency (EDFTM) model to provide consistent, transparent and customizable analysis of the credit impact for physical and transition

risk;

- Macroeconomic Climate Risk Scenarios, based on Moody's Analytics Global Macroeconomic Model and the Network for Greening the Financial System's representative designations, for assessing physical and transition changes, including an 80-year forecast horizon to support stress testing and risk management needs;
- Climate Pathway Scenarios to help power insurers' and pension funds' asset and liability projections with climate-aligned scenarios to facilitate customers' efforts to align with Own Risk and Solvency Assessment (ORSA) and Task Force on Climate-related Financial Disclosures (TCFD) reporting practices; and
- Powerful, but easy to use TCFD reporting solutions and analytics for banks, pension funds and insurance companies.

"Combining advanced climate know-how with proven models for credit risk and economic forecasts has enabled us to create a sophisticated set of climate risk analytics to support the systematic integration of climate change into investment and risk management decisions," said Emilie Mazzacurati, Global Head of Moody's Climate Solutions. "Our solutions support growing market needs for robust modeling of climate risks and their financial impacts."

Why Social Bonds are Key to Driving More Investment in Education.

Investing in social causes is on the rise. Investors are increasingly wondering how to use their capital to improve society in the wake of the COVID-19 pandemic and ongoing social unrest.

The trend of investing for both financial gains and social or environmental impacts has been growing in popularity, with the latest estimate from the Global Impact Investing Network (GIIN) putting the size of the market at $715 billion.

However, just $1.26 billion of this total was focused on the education sector, which ranked 12th out of the 14 investment categories tracked by the GIIN. While most impact investors said they planned to either increase (48%) or maintain (41%) their allocations to education over the next five years, some structural or market barriers certainly stand in the way of getting more impact investors interested in education.

The education sector has always been financed in part by outside investors, although these investors may not have thought of themselves as impact investors. General obligation bonds issued by governments are a common way to fund public education. These bonds are typically secured by raising taxes on the residents of a community.

In 2020, the concept of a social bond issued by nonprofits (like a green bond but focused on social benefits rather than environmental benefits) has emerged and taken root in the education sector. Social bonds represent a new milestone in the education space and a key to unlocking the door to impact investments.

There were three social bonds issued in 2020 that focused on education. The first two, by a school district in Massachusetts and a charter school in Los Angeles, were self-designated as social bonds by the issuers.

The third came in August 2020, when the Equitable Facilities Fund (EFF) announced the closing of $204 million in verified social bonds, with the proceeds helping to finance public charter schools that are providing transformative educational opportunities for students, especially in low-income and under-resourced communities. The “A” rated Social Bonds, which were 8x oversubscribed, offered investors a 2.18% return on a 30-year maturity, a similar risk-return profile to muni bonds but with the added impact component.

Impact investors have generally shied away from the education sector, in part because of a lack of investable products that meet their risk-return objectives while also offering the potential to generate positive social outcomes.

Several investment products help meet this double-bottom-line goal for investors in the social sector. Local Initiative Support Corp (LISC) issued a $100 million tax-exempt bond in 2017 with the proceeds used to support a variety of social benefits, including education. Other nonprofit Community Development Finance Institutions (CDFIs) have also issued investment notes for similar purposes, including Capital Impact Partners, Reinvestment Fund and Low Income Investment Fund.

A social bond may represent the next big tool in the impact investor playbook, with a record $154 billion in Social Bonds issued in 2020, easily dwarfing the $17.9 billion issued in all of 2019. But what may differentiate the social bond, making it especially attractive to impact investors, is the fact that it is a marketable security easily traded through traditional investment channels.

The advent of qualified external reviews should also help. Kestrel Verifiers, which verifies bonds for conformance with the Green Bond Principles, the Social Bond Principles, Sustainability Bond Guidelines and the Climate Bonds Standard, provided a detailed Second Party Opinion to certify that the Social Bonds, issued by the Equitable School Revolving Fund (ESRF), were aligned with the Social Bond Principles developed by the International Capital Markets Association (ICMA).

In the official bond offering, the proceeds of the ESRF social bond are defined as “social projects” designed to produce social benefits that “address socioeconomic advancement and empowerment of students from underserved communities,” including families with students living below the poverty line, students with parents that are undereducated, and homeless students.

This independent verification of the bona fide social benefits derived from the bond-financed activities should alleviate concerns about impact-washing and assure impact investors that their capital is generating a positive social impact.

Impact investors should be cheering at the opportunity to earn a financial return while also providing much-needed financing to help reform and improve our education system. Social bonds can play an important role in that transformation.

Ultimately, impact investors will need a range of products to choose from with different risk-return profiles and a variety of potential social impacts. Some impact investors may prefer to focus on a particular community or region (i.e., place-based investing), while other impact investors may want to invest in the education sector more broadly. Some may want to invest in real estate, which tends to be the biggest line item for schools, while others may want to invest in schools directly.

This kind of robust investment marketplace is likely still a few years away. It will take time and energy to standardize products and create efficient investment platforms for all the impact investment products that support schools and education.

But for those who care about education, social bonds represent an innovative investment opportunity that will help catalyze the flow of impact capital into the education sector for the foreseeable future.

BY SOURCEMEDIA | MUNICIPAL | 03/16/21 10:01 AM EDT

By Mark Medema

Mark Medema is managing director at the National Alliance for Public Charter Schools.

Can Fiscal Alchemy Bolster Public Pension Funds?

Some government employers are exploiting the peculiar rules of public finance to transfer public assets or cash from clever deals to their pension funds. But there's risk to taxpayers when it's magic beans and shell games.

The way state and local governments keep their books is uniquely different from the way the private sector operates. Public-sector organizations are expected to be "perpetuities" — to never go out of business — and to provide for a common good. So they record assets and liabilities in unique ways. The same is true for their pension funds.

Precisely because governments are viewed as perpetuities, public pensions use an "expected" rate of return on their invested assets rather than a more conservative, risk-free rate as is required of private companies. When the public plans' investment returns fall short of the expectations, as they have in many plans over the past decades, an unfunded actuarial accrued liability is the result. Public employers are expected (and in some states, obliged) to pay an annual contribution for unfunded liability on top of their normal actuarial costs.

Needless to say, the public finance community is constantly looking for clever ways to reduce these annual burdens and improve the pension funds' actuarial balance sheets. If they can find a way to pump up the assets held by the pension fund that requires lower annual costs for the employer, the hired financial professionals who collect fees for their ingenuity are rewarded for that fiscal alchemy.

Continue reading.

GOVERNING.COM

GIRARD MILLER, FINANCE COLUMNIST | MARCH 16, 2021

The Washington Weekly: House Committee Considers Munis

Read the Washington Weekly.

Bond Dealers of America

March 19, 2021

'There's Been Low Issuance and Very Strong Demand,' in Municipal Bonds: Head of BlackRock's Municipal Bonds Group

Head of BlackRock's Municipal Bonds Group, Peter Hayes joined Yahoo Finance Live to break down his thoughts on the municipal bonds market for the remainder of 2021.

Watch video

Yahoo Finance Video

Thu, March 18, 2021, 1:25 PM

Why Taxable Munis' Time In The Sun Has Faded: Kazatsky (Radio)

Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence: higher taxes/inflation impacts on munis. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

March 19, 2021

Munis Join Selloff, Closing a Refuge From Mounting Bond Losses.

- **30-year benchmark muni bonds rose the most in three weeks**
- **Marks a shift for market that eked out gains this month**

The state and local government bond market is losing its status as a temporary refuge for fixed-income investors.

Municipal bond yields surged along with Treasuries Thursday after Federal Reserve Chair Jerome Powell said the central bank will keep interest rates low until the economic recovery is evident, stoking concerns about rising inflation.

That marks a shift for the $3.9 trillion market, a slow-moving province of buy-and-hold investors who have continued to pour a steady stream of cash into mutual funds. Before Thursday, the securities had delivered positive returns this month — a contrast to the losses piling up in the corporate debt and Treasuries markets.

"Over the past two days, municipal yields have begun to react to sizable year-to-date increases in yields in the broader U.S. fixed-income markets," Peter DeGroot, head of municipal research and strategy for JPMorgan Chase & Co., said in an interview. "The outlook for fundamentals is good. But the muni asset class is expected to under-perform given the selloff in the broader U.S. fixed income market."

Yields on benchmark 30-year tax-exempt bonds rose 7 basis points to 1.8%, the steepest jump in three weeks, according to Bloomberg's BVAL indexes. Those on 10-year debt rose about 7 basis points to 1.1%.

The rising yields could jeopardize the influx of cash that had helped to prop up prices this year as investors added an average of $2.3 billion to municipal debt funds each week, according to Investment Company Institute data compiled by Bloomberg.

That influx had come as states and cities were poised to receive some $350 billion in federal aid to contend with the financial impacts of the pandemic, significantly easing the risk of deep credit rating cuts or mounting distress. The market also stood to gain from President Joe Biden's push to raise taxes on the highest earners, which would likely increase demand for federally tax-free bonds.

Analysts have been watching closely for signs that investors are starting to pull back. The individual investors who are the biggest owners of municipal bonds tend to act in concert during down markets, leaving mutual funds typically facing long periods of cash withdraws known as an outflow cycle.

Until Thursday, the muni-market had been little changed in 2021, with gains earlier this month paring their losses for the year to 0.35%, compared with the 4% drop for Treasuries, according to Bloomberg Barclays indexes.

Despite the improving financial fundamentals of state and local borrowers, such a retreat could exert a drag on the market's performance, DeGroot said. "Municipal funds are susceptible to outflows in periods of rising muni rates and negative fund performance," he said.

Bloomberg Markets

By Shruti Singh

March 18, 2021, 10:38 AM PDT

Tax Hikes an 'Extremely Strong' Munis Tailwind, Foley Says.

In this week's "Muni Moment," Nick Foley, Segall Bryant & Hamill senior portfolio manager, discusses the impact of U.S. President Joe Biden's proposed tax plan on the municipal bond market on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

March 16th, 2021

Munis Become Refuge From Bond Market Losses With Yields Falling.

- **Citigroup 'moderately bullish' on outlook for tax-exempt bonds**
- **Modest March gains as Treasuries, corporate bonds see losses**

America's municipal bonds are proving to be a haven for fixed-income investors.

Even as speculation about resurgent economic growth drove up yields on corporate bonds and Treasuries this month — saddling investors with losses — tax-exempt debt moved in the opposite direction. Benchmark municipal-bond yields have dropped so far in March, delivering investors a return of 0.72%, according to the Bloomberg Barclays index.

The disconnect is coming as investors plow back into the municipal market following a selloff late last month, with both mutual funds and exchange-traded funds seeing an influx of cash.

President Joe Biden's rescue plan is poised to provide a massive infusion of aid to states, cities, school districts and public transportation systems to make up for the financial toll of the pandemic, promising to remove any stress from a wide swath of the market. At the same time, the pace of new debt sales has slowed and potential moves to raise taxes on the highest earners at the state and federal levels may further fuel demand.

"We have too little tax-exempt supply for every dollar of investor demand. There are just far more muni bond investors than there are issuers now," said Matt Fabian, managing director of Municipal Market Analytics. "That's a condition that will only get worse if taxes rise."

The demand is driving a closely watched gauge — the ratio of municipal yields to those on Treasuries — back toward the record lows hit last month, indicating that state and local government bonds have gotten more pricey in comparison. Ten-year municipal bonds yielded about 62% of Treasuries by the end of last week, not far from a low of 54% in mid-February.

Citigroup Inc. analysts led by Vikram Rai on Monday said they expect the municipal market's outperformance to continue given the positive effect the stimulus will have on government agencies that have issued bonds.

"While we still fear fund flow related volatility ahead, our moderately bullish outlook on tax-exempt paper remains in effect," the report said.

Bloomberg Markets

By Fola Akinnibi

March 15, 2021, 10:31 AM PDT

— With assistance by Danielle Moran

Successful Female Leaders Abound, But Women In Public Finance Are Rare.

Ellen Johnson Sirleaf. Michelle Bachelet. Christine Lagarde. Jacinda Ardern. You have heard the stories about their effective leadership. So why are there so few women leaders out there? Why in particular do we have such a strong predilection to denying women the highest seats in office that hold the national purse strings?

If women are still, in 2021, vastly underrepresented in country leadership around the world, then the representation gap is especially acute in public finance bodies, such as finance ministries and national audit offices that report on the use of public funds. According to new data from UN Women and the International Organization of Supreme Audit Institutions Development Initiative respectively, only 11 percent of countries have finance portfolios held by women and less than a third of all heads of national audit offices are women.

Yet, women are overrepresented in leading countries that are well governed. Examples abound of women-led countries that fared better in the initial handling of the COVID pandemic: New Zealand, Germany and Taiwan are just a few. Indeed, women often face a glass cliff — they are more likely to be handed over the reins as “the fixer” in a crisis. Why? A Harvard Business Review study found that women were ranked higher in interpersonal skills — such as communicating effectively, inspiring others, and displaying empathy — leadership competencies that are ranked most important when times are tough.

Women leaders are also attuned to the intersectional challenges their fellow women face and these considerations inform their decision-making and design of more gender-responsive policies and budgets.

For instance, Indonesia’s finance minister Sri Mulyani Indrawati has been a vocal champion for addressing the disproportionate impacts that women face under COVID. The Indonesian government is working with the Indonesian People’s Struggle to address registration gaps that were preventing women in low-income settlements from receiving COVID assistance. Women heads of national audit offices, such as those in Jamaica and Costa Rica, are also leading the way in monitoring the use of COVID relief funds.

If we know that women are good or arguably better leaders at this critical time, then what is holding us back from choosing more of them, especially in institutions that are critical for an accountable and inclusive recovery — such as finance ministries and audit institutions?

There are no easy answers, but we can start by dismantling entrenched stereotypes. We must challenge outdated and tokenistic approaches to representation that pigeonhole women into specific leadership roles. In a workshop series that our organizations held with women representatives in finance ministries, auditors and public finance nonprofit leaders, we heard examples of women being looked upon to fulfill public-facing roles and relied upon less so for their technical expertise.

Relatedly, we must tackle norms that perpetuate biases that women do not excel in science, technology, engineering, and mathematics. There is mounting evidence that gender discrimination is rife in the economics field. This has a direct impact on the leadership pipeline. Women feel less supported to stay in economics and other mathematics related fields early on in their studies and profession and as a result there is less retention of female talent that can be groomed for leadership.

The brave women who do stick it out face many hurdles that delimit their advancement. Yet, data gaps limit our understanding of these impediments. To course correct in public finance institutions, we must collect more data on recruitment and promotion policies, offer capacity development opportunities and create mentoring and coaching opportunities for women. Importantly, the tone needs to be set at the top — the leaders of these institutions need to make clear these issues are a priority.

We also know that all organizations, including public finance institutions, must look at measures that support the redistribution of unpaid care work. We need to stop taking women’s double duties for granted if we are to truly level the playing field for women to advance in the workplace.

As we seek a more durable and inclusive post-COVID recovery, we know we are better served when we make space for women’s leadership, especially in public finance roles where there is a gaping need. This is about equity and fairness. But it is also about undoing the structures, norms and stereotypes that stand in the way of getting the best leaders we deserve.

THE HILL

BY MALADO KABA AND EINAR GØRRISSEN, OPINION CONTRIBUTORS — 03/19/21

THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

Malado Kaba is a board member of the International Budget Partnership and former minister of Economy and Finance of Guinea. Einar Gørrissen is director general of the International Organization of Supreme Audit Institutions (INTOSAI) development initiative.

As the Muni Market Takes Off, Check Out This Pair of Invesco ETFs.

Last year's bond bonanza amid a flight to safety saw a large increase in capital inflows from banks and funds into municipal bonds. Investors looking for bond alternatives now can opt for a pair of muni-focused bond funds from Invesco with the Invesco National AMT-Free Municipal Bond ETF (PZA) and the Invesco VRDO Tax-Free Weekly ETF (PVI).

On one hand, PZA seeks to track the investment results of the ICE BofAML National Long-Term Core Plus Municipal Securities Index. The fund generally will invest at least 80% of its total assets in the components of the index.

The index is composed of U.S. dollar-denominated, tax-exempt municipal debt publicly issued by U.S. states and territories and their political subdivisions in the U.S. domestic market. PZA's expense ratio comes in at 0.28%.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

MARCH 18, 2021

BlackRock Debuts Active Muni ETF.

Today, BlackRock rolled out another active ETF under its main brand rather than the iShares name. The BlackRock High Yield Muni Income Bond ETF (HYMU) can invest in a range of municipal bond debt, and its portfolio is designed to hold at least 65% of its weight in low or medium quality securities.

HYMU comes with an expense ratio of 0.35% and lists on Cboe Global Markets.

The fund's managers select bonds for the portfolio based on their expectations that the securities potentially offer high returns relative to their risk. The prospectus notes that HYMU can invest up to 100% of its assets in junk bonds and up to 20% in securities deemed "distressed," meaning that they have defaulted or are involved in bankruptcy proceedings or have exceptionally low credit ratings.

Continue reading.

etf.com

by Heather Bell

March 18, 2021

HYD: There Is Still Some Value In High Yield Munis

Summary

- High yield sectors, whether in corporates or municipals, have elevated credit risk. With the economy finally re-opening, this is less of a concern.
- Despite less credit risk, high yield munis still face headwinds. They sit at elevated prices, and have plenty of interest rate risk.
- Despite the negatives, there are tailwinds for the space as well. Government revenue is improving, the income stream is higher than investment grade munis, and tax hikes may drive demand.

Continue reading.

Seeking Alpha

Mar. 18, 202

Short-Duration HY Munis Remain Attractive Options For Rising Rates.

Summary

- Rising rates remain top-of-mind for income investors due to their ability to deliver portfolio losses.
- The short-duration high-yield tax-exempt municipal sector remains one attractive option for rising rates on several fronts that we discuss in the article.
- We also highlight a number of investment options in the space such as NVHAX, ISHAX and SHYD.

Continue reading.

Seeking Alpha

Mar. 19, 2021
