

## [Climate Change and Financial Policy: A Literature Review](#)

[Read the Federal Reserve Literature Review.](#)

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## [A Sneaky Form of Climate Obstruction Hurts Pension Funds.](#)

In several Republican-led states, the officials who oversee pension funds for millions of state workers are being told, or may soon be told, to ignore the financial risks associated with a warming world. There's something distinctly anti-free market about policymakers limiting investment professionals' choices — and it's putting the retirement savings of millions at risk.

The Texas comptroller, Glenn Hegar, recently announced that 10 financial firms and 348 funds could be barred from doing business with the state's pension plans because they appeared to consider environmental risks in their investment decisions regarding the fossil fuel industry. The day before, Gov. Ron DeSantis of Florida announced a similar move. Other states, including Idaho, Louisiana and West Virginia, have either taken or are thinking of taking similar actions, which amount to ideological litmus tests that will likely result in lower returns for pensioners.

These are short-sighted political moves from a party that typically champions the free market, and that is why 12 other state treasurers and New York City's comptroller recently joined me to urge that these policies be reversed. The people who will likely suffer are the public servants whose retirement money won't be managed for a world being disrupted by a rapidly changing climate.

[Continue reading.](#)

### **The New York Times**

By Tobias Read

*Mr. Read is the Oregon state treasurer.*

Sept. 17, 2022

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## [Pensions Push Back at 'Ridiculous' DeSantis-Led Attacks on ESG.](#)

**The decision by numerous US Republicans to ignore environmental and societal investment risks imperils \$57 trillion of savings, according to industry executives.**

After watching key GOP figures launch an all-out political attack on ESG, senior officials from the \$57 trillion global pension industry are speaking out against the risks such an agenda poses to long-

term savings.

Matti Leppala, chief executive at PensionsEurope, said efforts to lambaste ESG based on an assessment of short-term returns are “ridiculous” and “meaningless.”

“We would argue that not taking ESG into consideration is in fact the real risk factor that will have an impact on long-term, sustainable returns,” Leppala, whose association represents firms overseeing a combined \$7 trillion in assets, said in an interview.

[Continue reading.](#)

## **Bloomberg Markets**

By Anchalee Worrachate and Frances Schwartzkopff

September 16, 2022 at 3:00 AM PDT

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### **Muni Bond Market Sags to Eight-Year Low.**

The market value of outstanding municipal debt has dropped below \$4 trillion for the first time since 2014, according to Federal Reserve data released last week.

Bond prices, falling for much of 2022, have dropped by an average of 11 cents on the dollar, according to research firm Municipal Market Analytics.

Outstanding municipal bond debt now has a market value of \$3.97 trillion, less than at the beginning of 2014. Muni prices tanked in 2013 after Detroit declared bankruptcy and the Federal Reserve signaled that it would start dialing back easy-money policies.

## **The Wall Street Journal**

By Heather Gillers

Sep 14, 2022

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### **Muni Market Shrinks Below \$4 Trillion as Bond Prices Fall.**

After six months of falling bond prices, the market value of all outstanding municipal debt ended June at \$3.97 trillion, according to Federal Reserve data released last week.

The last time the value of outstanding muni debt stood below \$4 trillion was in 2014. The previous year, bond prices had tanked following Detroit’s bankruptcy and amid fears that the Fed would start dialing back easy-money policies.

Municipal bond prices have dropped by an average of 11 cents on the dollar since the beginning of 2022, according to research firm Municipal Market Analytics.

## **The Wall Street Journal**

By Heather Gillers

Sep 15, 2022

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## **[Bonds Could Bounce Back – Consider Munis as a Way to Play Rebound.](#)**

As fixed income investors know, 2022 has been unkind to bonds. The double-digit year-to-date loss by the Bloomberg US Aggregate Bond Index confirms as much.

Even with that ominous data point and the likelihood the Federal Reserve will raise interest rates again at its next meeting, some market observers are bullish on bonds, including municipal debt. That could be a sign that exchange traded funds, including the VanEck Muni Allocation ETF (MAAX), are worth considering.

“Our preferred strategy is to gradually increase duration of bonds in portfolios at these higher yields. However, we favor higher-credit-quality core bonds, such as Treasuries and investment-grade corporate and investment-grade municipal bonds,” according to Charles Schwab research. “In most cycles, yields tend to converge near the peak of the federal funds rate for the cycle. In the 3% region, yields have already discounted Fed tightening beyond the neutral rate.”

An attractive point regarding MAAX is that its 20 holdings are other ETFs or closed-end municipal bond funds, meaning the VanEck ETF spans a variety of durations and credit profiles. As such, MAAX’s income profile, as highlighted by a 30-day SEC yield of 2.91%, exceeds those offered by many dedicated investment-grade ETFs in this category.

“After years of low yields that drove investors to allocate more to risky investments, income investors can find attractive yields in higher credit quality fixed income. Investment-grade corporate and municipal bonds are offering higher yields than we have seen in several years, and can help investors earn income without excessive risk-taking,” added Schwab.

The actively managed MAAX, which turned three years old in May, does feature some high yield exposure, but the ETF’s overall credit quality is strong, as 68.51% of its holdings carry investment-grade ratings compared to just 9.66% with junk grades, according to issuer data.

Given that compelling credit breakdown and an impressive yield, MAAX is a credible idea for income investors as the third quarter comes to a close.

“Overall, we look for returns in the second half of the year to be better for fixed income investors now that the market has reset interest rates higher. However, we still look for volatility to remain high as central banks shift away from their easy-money policies,” concluded Schwab.

ETF TRENDS

by TOM LYDON

SEPTEMBER 16, 2022

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## **[BlackRock Says It Prefers Short-Term Muni Bonds Amid High Rates.](#)**

- **One-year munis down 1.6% this year, while benchmark fell 9.7%**
- **'More defensive stance is warranted' due to seasonal trends**

BlackRock Inc. says it now prefers short-term municipal bonds as a way to protect against rising interest rates and a hawkish Federal Reserve.

Short-dated notes have been among the best-performing segments of the \$4 trillion municipal debt market in 2022, as rising interest rates left longer-dated securities deep in the red. An index of one-year munis has lost about 1.6% since January, outperforming the market's benchmark and long-term debt, which has lost 9.7% and 16.7%, respectively, data compiled by Bloomberg show.

"We have shifted to a short-duration stance on municipal positioning and have increased cash balances," a note by Peter Hayes, James Schwartz and Sean Carney emailed on Wednesday said. "We favor the intermediate part of the yield curve to maximize income, while avoiding significant duration risk, and are targeting bonds with defensive structures."

Autumn in the US is traditionally a tough period for munis partly because it's when sales of new bonds tend to pick up after a summer lull. And rising interest rates will likely put more pressure on the asset class.

"A more defensive stance is warranted as seasonal trends typically turn less favorable," the note said.

The municipal bond market typically sees increased demand from an uptick in principal and interest payments in the middle of the year, which investors channel back into the market. But come September, those payments tend to decline. CreditSights Inc. estimated that principal and interest payments will total about \$31 billion in September, down from about \$55 billion the prior month.

Overall, the muni market is on track for its worst year in decades with US state and city debt posting an average return of -0.53% in September — the worst performance of any month over the past six years, according to Bloomberg data.

As such, the asset manager prefers higher-quality bonds overall, with a neutral allocation to non-investment grade bonds.

### **Bloomberg Markets**

By Hadriana Lowenkron

September 14, 2022

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## **[The Muni Bounce Back in 2022 \(Bloomberg Audio\)](#)**

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

[Listen to audio.](#)

**Bloomberg**

Sep 16, 2022

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## [Muni Yields Getting Interesting, Neuberger's Iselin Says.](#)

Jamie Iselin, Neuberger Berman's head of municipal fixed income, discusses his strategy for investing in muni bonds amid the stock market selloff with Taylor Riggs on "Bloomberg Markets: The Close."

[Watch video.](#)

### **Bloomberg Markets: The Close**

September 14th, 2022

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## [The Municipal Bond Market Is Primed for Bargain Hunting.](#)

A summer rally in the bond market could be fizzling out, making way for municipal bonds to offer fixed income investors a bargain as the threat of rising interest rates continue in the back half of 2022.

"When the investing herd stampedes in one direction, it can pay to go the opposite way—but only if you step carefully," a Wall Street Journal report warned potential investors.

With the capital markets expecting another 75-basis point rate hike, it could already be priced into the bond markets. As such, it presents a potential buying opportunity for those looking at municipal bonds.

"Consider municipal bonds, long cherished by individuals looking to earn tax-free investment income," the WSJ report added. "Their prices have been falling this year as interest rates rise and bonds overall have entered a bear market."

WSJ noted, based on Refinitiv Lipper data, that in the first eight months of 2022, an estimated \$83 billion have come out of municipal bond funds. It represents the largest exit recorded, and there are still over a few months left in 2022 as inflation fears have plagued bond markets for much of the year.

As mentioned, it presents an opportune time to get municipal bond exposure at cheap prices. It's also an ideal opportunity to get cheaper high-yielding municipal debt.

"People are perking up and getting excited about having the opportunity to earn that higher income," says Alexa Gordon, a municipal-bond portfolio manager at Goldman Sachs Asset Management.

### **An All-Inclusive Muni ETF Option**

As opposed to holding various municipal bonds, exchange-traded funds (ETFs) offer an all-inclusive approach. They include various debt holdings in one position at a low cost.

One place to get tax-free municipal bond exposure is via an ETF wrapper with funds like the

Vanguard Tax-Exempt Bond ETF (VTEB A+). With a 0.05% expense ratio, the fund offers low-cost exposure to municipal debt.

VTEB tracks the Standard & Poor's National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. This index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

**etfdb.com**

by Ben Hernandez

Sep 15, 2022

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## **[Muni ETFs Could Be Just What Frustrated Bond Investors Need.](#)**

With the widely observed Bloomberg US Aggregate Bond Index down 11.55% year-to-date, it's easy to understand why fixed income investors are frustrated and why many are departing the related funds, including exchange traded funds.

Those scenarios could get worse before improving because the August reading of the Consumer Price Index (CPI) was worse than expected, indicating that the Federal Reserve likely has no choice but to continue raising interest rates, potentially in aggressive fashion.

To that end, it's not surprising that investors yanked \$156 billion from taxable bonds this year, as of July 31, but those moves could be hasty, particularly when considering the utility of municipal bonds and ETFs such as the VanEck Vectors High Yield Muni ETF (HYD).

One of the reasons to consider HYD today is that with bonds, just like with any other asset class, timing matters, and selling low and buying higher is a strategy that adversely affects a portfolio's returns.

"For taxable-bond funds, we found that investor returns lagged total returns by 117 basis points, on average, for the 10 years ended Dec. 31, 2021," noted Morningstar analyst Amy Arnott. "On the surface, that's actually better than the 1.7-percentage-point return gap across all category groups. But the low level of returns for taxable-bond funds makes this return gap particularly damaging. Over the trailing 10-year period, total returns averaged only about 3.6% per year, and investors missed out on about a third of those returns, earning only 2.4% per year in dollar-weighted terms."

In favor of HYD are the points that municipal bonds offer credible recession protection and that state and local finances are currently strong, indicating defaults and downgrades are likely to be few and far between.

Additionally, amid a coming wave of folks entering retirement, some investors may be compelled to return bond ETFs such as HYD over the near term.

"Fixed-income holdings also play an increasingly important role as millions of investors transition into retirement. Based on data from the U.S. census bureau, 20.3 million Americans (or 6.2% of the population) are between age 60 and 64 and will reach retirement age within the next several years.

An additional 52.4 million individuals (or 16.8% of the U.S. population) were already 65 or older as of mid-2021," added Arnott.

To top it off, HYD offers the benefits of a 30-day SEC yield of 4.24%, which is well above what investors earn with 10-year Treasuries.

ETF TRENDS

by TOM LYDON

SEPTEMBER 14, 2022

*For more news, information, and strategy, visit the Beyond Basic Beta Channel.*

*The opinions and forecasts expressed herein are solely those of Tom Lydon, and may not actually come to pass. Information on this site should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any product.*

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## **[Audited Financial Transparency for Public Sector Utilities and Credit Rating Decisions.](#)**

**When looking at either the historic performance or the forecasted outlook by many of the credit rating agencies, public utilities including water & sewer have been stable and weathered the COVID-19 pandemic with relatively little impact to their financial standings.**

A portion of the credit for this positive news goes to the early preparedness undertaken by the management teams on their rate setting initiatives that included building up liquidity for the future capital needs and/or building reserves for a rainy day. These initiatives are looked upon very favorably by the rating agencies, hence earning a stable outlook for this sector. Along the same lines, the need for timely completion and reporting of their audited financials adds to the comprehensive assessment picture.

In this article, we will take a look at the future of public utilities in the wake of natural disasters, aging infrastructure, cyber security, experienced workforce scarcity, and federal push to enhance the public utilities.

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

Sep 07, 2022

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## **[S&P U.S. Transportation Infrastructure Transit Sector Update And Medians: Long-Term Funding Decisions Loom For Many Mass Transit Operators](#)**

**Key Takeaways**

- Many mass transit operators that depend on fare revenue face uncertainty as pandemic-related federal aid runs out over the next few years. We expect providers will have to make tough decisions about sustainable tax and revenue models.
- S&P Global Ratings does not expect a full recovery to pre-pandemic ridership in the foreseeable future. We thus believe the credit quality of many transit operators will depend on their ability to adjust operations and align financial performance to achieve structural balance after federal aid is depleted.
- Our mass transit sector median analysis shows only modest erosion of credit quality, which highlights the significance of \$71.7 billion in federal aid. The Infrastructure Investment and Jobs Act will provide another \$108 billion for the sector to fund capital projects and environmental, social, and governance (ESG) initiatives over the next five years.
- Our data suggest mass transit operators receiving significant tax support will continue to demonstrate relative credit stability, with those in the 'AAA' and 'AA' category that generally derive more than 60% of revenues from taxes maintaining debt service coverage (DSC) and debt-to-net revenue metrics near pre-pandemic levels.

[Continue reading.](#)

8 Sep, 2022

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## **[S&P: U.S. Public Power Rates Can Withstand Inflation, Rising Commodity Prices, And Higher Borrowing Costs--For Now](#)**

### **Key Takeaways**

- Persistent high inflation and reduced affordability can create resistance to retail utility rate increases that are necessary to recover higher electricity production, capital, and borrowing costs, potentially eroding debt service coverage and liquidity.
- Where available, automatic or formulaic pass-through mechanisms can position utilities for stable financial performance in the face of service interruptions, price shocks, or other unforeseen events.
- Utilities that maintain strong liquidity, including rate stabilization funds (RSFs), can use these reserves to partially offset spikes in energy costs, unforeseen service interruptions, exogenous shock events, or severe weather events.
- For many utilities and their customers, hedging arrangements and robust liquidity are forestalling financial pressures associated with inflation.
- Continued federal support for low-income households and clean energy initiatives can help underscore electric utilities' revenue certainty and reduce their capital costs that together can mitigate the financial vulnerability electric utilities and their customers face from inflationary pressures and energy transition capital costs.

[Continue reading.](#)

7 Sep, 2022

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## **[Fitch 2022 LPC Medians: Inflationary Challenges Await U.S. Life Plan](#)**

## Communities

Fitch Ratings-Austin/New York-06 September 2022: U.S. life plan communities (LPCs) are bracing for inflationary and other macro pressures following a comeback year in fiscal 2021, according to Fitch Ratings in its latest medians report for the sector.

LPCs improved across-the-board in all median ratios. Liquidity, operating and capital-related metrics all reflected recovery within the LPC sector from the pressures of the coronavirus pandemic, which included higher expenses, lower revenues and pressured cash flows. Challenges lie ahead for the sector according to Senior Director and U.S. LPC group head Margaret Johnson.

“Pandemic-related pressures have evolved from healthcare and demand risk to risks involving expense inflation and staffing shortages,” said Johnson. “LPCs with a significant skilled nursing component, which tend to have lower ratings, are disproportionately exposed to wage and staffing pressures versus those that are predominantly independent living units.”

Fitch maintains a neutral outlook on the LPC sector. However, should these inflationary pressures persist beyond 2022, LPCs may encounter resistance to the substantial rate increases that may be required to offset the added cost pressure, which could pressure operating performance and future demand. Fitch is also keeping a close eye on potential financial market slowdowns, in particular slowing real estate price growth.

Fitch maintained public ratings on 158 LPC Providers as of Aug. 5, 2022. The median rating is ‘BBB’ and the number of ratings in the ‘BBB’ rating category remains the most numerous at 81 (or about 51%) versus 31 (20%) in the ‘A’ rating category. Within Fitch’s median portfolio, Type A contract providers remain the plurality with 57 (about 36% of the portfolio), followed by Type C contract providers and Type B contract providers.

Fitch’s U.S. LPCs’ “2022 Median Ratios” is available at [www.fitchratings.com](http://www.fitchratings.com).

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **'Perverse' GOP Rules Risk Alienating Big Finance: ESG Regulation.**

As key GOP figures ban banks and investors in their states from taking environmental, social and governance risks into account, the global finance industry has mounted a surprisingly united counter-attack.

BlackRock Inc. has called the strategy “bad for the business climate,” Wall Street titans including Goldman Sachs Group Inc. have withdrawn from the Texas muni market rather than abandon ESG, and countless umbrella groups representing big finance have warned that efforts to put the ESG genie back in the bottle are futile.

Nathan Fabian, chief responsible investment officer at the United Nations-backed Principles for Responsible Investment, whose members include well over 5,000 financial firms across the world, called the Republican attack on ESG “perverse.”

Taking ESG risks into account is “part of the fiduciary role” of a financial firm, he said in an interview. “To say that they shouldn’t be thought about is a basic breach of a duty of care and diligence.”

US savers seem to agree. According to the Schroders 2021 US Retirement Survey, nine of every 10 defined-contribution plan participants who were aware of their plan’s ESG options invested in those funds.

Lawyers also are following the GOP’s anti-ESG campaign. Heather Wyckoff, partner at Schulte, Roth & Zabel who advises institutional investors and asset managers on fund formation, said ignoring ESG removes a tool designed to protect returns.

“I don’t see how they can do so without dialing up the risk,” she said in an interview. ESG “is inextricably tied to a profitability analysis.”

In Florida, Governor Ron DeSantis has ordered state pension funds to ignore ESG risks, while Texas last year passed a law that cut off Wall Street banks from its municipal debt market because of their refusal to renounce ESG. Several other Republican states are planning similar measures.

“It’s a very perverse set of outcomes potentially for those states that are actually banning, restricting, using anti-market approaches in some way, to try and protect industries that we all know have to transition,” said Fabian.

The US Department of Labor has proposed removing barriers to considering ESG in pensions management. Morningstar Inc. estimates that 97% of respondents support the DOL’s proposal. The American Retirement Association says it expects a final decision by the end of the year.

### **Bloomberg Markets**

By Tasneem Hanfi Brogger and Frances Schwartzkopff

September 6, 2022

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## [Infowars Investing Invades “Anti-Competitive” Texas.](#)

Something’s rotten in the State of Texas. Once self-styled as a bastion of free markets and friendly regulation, a down-ballot politician now wields the power of the State purse to whack companies into submission for not toeing the party line.

Texas Comptroller Glenn Hegar recently announced an “initial” list of 10 financial services firms, along with 350 investment funds, whose environmental, social & governance (ESG) sins were so egregious that the firms are now listed next to known terrorist organizations on the State’s Divestment Statute. Hegar’s 10 Most Naughty included nine European and UK-based firms, but one US asset manager sat conspicuously atop – BlackRock. The charge? “Boycotting Energy Companies.”

Now state government agencies must notify Hegar personally of the listed financial companies in which they may have direct or indirect holdings. The Comptroller may be surprised at the push back from State pension funds who take their fiduciary duty seriously and on average voted 90% of the time in favor of ESG resolutions – more often than BlackRock.

[Continue reading.](#)

### **Impact Alpha**

by Ryon Harms

September 5, 2022

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## [Wall Street Hits Back at GOP in ESG War.](#)

Wall Street giants are defending a widespread initiative to invest in companies with environmentally friendly policies, moving away from investment in the fossil fuel industry following attacks on the practice from GOP leaders.

Asset management giant BlackRock wrote a letter to GOP states that are trying to curtail a social movement in the financial sector known as Environmental and Social Corporate Governance (ESG), which seeks to move the U.S. economy away from the fossil fuels that contribute to global temperature rise.

Nineteen attorneys general, from mostly Republican-led states, penned a letter to BlackRock in August inquiring about its investment practices.

[Continue reading.](#)

THE HILL

BY TOBIAS BURNS - 09/09/22

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## [ESG Bans Cost Texas.](#)

SYLVIE DOUGLIS, BYLINE: NPR.

DARIAN WOODS, HOST:

This is THE INDICATOR FROM PLANET MONEY. I'm Darian Woods.

WAILIN WONG, HOST:

And I'm Wailin Wong. And I hope everyone packed their galoshes today because we have to wade into the culture wars.

WOODS: Oh yeah, it is thick and deep, this morass. But don't worry, there is an economic lesson here.

WONG: And we're going to find it. Now, there's been a lot of public rhetoric from government officials who have attacked companies over their ESG policies. ESG stands for environmental, social and governance, and it's a broad term to describe business decisions around things like climate change and workplace diversity.

WOODS: And some states have gone a step beyond anti-ESG rhetoric. Last year, Texas banned local governments from working with certain banks. These were banks that the state leaders said were discriminating against things like oil and gas and guns. Here's how one state legislator, Republican Phil King, put it.

[Continue reading.](#)

**npr.org**

September 8, 2022

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## **Bet on Muni Rebound With ESG Benefits.**

Predictably, rising interest rates are proving punitive for various segments of the broader fixed income market. Municipal bonds haven't been immune to that pressure.

More recently, however, municipal bonds are outperforming aggregate bonds strategies, indicating there could be opportunities afoot with exchange traded funds, such as the SPDR Nuveen Municipal Bond ESG ETF (MBNE).

The actively managed MBNE debuted in April and is part of a growing group of municipal bond ETFs tapping into green bonds or the environmental, social, and governance (ESG) investing boom. MBNE could also be well-timed because municipal bonds are ideal assets for adding recession protection to portfolios.

"A recession is characterized by a slowdown in consumer spending and an increase in unemployment. This may lead some to believe that at the onset of a recession, tax revenues for state and local governments fall, but this hasn't been the case. Historically, tax revenues have declined following a recession, but the negative impact is usually long after the recession has already started," noted Cooper Howard of Charles Schwab.

Despite the ongoing debate about the status of the U.S., MBNE offers investors other favorable attributes, including income potential without significant risk owing to the rookie ETF's stout credit quality. Over 84% of MBNE's holdings are rated AAA, AA, or A, according to issuer data.

Importantly, municipal bond fundamentals are strong, indicating downgrades aren't imminent in this corner of the bond market.

"Conditions for most state and local governments are strong, in our view, due to the substantial fiscal support after the start of the COVID-19 crisis. Tax revenues also have been surging, which has helped bolster state and local government's coffers. To illustrate, rainy-day fund balances, which is money that states have set aside and can use during unexpected deficits, are at near-record levels. Even Illinois, the lowest-rated state, has a rainy-day fund balance in excess of \$1 billion. That's a substantial improvement from February 2020 when it was only \$60,000," concluded Howard.

Municipal bonds issued by California and New York, which are two states that are among the biggest adopters of ESG principles, account for about 22% of the MBNE portfolio. Economies in both states are bouncing back from the COVID-19 pandemic, and tax collections in both are soaring, providing support for municipal bond obligations.

ETF TRENDS

by TOM LYDON

SEPTEMBER 9, 2022

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## **[Jackson's Water and the Crisis of Municipal Governance.](#)**

### **Is privatization a solution?**

"[Jackson's Water Woes Explained](#)" (Review & Outlook, Sept. 6) gets to the core conflict of interest for municipally owned utilities. We've seen it across the country and now in Jackson, Miss. Utilities, as natural monopolies, are generators of cash and a convenient bank for other municipal activity. When they set rates and terms of operation, free of supervision by independent regulators, they maximize revenue and minimize investment in maintenance and upgrades.

It's time to consider the privatization of water. In the end, it costs less.

Both Jackson and Flint, Mich., are shrinking cities with high poverty rates, but the poor infrastructure condition in both was caused by years of neglect. The water industry knows how to address the neglect, and money is needed, but experience shows that leadership and workforce capacity go far even when money is scarce. Building this capacity starts with local elected officials who pay attention to public services, not just trendy politics.

[Continue reading.](#)

**The Wall Street Journal**

Sept. 9, 2022

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## **[Why Green Investors Should Think Thematically.](#)**

Jack Bogle, founder of Vanguard, revolutionized the investment management industry when he

created index funds back in 1975, bringing to market price competitive strategies that allowed retail investors to follow broad indices like the S&P 500 or Dow Jones. Besides being an inexpensive product, funds tracking these benchmarks have added diversification to portfolios. Since then, passive investments have increased in popularity and in the past 40 years have competed for capital flow with the active strategies that try to beat the market and deliver excess returns. Index funds following broad markets have been a very popular strategy.

After the oil shocks of 1973 and 1979, fossil fuels became inexpensive and used extensively in industries from electricity to transportation and fertilizers to plastics. This also enabled a rapid increase in the mass-produced materials like cement and steel, to the great benefit of the new equity indices that represented a broad range of companies. However, what worked in the past now poses a lot of risk, as global economies begin to transition at differing speeds towards Net Zero.

For example, the S&P500 currently has about 20% of its weight represented by companies that are heavy carbon emitters, predominantly names in oil & gas, plastic packaging, automakers, gas utilities, trucking, gas distribution, and air freight.

[Continue reading.](#)

**nasdaq.com**

by Gabriela Herculano

SEP 6, 2022

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## **Hilltop's Kozlik Sees Opportunities in Mass Transit.**

Tom Kozlik, head of municipal research and analytics at Hilltop Securities, doesn't expect a record amount of volume in munis this year. He speaks with Taylor Riggs on "Bloomberg Markets: The Close."

[Watch video.](#)

**Bloomberg Markets: The Close**

September 7th, 2022

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## **Municipal Bonds Suddenly Look Cheap. Some Are Tax Traps.**

**Investors are bailing out of municipal bond funds at a record pace, but bargain hunters should beware of some potential pitfalls**

When the investing herd stampedes in one direction, it can pay to go the opposite way—but only if you step carefully.

Consider municipal bonds, long cherished by individuals looking to earn tax-free investment income. Their prices have been falling this year as interest-rates rise and bonds overall have entered a bear market.

That has many investors on the run. In the first eight months of 2022, investors have pulled an estimated \$83 billion from mutual and exchange-traded funds specializing in municipal debt, according to Refinitiv Lipper. That's more than in any full year on record.

[Continue reading.](#)

## **The Wall Street Journal**

By Jason Zweig

Sept. 9, 2022

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### **Mitigate Your Tax Bill With This Muni ETF.**

While the key benefits of exchange traded funds such as lower costs, trading flexibility, transparency, and tax efficiency are known to many investors, not everyone is aware that ETFs also may help reduce tax bills through a strategy called tax-loss harvesting. Tax-loss harvesting is a strategy that can be employed with taxable accounts to sell losing positions to offset capital gains.

This can come in handy during volatile markets. Market turbulence can be a perfect time to reassess a portfolio. Capitalizing on losses can help offset future gains while also offering the chance for rebalancing.

“Investment losses can be hard to swallow, but tax-loss harvesting lets you take the losses of one investment to offset the gains of another,” according to American Century Investments. “Of course, taxes alone shouldn't drive investment decisions. But harvesting losses in concert with your overall investment plan could help with tax planning when you are rebalancing your portfolio.”

In addition to adopting this strategy, investors worried about paying higher taxes may also want to consider the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF), which seeks to provide consistent tax-free income by employing an active, research-driven process that draws from across the municipal bond universe and adjusts exposure depending on prevailing market conditions. As with local government bonds in the U.S., credit risk is minimized with close to 80% of the fund ranging in debt rated at AAA to A (as of May 31).

The fund attempts to top the S&P National AMT-Free Municipal Bond Index, and by way of being actively managed, it can capitalize on credit opportunities by allocating up to 35% of its lineup to high-yield munis. While junk-rated municipal bonds reward investors with higher yields due to elevated credit risk, these bonds are usually less volatile than high-yield corporates.

TAXF also features a low expense ratio of 29 basis points.

ETF TRENDS

by JAMES COMTOIS

SEPTEMBER 6, 2022

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## **[DMB: Municipal Rated Bond CEF With A Low But Steady Yield](#)**

### **Summary**

- DMB provides investors a monthly federal tax-exempt dividend by investing in high-yielding municipal bonds, with an emphasis on infrastructure projects.
- Due to a looming recession, many investors find municipal bond funds like DMB attractive due to their local government appeal and tax-exempt status.
- DMB's steady monthly yield generated for the past few years is almost certain to stay constant as it is covered by the average coupon earned on its portfolio.

[Continue reading.](#)

### **Seeking Alpha**

Sep. 06, 2022

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## **[Top 4 Municipal New York City Bond Funds.](#)**

### KEY TAKEAWAYS

- New York City bond funds primarily invest in municipal districts and are used to build public projects such as highways, hospitals, and parks.
- These municipal bonds provide long-term, steady capital appreciation with a low degree of volatility.
- Generally, interest income earned on these bonds are also tax-exempt on local, state, and federal levels.

[Continue reading.](#)

### INVESTOPEDIA

By STEVEN NICKOLAS Updated September 05, 2022

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## **[New Ways to Finance Your Renewable Energy Projects Thanks to the U.S. Government: Procopio](#)**

Two forthcoming changes to U.S. law have the potential to significantly change how renewable energy projects are financed. Both changes are part of the [Inflation Reduction Act](#) signed into law by President Joe Biden on August 11, 2022, which along with provisions for business taxes, health care and Internal Revenue Service enforcement efforts contains incentive programs to combat climate change.

Specifically, the new law monetizes renewable energy credits through the *direct pay election* (under new Internal Revenue Code ("Code") §6417) and the *credit transfer election* (under new Code §6418). Both elections are effective for tax years beginning after December 31, 2022.

Let's look at each, one at a time.

### **Direct Pay Election**

The direct pay election was predominantly designed to provide the below-listed refundable tax credits to tax-exempt entities, state and local governments and political subdivisions, the Tennessee Valley Authority, tribal governments, Alaska Native Corporations, and cooperatives that furnish electricity to rural areas (the forgoing collectively referred to as "Tax-Exempt Entities"). New Code §6417 also provides a narrow allowance for refundable tax credits to taxable partnerships and S corporations in respect to the clean hydrogen production credit, the carbon capture credit, and the advanced manufacturing credit.

In spite of the fact Tax-Exempt Entities do not typically pay tax under the Code, new Code §6417 treats Tax-Exempt Entities as having made tax payments equal to the amount of the credits listed below. Whether paid by taxable entities or deemed paid by Tax-Exempt Entities, new Code §6417 treats the payments of tax or deemed payments of tax as having been made as of the later of the date of filing, the due date of the entity's tax return or the date a return would be due if required in the case of Tax-Exempt Entities that are government entities that do not file tax returns. Entities that make the election can then claim a refund of the excess taxes paid or deemed paid. The direct pay election applies to the following renewable energy credits:

- So much of the credit for alternative fuel vehicle refueling property as is treated as a business credit under Code § 38;
- So much of the credit for renewable electricity production attributable to qualified facilities originally placed in service after December 31, 2022;
- So much of the carbon oxide sequestration credit attributable to carbon capture equipment originally placed in service after December 31, 2022;
- The zero-emission nuclear power production credit;
- So much of the credit for clean hydrogen production credit attributable to qualified clean hydrogen facilities originally placed in service after December 31, 2012;
- For the U.S., states and political subdivisions, U.S. possessions, tax-exempt organizations other than cooperatives under Code §521, and tribal governments, the credit for qualified commercial clean vehicles determined under Code §45W(d)(3);
- The credit for advanced manufacturing production;
- The credit for clean electricity production;
- The credit for clean fuel production;
- The credit for energy investment determined under Code §48;
- The credit for qualifying advanced energy project investment; and
- The credit for clean electricity investment determined under Code §48E.

### **Credit Transfer Election**

All taxpayers, *excluding* Tax-Exempt Entities, may transfer all or a portion of their eligible credits to an unrelated taxpayer (again, excluding Tax-Exempt entities). Eligible credits include all credits listed above minus the credit for qualified commercial clean vehicles. The transfer consideration must be paid in cash, is not deductible to the transferee nor includible in the income of the transferor.

After the transfer, the transferee will be treated as the taxpayer entitled to the credit for all purposes under the Code. Applicable credits belong to a partnership, not its partners, which means the partnership must elect to transfer the credits.

### **The Monetization Impact on Project Funding**

Both of the above options have the potential to change the financing models of renewable energy

projects.

- The direct pay option allows pension funds, universities, municipalities, and investment funds with such tax-exempt investors to make direct investments in renewable energy products under certain conditions.
- The credit transfer provision expands the pool of available investors for renewable energy projects by allowing project developers to monetize applicable credits through third party sales without requiring those third-party transferees to be directly involved in the project, thereby mitigating development, construction and operational risks for the transferee assuming the transfer is properly negotiated and documented.

Both the direct pay and transfer elections will require planning as related to the amount of cash received and the timing of receipt. The direct pay option requires alternative financing to gap the bridge in time between the date of project funding the date the applicable entity receives the refundable tax credit after filing its federal tax return the following year. Similarly, the transferee of a credit transfer may require a discount on the purchase price of the credit due to the fact the transferee cannot claim the credit and receive its benefit until it files its tax return the year after the credit is generated.

We expect forthcoming guidance from the U.S. Department of Treasury to clarify the manner and timing of the elections.

Outside counsel can provide guidance on the appropriate choices to make when considering taking advantage of the benefits of the Inflation Reduction Act of 2022.

## **Procopio, Cory, Hargreaves & Savitch LLP**

by John Pedro Dombrowski

August 31, 2022

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## **[Infrastructure Investment and Jobs Act: Department of Energy - Faegre Drinker](#)**

### **Loan Programs Summary**

The Loan Programs Office (LPO) within the Department of Energy (DOE) provides a variety of different loans and loan guarantees for energy-related projects, with over \$40 billion in total funding available for such programs. This report summarizes these programs. The LPO provides access to debt capital, flexible financing, close partnerships throughout the loan term, and specialized financial, legal, technical and environmental expertise to all of the programs listed below. These programs also focus on projects which aim to reduce, avoid or sequester greenhouse gas emissions.

### **[Advanced Fossil Energy Projects Loan Guarantees](#)**

The LPO has \$8.5 billion in loan guarantee authority for Advanced Fossil Energy projects under the Title 17 Innovative Energy Loan Guarantee Program (Title 17), authorized by the Energy Policy Act of 2005. This program helps finance projects in four broad technology categories: advanced resource development, low-carbon power systems, carbon capture and efficiency improvements.

### **[Advanced Nuclear Energy Projects Loan Guarantees](#)**

The LPO has \$10.9 billion in loan guarantee authority for Advanced Nuclear Energy Projects, including \$2 billion for front-end projects, under Title 17 Innovative Energy Loan Guarantee Program (Title 17), authorized by the Energy Policy Act of 2005. This program helps finance projects in four broad technology categories: advanced nuclear reactors, small modular reactors, uprates and upgrades at existing facilities, and front-end nuclear technology (uranium conversion or enrichment, and/or nuclear fuel fabrication).

[Continue reading.](#)

by Juan Reyes III

August 30, 2022

**Faegre Drinker Biddle & Reath LLP**

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## **[Fitch: Rising Fuel Costs and Inflationary Trends Pressure Public Power](#)**

Fitch Ratings-New York/Austin-30 August 2022: Inflationary pressures and rising fuel costs could weaken credit quality across the public power sector if costs are not recovered in a timely manner, Fitch Ratings says. The US Energy Information Administration (EIA) forecasts power prices could double in 2022 from 2021 across the US as a result of higher commodity prices and capacity constraints that reduce available supplies of wholesale power. While increased fuel and purchased power costs are largely being passed through to retail and wholesale customers, broader inflationary pressures, including supply chain delays and capital investment escalation, could require additional rate increases to support credit quality, particularly if current trends persist in 2023.

Fitch's base case natural gas price expectations for 2022 and 2023 were recently raised by 47% and 23%, to \$6.25/mcf and \$4.00/mcf, respectively. However, Fitch expects natural gas prices to trend lower in 2024 and stabilize at \$2.75/mcf by 2025, with heightened fuel cost pressures also declining over the next two years.

Increases in coal commodity and transportation costs, although less than those for natural gas, and higher replacement power costs for drought-related reductions in hydropower are also contributing to higher electric prices. US power markets remain reliant on natural gas-fired and coal-fired generation for over 57% of the energy supply.

[Continue reading.](#)

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## **[Two Tools for Tracking the American Rescue Plan's Local and National Impacts.](#)**

The 2021 American Rescue Plan Act (ARPA), particularly the flexible dollars it made available to state and local governments through State and Local Fiscal Recovery Funds (SLFRF), marked a generational experiment in fiscal federalism. Not since the late 1980s has Washington engaged in general revenue sharing with state and local governments. And this time, the scale of investment—\$350 billion distributed over two years—was far greater.

The context for ARPA was also far different. Congress appropriated substantial aid to help counteract potentially devastating fiscal, economic, and health impacts of the COVID-19 pandemic at the state and local levels. Under the regulations implementing SLFRF, recipient governments must report information to the Treasury Department on how they are planning to use these funds, consistent with a set of broad categories of eligible spending under ARPA. However, much of that information varies in quality, consistency, coverage, and comparability, hampering efforts to understand spending priorities and better coordinate investment across places and time in support of a broad-based economic recovery.

These factors motivated our respective organizations—Brookings Metro and GREATER MSP—to create tools that gather, summarize, and visualize how local governments are putting SLFRF dollars to work. Brookings Metro partnered with the National League of Cities and the National Association of Counties to produce the Local Government ARPA Investment Tracker, which tracks data on SLFRF-supported projects in more than 300 large cities and counties around the country. And as part of its MSP Federal Funding Hub project, GREATER MSP partnered with 12 cities and 17 counties in the Minneapolis-Saint Paul region to generate the [MSP ARPA Tracker](#), which tracks those jurisdictions' spending plans using the same categories as the Local Government ARPA Investment Tracker. Our organizations have used these tools to assess the rate at which local governments are committing SLFRF dollars to specific projects, the broad spending priorities they are identifying, and how these vary across cities and counties and by jurisdiction size.

[Continue reading.](#)

## **The Brookings Institution**

by Alan Berube, Peter Frosch, and Allison Bell

August 30, 2022

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## **[EPA Will Propose to Designate PFOA and PFOS as CERCLA Hazardous Substances.](#)**

The U.S. Environmental Protection Agency (EPA) [announced](#) on August 26, 2022, that it will propose to designate perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS), “two of the most widely used per- and polyfluoroalkyl substances (PFAS),” as hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The proposal will include the salts and structural isomers of PFOA and PFOS. The rulemaking would require entities to report immediately releases of PFOA and PFOS that meet or exceed the reportable quantity (RQ). EPA will publish a notice of proposed rulemaking (NPRM) in the Federal Register “in the next several weeks,” beginning a 60-day comment period. EPA has posted a [prepublication version](#) of the NPRM.

The NPRM proposes to designate PFOA and PFOS, including their salts and structural isomers, as hazardous substances under CERCLA Section 102(a). Upon designation, any person in charge of a vessel or an offshore or onshore facility, as soon as they have knowledge of any release of such substances at or above the RQ, must immediately report such releases to the federal, state, Tribal, and local authorities. The proposed RQ for these designations is one pound or more in a 24-hour period. According to the NPRM, once EPA has collected more data on the size of releases and the resulting risks to human health and the environment, it may consider issuing a regulation adjusting

the RQs for these substances.

The five broad categories of entities potentially affected by this action include:

- PFOA and/or PFOS manufacturers (including importers and importers of articles);
- PFOA and/or PFOS processors;
- Manufacturers of products containing PFOA and/or PFOS;
- Downstream product manufacturers and users of PFOA and/or PFOS products; and
- Waste management and wastewater treatment facilities.

In addition, when selling or transferring federally-owned real property, federal agencies would be required to meet all of the property transfer requirements in CERCLA Section 120(h), including providing notice when any hazardous substance “was stored for one year or more, known to have been released, or disposed of” and providing a covenant warranting that “all remedial action necessary to protect human health and the environment with respect to any [hazardous substances] remaining on the property has been taken before the date of such transfer, and any additional remedial action found to be necessary after the date of such transfer shall be conducted by the United States.” EPA notes that there would also be an obligation for the Department of Transportation (DOT) to list and regulate PFOA and PFOS as hazardous materials under the Hazardous Materials Transportation Act (HMTA).

According to the NPRM, the final designations would provide additional tools that the government and others could use to address PFOA/PFOS contamination and, thus, could facilitate an increase in the pace of cleanups of PFOA/PFOS contaminated sites. The indirect, downstream effects of these designations could include the following:

- EPA and other agencies exercising delegated CERCLA authority could respond to PFOA and PFOS releases and threatened releases without making the imminent and substantial danger finding that is required for responses now;
- EPA and delegated agencies could require potentially responsible parties to address PFOA or PFOS releases that pose an imminent and substantial endangerment to public health or welfare or the environment;
- EPA and delegated agencies could recover PFOA and PFOS cleanup costs from potentially responsible parties, to facilitate having polluters and other potentially responsible parties, rather than taxpayers, pay for these cleanups; and
- Private parties that conduct cleanups that are consistent with the National Oil and Hazardous Substances Contingency Plan (NCP) could also recover PFOA and PFOS cleanup costs from potentially responsible parties.

According to the NPRM, in addition to this action, in 2022, EPA will be developing an advance notice of proposed rulemaking (ANPR) seeking comments and data to assist in the development of potential future regulations pertaining to other PFAS designation as hazardous substances under CERCLA.

## **Commentary**

The proposal comes as no surprise and it is part of EPA’s broad PFAS Action Plan. The designation of these chemicals, found everywhere in contaminated media, would mean that CERCLA’s liability and cost recovery scheme would apply to the cleanup of contaminated media once the rule is issued in final, as is expected. Reporting requirements would also apply to releases of one pound or more of PFOA and PFOS within a 24-hour period that are not otherwise exempt from reporting.

Not everyone is thrilled with the initiative. Senator Capito (R-WV) expressed concern with the

“uncertainty and unintended consequences” of the proposal and urged EPA to prioritize the development of technologies to detect, remove, and destroy PFAS at the government’s expense, not manufacturers. The Environmental Working Group, on the other hand, has identified some 42,000 industrial and municipal sites in the United States known or suspected still to be using PFAS, although how many are known or suspected of using PFOA and PFOS is unclear.

The remediation implications of the proposal are staggering. Given the ubiquity of the substances and their many uses, few entities will be spared CERCLA and related cleanup liability in cases where PFOA and PFOS contamination is found. Many are expected to comment on the proposal.

## **Bergeson & Campbell PC**

August 29 2022

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### **Will One PFAS Consequence Be Cities and Towns Getting Out of the Water Business? - Mintz**

Now that EPA has designated as “hazardous substances” at least two of the hundreds of “forever chemicals” known collectively as PFAS, does it make sense for the hundreds if not thousands of cities and towns across the country whose water supplies have been contaminated by PFAS to remain in the water business?

Here in the northeastern United States, the provision of drinking water has remained a municipal function in many municipalities even though regional drinking water and wastewater treatment providers are available. But perhaps PFAS will finally drive the regionalization of this critically important service?

The Boston Globe [reports](#) that at least for now the City of Cambridge will be getting its drinking water from the Massachusetts Water Resources Authority after hundreds of years providing its own water from reservoirs in Cambridge and nearby towns.

Given the level of treatment necessary to reduce PFAS concentrations to the infinitesimally small (parts per quadrillion or thousandths of a trillion) concentrations EPA will say (and Massachusetts DEP has already said) is safe, and the cost of that treatment, perhaps regional treatment of drinking water is an idea whose time has come. And perhaps moving to regional supplying of drinking water might be a step on the path toward regional wastewater treatment?

In Cambridge, Owen O’Riordan, the acting city manager, said the city’s move to the MWRA “reflects our commitment” to provide safe water to residents, including pregnant or nursing women, infants, and people with compromised immune systems — all of whom are among those most impacted by increased PFAS levels.

**Mintz** - Jeffrey R. Porter

August 29 2022

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## **[S&P: U.S. Convention Center Authorities Make Their Comeback As Big Events Lift Revenue](#)**

### **Key Takeaways**

- Large-scale events have returned to U.S. convention centers as vaccination rates, health measures, and audience comfort levels improve
- Many convention center authorities are managing event schedules in the summer and fall of 2022 that mirror the number of 2019 bookings
- During the shutdown some issuers restructured their debt, which extended maturities. While this didn't have a material impact on the credit quality of most issuers, if not managed well, extending maturities can create more fixed-cost pressure over the long term.

[Continue reading.](#)

29 Aug, 2022

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## **[Federal Grants for Broadband Expansion Begin to Flow.](#)**

**Louisiana is the first state to receive planning dollars from a pair of high-speed internet programs in the infrastructure law. Funding is expected to reach other states soon.**

The federal government is cracking open the spigot on billions of dollars available to states for expanding high-speed internet access.

The Commerce Department's National Telecommunications and Information Administration said this week Louisiana was the first state to receive planning grants under two programs that are part of the bipartisan infrastructure law President Biden signed last year. All 50 states and six territories applied for funding from these programs and grants will be awarded on a rolling basis, according to Commerce.

"The Internet for All initiative is on track and on schedule," Secretary of Commerce Gina Raimondo said in a statement, referencing the name the Biden administration is using for a slate of broadband programs in the infrastructure law. "Over the coming weeks, every state and territory will have funding in hand."

[Continue reading.](#)

### **Route Fifty**

By Bill Lucia

SEPTEMBER 1, 2022

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## **[Fitch: Cyber Risk Mitigation Adds to Cost Pressures for Not-for-Profit](#)**

## Hospitals

Fitch Ratings-New York/Chicago/Austin-29 August 2022: Cyber risk mitigation is becoming more expensive for not-for-profit hospitals and healthcare systems, which are subject to increasing frequency and severity of attacks, Fitch Ratings says in its report Cyber Risk Continues to Grow for U.S. Not-For-Profit Hospital and Health Systems. Increasing risk requires greater investment in hardware, software and internal controls in order to prevent and address cyber breaches. However, not-for-profit hospitals are reporting thinner margins amid ongoing cost pressures, necessitating cost containment and revenue-raising measures, and cyber security spending may not be prioritized.

Both quantitative and qualitative factors, including the persistence of effects on operations and management responses, influence the effects of cyber breaches on ratings. Fitch has not downgraded any hospitals or health systems due to a cyberattack to date.

However, the credit effects of a cyberattack could be amplified due to labor pressures and inflation compressing not-for-profit hospital margins. Operating metrics are down significantly in interim 2022 for most health systems compared with 2021. Issuers with weaker financial profiles would have fewer resources available to prevent or recover from a cyberattack, potentially leading to quality of care and reputational risks, and further margin erosion.

Cyber breaches that disclose patient information carry the risk of loss of consumer confidence, litigation costs and federal regulatory enforcement actions, all of which could negatively affect financial performance. Cyberattacks also have the potential to affect quality of care by affecting medical devices or denying access to patient data.

Cyber insurance remains a key risk mitigant. However, the rapid pace of cyber insurance premium growth and a tightening underwriting environment may result in the policies becoming cost prohibitive to less financially flexible organizations. Fitch considers cybersecurity in its analysis as part of its Environmental, Social and Governance (ESG) framework. A hospital's ESG Relevance Score would be elevated if cyber risk were deemed to be material to the rating.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[The Inflation Reduction Act: How Will its Provisions Impact Offshore Wind Development? - Day Pitney](#)**

The Inflation Reduction Act of 2022 (IRA or the act) was signed into law on August 16, 2022. Among the hundreds of pages of this legislation, the IRA contains some significant provisions geared toward the development of clean energy, including from offshore wind. In this advisory, we focus on four main areas of the IRA that could impact the development of offshore wind: (1) planning for the transmission infrastructure needed for the development of offshore wind; (2) support for state siting and other permitting authorities to do their review and approval work in siting offshore wind transmission, including through potentially more certainty in the timing of such approvals; (3) expansion of the potential lease areas for offshore wind offered by the Bureau of Ocean Energy Management (BOEM); and (4) beneficial changes to the tax credits available for renewable energy developers, including offshore wind developers.

### **Regional transmission planning: funding to study transmission solutions**

Part 5 of the IRA relates to electric transmission. In particular, §§ 50152 and 50153 provide funding in various forms for activities related to the development of offshore wind transmission. Section 50153 specifically appropriates \$100 million for expenses associated with planning, modeling and analysis regarding interregional electric transmission and, particularly, transmission of electricity generated by offshore wind. The studies conducted pursuant to § 50153(b)(2) must specifically take into account the local, regional, and national economic, reliability, resilience, security, public policy and environmental benefits of, among other things, transmission of electricity generated by offshore wind.

**Potential impact:** The issuance of funds to convene stakeholders to discuss interregional and offshore wind transmission and perform studies on interregional and offshore wind transmission planning could move needed transmission infrastructure development forward. This initiative will dovetail with efforts already underway at the state level, with the Regional Transmission Organizations and Independent System Operators, and at the Federal Energy Regulatory Commission (FERC) to plan and build the transmission needed to support the clean energy grid. These efforts, collectively, could significantly improve the ability of the large amounts of offshore wind generation being developed to be interconnected and transmitted to populous load centers.

[Continue reading.](#)

**Day Pitney Advisory**

Day Pitney Co-author(s) Paul N. Belval, Eric K. Runge, Margaret Czepiel

August 30, 2022

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### **[New Mass. Law a Step Forward for Offshore Wind: Day Pitney](#)**

Day Pitney Energy Attorneys Eric Runge, Margaret Czepiel and Paul Belval authored the article, "New Mass. Law a Step Forward for Offshore Wind," for Law360. The article discusses a significant piece of legislation aimed at moving Massachusetts toward its goal of net-zero greenhouse gas emissions by 2050, with a focus on offshore wind development.

Read the full article [here](#).

**Day Pitney Co-author(s) Paul N. Belval, Eric K. Runge, Margaret Czepiel**

August 29, 2022

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### **[Investors Snap Up Airport Munis.](#)**

\$1.8 BILLION

That's the amount of municipal debt Chicago's O'Hare International Airport sold Tuesday, in the largest airport bond sale this year. The sale reflects strong investor demand, driven by expectations that air travel will continue to bounce back from the Covid-19 pandemic.

S&P Global Ratings this year raised O'Hare and the Dallas-Fort Worth airport to a rating of A+ from A and upgraded aviation revenue bonds issued by Miami-Dade County to A from A-.

Mutual funds and other investors this week submitted orders for four times as much debt as Chicago had to sell, allowing the city to trim interest rates, said finance chief Jennie Huang Bennett. Ten-year securities ultimately carried a tax-exempt yield of 2.94%.

**The Wall Street Journal**

By Heather Gillers

Aug 31, 2022

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### **[Chicago O'Hare Sells \\$1.8 Billion of Debt in Year's Largest Airport Deal.](#)**

- **January 2031 bonds priced with a 5% coupon and 3.69% yield**
- **City plans annual issuance for next decade to fund revamp**

Chicago has sold the largest municipal airport transaction this year amid swirling volatility in fixed-income markets, pricing \$1.8 billion of debt that will partially fund improvements at O'Hare International Airport.

The \$1.1 billion Series 2022A includes bonds due in January 2031 which priced with a 5% coupon and 3.69% yield, while debt due 2055 with a 5% coupon yielded 4.74%, according to data collected by Bloomberg.

“We are very happy with where the pricing ended up,” said Jennie Huang Bennett, Chicago’s chief financial officer, in an interview. She said the deal drew more than 100 investors and received about \$6.3 billion of orders, making it at least four-times oversubscribed. Bennett attributed part of that investor interest to recent upgrades on the credit from both S&P Global Ratings and Fitch Ratings.

The O’Hare deal, which is the third-largest bond issue in Chicago history, priced into a weak market which saw benchmark municipal bond yields rise so far this week. Thirty-year top-rated municipals are yielding 3.29% — a five-basis point increase from where the market closed last Friday. Municipal market returns have been negative for much of the year, as an aggressive Federal Reserve rate hike schedule roils fixed-income assets. The market more broadly has lost about 8.6% since January, with a 2.2% loss so far in August.

“We garnered a lot of market attention over the course of the last few days, just given our relative size,” said Bennett. “Ultimately we were able to command a lot of attention on this transaction.”

The \$1.8 billion deal will both refinance existing debt and fund \$1.1 billion of new capital investments as the city embarks on its O’Hare 21 project, which encompasses runway extensions, the expansion of Terminal 5, and the terminal area plan, which includes construction of two satellite concourses as well as a revamped global hub that doubles the size of Terminal 2.

Another \$1.5 billion sale in about a year’s time is in the works, said Bennett. She anticipates annual issuance to the tune of \$1 billion as the airport completes its terminal area plan over the next decade.

It’s been a busy year for airport bonds with issuance up 70.2% year-to-date, according to data compiled by Bloomberg, even as overall municipal bond issuance has contracted by about 12%. Much of that volume comes from deferred maintenance projects as airport activity shrank at terminals and across the market during the pandemic.

## **Bloomberg Markets**

By Mackenzie Hawkins and Danielle Moran

August 31, 2022

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## **[Some GOP States Push Back Against ESG Investing Trend.](#)**

Republicans are stepping up their efforts to prevent investors from considering environmental and other factors in their decisions. They are running up against the trillions of dollars in investments committed to funds addressing such concerns.

In the past week, Florida Gov. Ron DeSantis and other officials banned state pension fund managers from incorporating environmental, social and governance—or ESG—factors into investments. Texas Comptroller Glenn Hegar barred BlackRock Inc., BNP Paribas SA, Credit Suisse Group AG and others from doing business there because they “boycott energy companies.” West Virginia in July took a similar step, kicking out BlackRock, JPMorgan Chase & Co. and others while saying ESG

hurts its economy.

The criticism focuses on the belief that Wall Street and investors are cutting off fossil-fuel producers from lending and investment. Republicans have also accused investors of trying to force companies to follow a liberal agenda at the expense of a pursuit of profit.

[Continue reading.](#)

## **The Wall Street Journal**

By Amrith Ramkumar

Aug. 30, 2022

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### **[Red State Republicans' War on ESG Will Have Losses on Both Sides.](#)**

**GOP lawmakers in some of the most conservative US states are trying to ban banks and asset managers that consider ESG criteria from their pension funds and municipal markets, but the move might backfire.**

The financial consequences for most asset managers and banks from all the anti-ESG rhetoric coming out of the mouths of Republican politicians in the US is almost certain to be minimal—at least for now.

Even if money managers who consider ESG criteria were banned from handling public pension funds in states such as Florida, Texas, Oklahoma, and West Virginia—where ESG skepticism is high—a back of the envelope review supports the notion that any business losses would be insignificant relative to the firms' overall bottom line.

Take Florida for example. Governor Ron DeSantis has arguably been the most outspoken basher of environmental, social and governance investing. He said last week that the state's pension funds will no longer consider ESG criteria when seeking to generate the highest returns possible.

While DeSantis didn't single out any companies, BlackRock Inc., the world's largest asset manager, has received criticisms from several GOP-run states who contend the New York-based firm is pursuing ESG investment policies to the detriment of their state pension funds.

BlackRock oversaw about \$7.2 billion for the Florida Retirement System Pension Plan as recently as June. Given BlackRock's business model, it's safe to assume that most of those assets were in index-tracking funds that charge fees equal to less than 10 basis points, said Jon Hale, director of sustainability research for the Americas at Morningstar Inc.'s Sustainalytics unit.

Presuming these figures are accurate, BlackRock would be earning about \$7.2 million of annual fees from the Florida pension. That's a tiny amount when compared with the firm's total net revenue of \$19.4 billion in 2021. In other words, Florida's business probably isn't enough to cause BlackRock to rethink its ESG policies.

And BlackRock isn't alone. Examples like this indicate that the financial repercussions from the GOP's prognostications about other large asset managers and banks will be very little, Hale said.

"And I doubt these efforts will have much long-term impact," he said. "For now, they're mostly being

used as political talking points.”

Hale said the Florida rule simply reflects DeSantis’s rage at corporations for becoming more focused on issues such as climate change and societal inequities.

Still, there is business beyond state pension plans to consider. Financial firms also provide municipal bond underwriting and other services—and states may want to think twice before blocking these companies from offering their expertise. It could end up backfiring.

One example where this already may be the case is Texas. The state introduced two laws last year that bar banks that “boycott” oil and gas companies or “discriminate” against firearms entities from government contracts. The gun ruling resulted in lower municipal bond market share for banks such as Goldman Sachs Group Inc., JPMorgan Chase & Co., Bank of America Corp. and Citigroup Inc. that sought to limit financing for certain retailers and manufacturers, said Rob Du Boff, senior ESG analyst at Bloomberg Intelligence.

However, the decision to exclude major banks on the basis of their ESG policies also made the market less competitive and probably led to higher coupon payments for Texas entities in the order of \$303 million to \$532 million in the first eight months under the new laws, Du Boff said, citing a study from Daniel Garrett of the University of Pennsylvania and Ivan Ivanov of the Federal Reserve Board of Governors.

Still, what if politics outweigh the financial downsides for states and all this anti-ESG bluster leads to more boycotts? Andrew Poreda, senior ESG research analyst at Sage Advisory Services, said the longer-term effects for the financial-services industry may be greater than generally perceived.

What’s happening in states like Florida and Texas highlights “a bigger fear that appears to be playing out,” he said in a telephone interview from his office in Austin, Texas. “Are asset managers ultimately going to be forced to pick a side and be ‘red’ or ‘blue’ managers? If you asked us six months ago, we would have thought that very notion to be far-fetched. Now, it sure looks like we are headed that way.”

This may end up having serious implications for asset managers, municipal bond underwriters and investment bankers in the country’s biggest states, Poreda said. It never used to be the requirement of a fiduciary to align ideologically in lockstep with their client, “but that appears to be our new future, unless cooler heads prevail,” he said.

## **Bloomberg Green**

By Tim Quinson

August 31, 2022

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### **[To ESG or Not: “Damned If You Do, Damned If You Don’t,” at Least in Some US States - Mayer Brown](#)**

On July 28, 2022, the West Virginia State Treasurer [named](#) five banks as the first-listed Restricted Financial Institutions under West Virginia’s [Senate Bill 262](#) for having engaged in boycotts of energy companies and thus effectively has banned these banks from future banking contracts with the state.

Apparently not to be outdone, on August 24, 2022, the comptroller of public accounts for the State of Texas (Comptroller) [released](#) the list of financial companies that boycott energy companies, a list required under the Texas statute ([Tex. Gov't Code sec. 809.051](#)) prohibiting investment in financial companies that boycott certain energy companies (the Texas Boycott Code). The list includes 10 financial firms (mostly non-US banks) and 348 registered investment companies.

The criteria initially used by the Comptroller to screen financial firms for the list included public pledges to Climate Action 100+ and membership in the United Nations-convened Net-Zero Banking Alliance or the Net Zero Asset Managers Initiative, as well as ESG rating information provided by MSCI. Requests for verification were apparently also sent to the firms.

[Continue reading.](#)

**Mayer Brown** - J. Paul Forrester, Erin K. Cho, Leslie S. Cruz and Adam D. Kanter

August 29 2022

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## **[The Cost of Mixing Culture Wars With Public Finance.](#)**

**As with pension fund divestment policies, it's tempting for states and local governments to blacklist companies over their public policy stances. But it's the taxpayers who are likely to be the collateral damage losers.**

Given the nation's deep political divisions nowadays, it should come as no surprise that some state and local politicians from both sides of the aisle would seek to leverage their governments' purchasing power to send messages to corporate America and play to their base by doing so. After all, it's not their own money — it's the public's — so why not exploit political power to advance one's partisan posturing?

The most common manifestations of these impulses to make political statements through public funds have historically been public pensions' divestment campaigns, starting with South Africa in the 1960s, then with Sudan in the early 2000s and continuing up to this year's Russia divestment wave. Critics would say that pension policies focused on corporations' environmental, social and governance (ESG) profiles are liberals' playbook strategy to pressure companies into bending to their political will. The same might be said about pension funds that avoid investing in firearms manufacturers.

The complaint — and it's a valid one in my view — has always been that these political statements rarely work to the benefit of the pension funds and that the employers' taxpayers are ultimately obligated to foot the bill for investment underperformance. That grievance is now popular with 19 Republican attorneys general. However, many ESG advocates would counterclaim that more-sustainable and farsighted corporate policies will produce better investment returns over the long term. That debate in pension-land doesn't look likely to end any time soon; we really can't properly evaluate investment efficacy in less than a decade or even two.

[Continue reading.](#)

**governing.com**

by Girard Miller

Aug. 30, 2022

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## [Texas' Answer to 'Woke' Investing Looks Kind of Woke.](#)

**The state's anti-ESG plan to punish financial firms deemed hostile to fossil-fuel producers is the same values-based approach it claims it is retaliating against.**

One of the more surprising aspects of Texas' anti-ESG law, just unleashed on the likes of BlackRock Inc., is that it turns out to offer a great lesson on environmental, social and governance investing's cousin, socially responsible investing, or SRI. Not intentionally, of course.

ESG investing is often conflated with SRI. Both get lumped together as financial piety or under that term now so overused and abused your dad probably says it, "woke." They are not the same thing. SRI is based on values and most commonly exclusionary: "I don't want to fund X undesirable sector, so I won't give it my money." ESG is based on risk and more nuanced: "I foresee risks related to ESG issues that may either impair or enhance a security's value, take account of measures to address those, and then under or overweight it accordingly." SRI is about maximizing virtuousness; ESG is about maximizing wealth.

Can ESG labels be used to mask other intentions? Of course; as with any other investing theme, there is ample potential for hucksterism or simple sloppiness. Even Larry Fink, BlackRock's chief executive officer, has been known to mix up ESG with SRI.

[Continue reading.](#)

### **Bloomberg Opinion**

By Liam Denning

August 29, 2022

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## [Urban Migration Slows in 2022 for Many Major US Cities.](#)

**New data suggests that the pandemic-spurred flight from big coastal metros is reversing as employers push workers to return to the office.**

Several major US cities that saw increased out-migration during the pandemic are starting to see the trend reverse, according to a new report from Markerr, a real estate insights company that uses United States Postal Service change-of-address data, census information, and its own data-science methods to estimate population change.

New York City, Los Angeles, Chicago, San Francisco and Washington, D.C., all continued to see more people leave than move to their metro areas in the first half of 2022. But the flight is less dramatic than before. As of July, all those cities lost fewer people this year than they did through July of 2021, 2020 or even 2019 — before pandemic disruptions began.

[Continue reading.](#)

## **Bloomberg CityLab**

By Sarah Holder

September 3, 2022

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### **[Pension Funds Are Selling Their Office Buildings.](#)**

**Big investors unwind bets on office space as changing work environment raises prospect many downtown buildings will be less used**

Major U.S. and Canadian pension funds are cutting back investments in office buildings, betting that prices will likely fall as the five-day office workweek becomes a thing of the past.

Retirement funds are still buying property, partly in a bid to reduce the impact of inflation. But those investments are more focused on warehouses, lab space, housing and infrastructure such as airports.

The shift is part of a broader transition away from traditional real estate holdings in offices and shopping centers as the Covid-19 pandemic has accelerated the rise of e-commerce and remote work.

[Continue reading.](#)

## **The Wall Street Journal**

By Heather Gillers

Aug. 25, 2022

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### **[Banks Keep Buying Hard-Hit Muni Bonds.](#)**

Banks are buying lots of municipal debt at a time when that is not a hugely popular thing to do.

The par value of municipal bonds held by banks reached a 10-year record of \$430 billion, according to FDIC data compiled by BankRegData and Municipal Market Analytics. But falling bond prices have reduced the market value of those holdings to \$405 billion.

Banks are also making more private loans to state and local governments, including more than \$9 billion in the second quarter, the most in a decade. That brings the total amount of so-called privately placed municipal debt to a record \$204 billion, according to the data.

State and local governments sometimes choose to borrow directly from banks when they need a relatively small amount and want to avoid the costs and administrative work associated with selling securities on the public market.

The banks are buying up the debt at low prices as many investors flee bonds in response to rising rates. In a market dominated by mutual funds, where prices can drop quickly when household

investors freak out, this means bondholders cashing out may have another potential buyer they count on.

“Banks love state and local borrowers,” said Municipal Market Analytics partner Matt Fabian. “When regular muni investors are selling, banks may well be buying.”

## **The Wall Street Journal**

By Heather Gillers

Aug 24, 2022

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### **[BDA Bonding Time Podcast.](#)**

The latest episode of BDA’s Bonding Time podcast featuring the BDA’s Brett Bolton with Hilltop Securities’ Tom Kozlik on Municipal Bond Provisions and the Congressional agenda.

[Listen to audio.](#)

## **Bond Dealers of America**

Mike Nicholas

August 31, 2022

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### **[Munis And Vegas \(Bloomberg Audio\)](#)**

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, breaks down the muni market across the country. Hosted by Paul Sweeney and Kriti Gupta.

[Listen to audio.](#)

## **Bloomberg Audio**

Sep 02, 2022

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### **[The Key Risks Facing the Muni Bond Market.](#)**

S&P Global Ratings Managing Director Robin Prunty discusses the key risks facing the municipal bond market with Taylor Riggs on “Bloomberg Markets: The Close.”

[Watch video](#)

## **Bloomberg Markets: The Close**

August 31st, 2022

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## **Two Options for ESG and Muni Exposure.**

### **2 Bond ETF Options as ESG Growth Proliferates in Munis**

Environmental, social, and governance (ESG) continues to grow, and this year, the space is seeing expansion into municipal bonds. Real estate prices have climbed in the last few years, creating the need for affordable housing, which is feeding into ESG and muni growth.

“ESG is poised for another record-breaking year of new issuance in the \$4 trillion municipal-bond market as state and local agencies look to Wall Street for help addressing the affordable housing crisis,” a Bloomberg Law article noted.

“Sales of municipal bonds that are branded with a green, social or sustainability label are up 2.6% this year — bucking the roughly 12% decline in the overall market, according to data compiled by Bloomberg. Total ESG muni issuance could surpass last year’s record to reach over \$60 billion by the end of 2022, per S&P Global Ratings projections released in February.

One option for ESG muni exposure is the Vanguard ESG U.S. Corporate Bond ETF (VCEB). Additionally, the fund doesn’t command a high premium with its low expense ratio of 0.12%.

VCEB seeks to track the performance of the Bloomberg MSCI US Corporate SRI Select Index, which excludes bonds with maturities of one year or less and with less than \$750 million outstanding, and it is screened for certain ESG criteria by the index provider, which is independent of Vanguard.

VCEB highlights:

- Provides debt issues screened for certain ESG criteria.
- Specifically excludes bonds of companies that the index sponsor determines are involved in and/or derive threshold amounts of revenue from certain activities or business segments related to adult entertainment, alcohol, gambling, tobacco, nuclear weapons, controversial weapons, conventional weapons, civilian firearms, nuclear power, genetically modified organisms, or thermal coal, oil, or gas.
- Excludes bonds of companies that, as determined by the index sponsor, do not meet certain standards defined by the index sponsor’s ESG controversies assessment framework, as well as firms that fail to have at least one woman on their boards.

One place to get tax-free municipal bond exposure is via an ETF wrapper with funds like the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. This index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

ETF TRENDS

by BEN HERNANDEZ

SEPTEMBER 1, 2022

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## **Embracing Muni Bonds for Recession Protection.**

Debate lingers regarding whether or not the U.S. economy is in a recession, but recent GDP data are discouraging, indicating market participants may want to evaluate recession-buffering assets.

Traditionally, investors turn to fixed income assets when recessions set in, but that strategy is imperiled this year due to rising interest rates. Speaking of which, Federal Reserve Chairman Jerome Powell last Friday spooked markets, signaling the central bank will remain aggressive with its rate hikes in a bid to cool inflation. Some traders believe there's at least a 60% chance the Fed raises rates by 75 basis points following its September meeting.

Logically, some investors are skittish about bonds in the current environment, but some experts see opportunities in municipal bonds for recession protection. On that note, the VanEck Vectors High Yield Muni ETF (HYD) is an exchange traded fund to consider.

"A recession is characterized by a slowdown in consumer spending and an increase in unemployment. This may lead some to believe that at the onset of a recession, tax revenues for state and local governments fall, but this hasn't been the case. Historically, tax revenues have declined following a recession, but the negative impact is usually long after the recession has already started," noted Cooper Howard of Charles Schwab.

Tax collection is a primary concern for investors with any municipal bond ETF. Although HYD is a high-yield fund, the ability of its component states to collect taxes, broadly speaking, isn't a major concern as of yet. For example, California is the ETF's largest state allocation at 12.6% and revenue in the Golden State is soaring.

Another point in favor of HYD, particularly given its status as a high-yield ETF, is that credit quality across the municipal landscape is improving. That could support HYD's status as a recession-buffering asset for investors to consider.

"Conditions for most state and local governments are strong, in our view, due to the substantial fiscal support after the start of the COVID-19 crisis. Tax revenues also have been surging, as illustrated in the chart above, which has helped bolster state and local governments' coffers. To illustrate, rainy-day fund balances, which is money that states have set aside and can use during unexpected deficits, are at near-record levels. Even Illinois, the lowest-rated state, has a rainy-day fund balance in excess of \$1 billion. That's a substantial improvement from February 2020 when it was only \$60,000," concluded Howard.

Illinois is HYD's second-largest state exposure at 12%.

ETF TRENDS

TOM LYDON

AUGUST 29, 2022

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## **Muni Bond Funds Finish Another Rough Month.**

\$3.4 BILLION

That's the amount investors withdrew from municipal bond funds in the week ended Aug. 31, closing out another rough month for bonds in general and munis in particular. Of the 10 weeks with the highest muni bond outflows since 1992, five occurred this year.

Rising rates remain a key culprit, but credit concerns are popping up as well. Some analysts believe public transportation ridership will never rebound to pre-pandemic levels, weakening transit bonds in cities like New York and San Francisco. Barclays Credit Research recommended earlier this month that defensive investors seek out insured munis.

## **The Wall Street Journal**

By Heather Gillers

Sep 1, 2022

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### **[S&P Mid-Year Review: Tender Option Bond Activity Reaches New Highs As Interest Rates Rise](#)**

S&P Global Ratings is providing a recap of rated tender option bond (TOB) activity in the first half of 2022.

#### **New Issuance Soars As Interest Rates Rise**

TOB issuance surged during the first six months of 2022, largely due to rising interest rates. Some issuers took advantage of the higher rates by collapsing existing low-yield TOB trusts and creating new ones. Add-on activity also increased as issuers added more underlying bonds and issued more TOB certificates to existing trusts.

New issuance increased approximately 307% year over year to 273 new trusts rated by S&P Global Ratings as of June 2022, compared with 67 new TOBs rated as of June 2021 (see chart 1a). We rated 101 new trusts in May—a new monthly high. The top four liquidity providers for the 273 new trusts were JPMorgan Chase Bank N.A. (76 TOBs), Barclays Bank PLC (67), Bank of America N.A. (35), and Royal Bank of Canada (32).

Par issuance reached a high of approximately \$5.5 billion in June, primarily due to the dramatic rise in second-quarter issuance. Total issuance tripled to \$4.2 billion in second-quarter 2022 from \$1.3 billion in the previous quarter, versus \$1.6 billion in second-quarter 2021 and \$1.0 billion in first-quarter 2021 (see chart 1b).

[Continue reading.](#) **[Free registration required.]**

22 Aug, 2022

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### **[Cities Brace for This Season's Colliding Climate Disasters.](#)**

**May to October has become known as the “danger season” — when the US is most at risk of experiencing back-to-back climate disasters like heat waves, wildfires, drought and storms.**

As summer in the US approaches peak wildfire and hurricane seasons, with above-normal activity predicted for the latter, experts worry that persistent heat waves can pack a deadly one-two punch as they coincide with extreme storms and severe droughts.

Such a threat played out in August 2020, when a heat wave blanketed Louisiana right after Hurricane Laura hit, leaving residents in 100-degree Fahrenheit weather without power. Of the 31 storm-related deaths reported, eight were “heat-related” and nine were due to carbon monoxide poisoning, likely from a generator. Then in October, as parishes were barely recovering in the sweltering heat, Hurricane Delta came barreling up the Gulf Coast.

These days, disasters seldom happen in isolation, even as most response and aid programs still treat them as one-off events. Events are overlapping, and hitting cities one right after another. The period between May and October, dubbed “danger season” by the Union of Concerned Scientists (UCS), is when extreme weather hazards are most likely to collide. Senior scientist Juan Declet-Barreto at UCS worries that the slow start to this year’s Atlantic hurricane season could mean a pile-up of severe storms over the next two months.

[Continue reading.](#)

## **Bloomberg CityLab**

By Linda Poon

August 25, 2022

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## **[S&P Credit FAQ: How Do U.S. Pension/OPEB Credit Analysis Guidelines Stand Up Amid High Inflation And Lower 2022 Market Returns?](#)**

### **Table of Contents**

Pension and other postemployment benefit (OPEB) obligations remain a focus of S&P Global Ratings’ U.S. public finance (USPF) credit analysis, and with the recent equity market returns widely missing target rates of return, volatility within pension assumptions is on investors’ minds in 2022.

Since S&P Global Ratings published “Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Benefit Obligations For GO Debt, Local Government GO Ratings, And State Ratings,” on Oct. 7, 2019, its guidance is materially unchanged. However, amid the current high inflation and low market returns, we answers the most frequently asked questions from investors and other market participants about this guidance.

[Continue reading.](#)

23 Aug, 2022

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## **[Bond Sales Get Too Expensive Just When Public Pensions Need Them.](#)**

- **Municipal pension debt sales fall 70% from 2021 pace**
- **Returns hit by stock drop as rate rises make borrowing costly**

US cities and states have backed away from selling bonds to cover pension obligations because of rising borrowing costs, increasing their long-term burden of unfunded pension gaps.

So far this year, municipal governments sold just \$2.7 billion of bonds in which proceeds would at least in part help finance retirement systems, an almost 70% drop from the same period a year ago, according to data compiled by Bloomberg. At the same time, an index of 10-year, AAA benchmark yields has risen to about 2.5% from near 1% in January.

“The market now makes it more difficult to justify” selling pension bonds, Pat Luby, municipal strategist at Creditsights Inc., said in an interview. “It’s not impossible, but it’s definitely more difficult to do.”

[Continue reading.](#)

## **Bloomberg Markets**

By Hadriana Lowenkron

August 23, 2022

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### **Fitch: US Water Utilities Withstanding Inflationary Pressures**

Fitch Ratings-New York-23 August 2022: U.S. water utilities have fared remarkably well post-coronavirus and are withstanding the effects of inflation on operations and capital spending, according to Fitch Ratings’ latest annual peer review for the sector.

Operating costs are up across the board after a decline in fiscal 2020, but year-over-year operating revenue growth largely kept pace in fiscal 2021. Capex-to-depreciation also increased for retail and wholesale issuers in 2021, likely as a result of greater needs and higher pricing for labor and materials. The five-year average median ratios for retail systems are above 150% for the third year in a row, whereas the ratio for wholesale systems totaled 170% in 2021. Leverage also fell slightly for retail systems and increased for wholesale systems.

Liquidity for water utilities remains robust with solid COFO levels and current days cash on hand well over 550 days, which should buffer the effects of even higher inflation through 2022 year-end. “Despite some minor bumps, water utilities are positioned quite well to absorb higher costs in 2022 and rebound heading into 2023 as the rate of inflation shows signs of slowing,” said Managing Director Dennis Pidherny.

Fitch’s U.S. Water and Sewer: Peer Review is a point-in-time assessment of Fitch-rated public water and sewer utilities. It assists market participants in making their own comparisons among the recent financial performance of wholesale and retail water and sewer systems. It is accompanied by the 2022 Water and Sewer Fitch Analytical Comparative Tool (FACT), an interactive tool that provides enhanced trend analysis and peer comparison tables. The statistics reflect rating actions taken through July 2022 and historical financial data through Dec. 31, 2021.

The full report, “2022 U.S. Water and Sewer: Peer Review,” is available at [www.fitchratings.com](http://www.fitchratings.com)

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## **[Implementing Federal Funding for Utilities.](#)**

### **Why It's Important to Think Strategically, Creatively and Holistically When Working with ARPA, IIJA Funds**

Utilities are faced with a rare and remarkable opportunity to impact the present-day situation of their users and rate payers while also altering the long-term future of their entire communities.

With the American Rescue Plan (ARP) and the Infrastructure, Investment and Jobs Act (Infrastructure Act) allocating billions of dollars to upgrade aging utility infrastructure and improve utility system resilience (as well as various grant programs that create additional funding opportunities), utilities simply cannot afford to sit this one out.

The ARP was enacted in March 2021 and allocated \$350 billion of non-competitive funding to states, counties, cities, tribes and territories for economic relief in the wake of the COVID-19 pandemic. In early 2022, the U.S. Treasury issued the Final Rule for state and local governments to address their pandemic response needs and promote long-term recovery.

The Final Rule, in essence, set the wheels in motion for utilities to begin planning, preparing and spending, if they haven't already.

The Infrastructure Act which was signed into law in November 2021 created \$1.2 trillion of both reauthorized spending as well as new spending programs specifically to address much needed upgrades to our nation's infrastructure grid. Although more than 65 percent of these funds will go towards addressing public transportation needs, almost \$30 billion will go towards water and wastewater needs, which will be passed down to the states to provide funding at the local level over the next five years.

However, when you consider that we're looking at the largest investment in infrastructure in U.S. history — and that so much contradictory information is available online — it is understandable that some utility leaders find themselves confused, overwhelmed, or even paralyzed by the endless possibilities.

### **What Should Utilities Be Doing?**

Advice regarding how to manage and spend ARP funds combined with Infrastructure Act dollars could lead this conversation down a very nuanced and complicated path, and certainly

recommendations would vary from company to company. But in general, we recommend three simple strategies: Think creatively, think regionally and think holistically.

Creatively speaking, if money were no object, how would you spend that money? Where would you want your community to be in the future? And not just in three years, but in 15, 20 or even 50 years? Think in terms of economic growth and aging infrastructure and allow your brain to think creatively, almost as if money was a non-factor. This is a once-in-a-lifetime opportunity — or at least we hope it is! You need to treat this process as if you may never have a better chance to solve utility issues that have lingered in your community for years.

In terms of thinking regionally, speak with (and perhaps even partner with) governments from neighboring cities and counties. Engage in dialogue around everyone's plans for the region, as the impact of the money in this case could easily spread beyond the walls of your town. The long-term wellness of regional utilities and the economy of the entire region can both be positively impacted by these funds. Seek input from business stakeholders, property owners, taxpayers, utility customers, economic developers and other governmental officials. Having a diverse group of decision-makers and a far-reaching vision for the money will allow you to ensure you spend the funds in a way that has a broad, forward-thinking, regional impact.

Finally, it is important to approach this process holistically. Even though you may be focused on water on a day-to-day basis, look at things from the perspective of your entire community. Awareness of other projects will save time, energy and money. Perhaps the streets department is going to be redoing several roads in a particular neighborhood. To avoid a re-dig, that would be the best time to replace those water, sewer and stormwater lines and perhaps consider installing broadband in an area that is in need of expanded broadband services.

### **Confusion is Understandable; Hesitation is Not**

Although it's been well over a year since the ARP was passed and more than six months since the Final Rule was released, many entities still do not know how to spend their available funds — and there is nothing wrong with that. For starters, many entities waited until the release of the Final Rule to fully explore how to spend their money.

Municipalities generally are aware of the non-competitive funds available from the ARP. However, competitive money is often a different story. Sometimes municipalities don't believe they can qualify for certain available competitive funds or may be intimidated by the task. In other cases, entities simply cannot devote the necessary time or personnel to research the opportunity and prepare a competitive grant application. There are even cases where they don't even know about the available opportunities.

In the larger picture, the spending of ARP funds is a process that requires significant planning, budgeting and collaboration. Additionally, some of the competitive funds available are still being created and rolled out. When you add that all up, it makes sense that an entity would not want to rush into applying for ARP funds.

That said, the time has arrived for action.

Regarding the ARP funding, Infrastructure Investment and Jobs Act funding and additional competitive dollars, there needs to be a "measured urgency." These programs are highly competitive and will not be around forever, so as soon as you're ready, act quickly and purposefully. Ensure in advance you can meet the deadlines and other requirements associated with the grant program.

Additionally, from a timing standpoint, these federal dollars likely will have a real financial impact

on rate payers. With water utilities, the more immediately you can access these dollars — the “free money” if you will — the greater and quicker direct impact it could have on what your customers pay in monthly user rates.

## **Next Steps You Can Take**

As a first step, assess your local infrastructure to determine your needs and the extent of the required solutions. One effective way to do this is to create an asset management plan to identify all the existing infrastructure - both above and below ground - as well as the condition it is in and the estimated cost to replace it. Oftentimes state and federal competitive programs require a preliminary engineering report or asset management plan as part of the application process.

Additionally, consider your economic development strategy — where and how your community is growing, where and how you want it to grow and what kind of infrastructure is needed to attract businesses and industries. You will want to identify and align resources and develop a strategic spending plan. Convene a core group of specialists across all areas. That way when you secure the funding, you are “shovel ready” to act promptly, rather than waiting six months to design the project.

Finally, monitor and evaluate progress. Ongoing compliance should be a continued focus throughout every stage of the process. Communities with limited time, resources or knowledge may find it helpful to connect with a professional services firm that can help them think strategically, regionally and holistically about their ARP funds and assist with grant applications for competitive dollars.

## **Water Finance & Management**

By Jeff Rowe

AU 22, 2022

*Jeffrey P. Rowe, CPA, is a partner with Baker Tilly Municipal Advisors. He joined Baker Tilly in 1998 and is a partner in its public sector practice group. He specializes in serving local governments and public utilities. His experience includes providing accounting, financial consulting, utility rate-making and municipal advisory services.*

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## **[Baseload- Current Topics in the Power and Utilities Capital Markets: Hunton Andrews Kurth](#)**

[Read the publication.](#)

**Hunton Andrews Kurth LLP**

August 24 2022

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## **[S&P U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios--2021](#)**

[View the ratios.](#)

24 Aug, 2022

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## **[S&P U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios--2021](#)**

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## **[S&P U.S. Not-For-Profit Health Care System Median Financial Ratios--2021](#)**

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## **[S&P U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios--2021](#)**

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## **[S&P U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios--2021](#)**

[View the ratios.](#)

24 Aug, 2022

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## **[S&P U.S. Not-For-Profit Acute Health Care 2021 Medians: Peak Performance Highlights Cushion As Sector Encounters A Challenging Period](#)**

### **Key Takeaways**

- **Fiscal 2021 medians are the strongest in nearly a decade.** Despite significant operational and financial volatility over the past two fiscal years, overall financial performance and balance sheet medians are generally the strongest we have seen over the past decade.
- **COVID-19 relief funding provided significant support.** Financial performance and

unrestricted reserves were supported by the receipt and recognition of considerable provider relief funds. Without this support, performance would have been considerably weaker, albeit still positive.

- **Net patient service revenue rebounds.** Steady volume recovery contributed to net patient service revenue materially rebounding in 2021 after a decline in 2020, while total operating revenue continued to grow.
- **Strengthening balance sheets lend stability.** Almost all median balance sheet ratios improved with another healthy year of investment performance coupled with management actions to preserve funds during the pandemic and receipt of material government support.
- **Expense and macroeconomic pressures are expected to affect future performance.** Wage and related inflationary pressures began to escalate in the second half of 2021 and likely will cause a drag on performance for the remainder of 2022 and going into 2023 for many organizations.

[Continue reading.](#)

24 Aug, 2022

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## **[Inflation Reduction Act Boasts \\$1.5B for Planting Neighborhood-Cooling Trees.](#)**

**The massive measure offers a five-fold increase in funding tree planting nationwide, especially in low-income communities that are typically hotter in summers.**

With a recent study predicting that more of the nation will be suffering through 100-degree days 30 years from now, the Biden administration is giving a major boost to cities trying to deal with the extreme heat ahead by planting more trees and creating more shade.

Included in the Inflation Reduction Act President Biden signed into law last week are \$1.5 billion in grants the federal government will be sending to states, local governments and nonprofits over the next decade to plant trees.

Working out to an average of \$150 million a year, Biden's climate, health-care and taxes measure will mean a five-fold increase for the U.S. Agriculture Department's Urban and Community Forestry Program over the \$32 million the program is receiving this fiscal year.

[Continue reading.](#)

### **Route Fifty**

By Kery Murakami

AUGUST 26, 2022

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## **[Jay Powell, Munis, And ETFs.](#)**

Robert Teeter, Head of Investment Policy & Strategy Group at Silvercrest Asset Management, discusses market reaction to Jay Powell's speech, the economy, and investing amid inflation.

Cleveland Fed President Loretta Mester speaks with Bloomberg's Michael McKee from Jackson Hole about the economy and interest rates. Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. Steve Matthews, US Economy Reporter with Bloomberg News, joins the show to discuss Jay Powell's speech at Jackson Hole and outlook for the Fed and its inflation fight. Hosted by Paul Sweeney and Kriti Gupta.

[Listen to audio.](#)

**Bloomberg**

Aug 26, 2022

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## **[What Does the Inflation Reduction Act Do for State and Local Government?](#)**

**The most significant climate legislation ever enacted by Congress has become law, without the word "climate" in its title. Here's how it can benefit state and local energy and climate programs.**

At a White House ceremony on Tuesday, President Biden signed the Inflation Reduction Act (IRA) into law, fulfilling one of the key promises of his campaign by committing unprecedented federal resources to the fight against climate change.

Biden called it "one of the most significant laws in our history," proof that America's soul is vibrant and its future bright. "The bill I'm about to sign is not just about today," he said. "It's about tomorrow, it's about delivering progress and prosperity to American families." The passage of the bill demonstrates that democracy still works, said Biden, not only for the privileged but for all Americans.

The IRA allocates \$369 billion over 10 years for energy security and climate relief, \$64 billion for extending the Affordable Care Act and \$4 billion to address the water crisis in the western states. It is the largest federal investment in climate action in the country's history.

[Continue reading.](#)

**governing.com**

by Carl Smith

Aug. 17, 2022

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## **[U.S. Inflation Reduction Act Emphasizes Affordability; Credit Implications Across Sectors Are Mixed - S&P](#)**

[View the S&P Report.](#)

18 Aug, 2022

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## [\\$550M in Federal Preparedness Grants Prioritize Security for State and Local Governments.](#)

**The grant programs target six “critical areas,” including cybersecurity, information sharing and election security.**

The Department of Homeland Security announced [final funding allocations](#) for state and local governments to bolster their preparedness, including against cyberattacks.

A total of \$550 million will go to seven competitive preparedness programs in Fiscal Year 2022. In a statement, DHS Secretary Alejandro Mayorkas said cybersecurity is one of “six critical areas” prioritized by the grants, alongside protecting soft targets and crowded places, intelligence and information sharing, combating domestic violent extremism, community preparedness and resilience as well as election security.

Included in the funding is \$93 million for the [Transit Security Grant Program](#), which provides funds for public transportation agencies to protect themselves from acts of terrorism. In the [Notice of Funding Opportunity](#) for the program, DHS and the Federal Emergency Management Agency said the need to enhance cybersecurity is a major area of concern.

[Continue reading.](#)

### **Route Fifty**

By Chris Teale

AUGUST 19, 2022

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## [Inflation Reduction Act Incentives for Energy Sector.](#)

President Biden signed the Inflation Reduction Act of 2022 (HR 5376) (the Act) into law on August 16, 2022. This update provides a high level overview of the Act’s incentives for the energy sector. We have published a separate update regarding the Act’s energy storage incentives.

The Act provides \$750 billion for a range of issues, including \$400 billion for energy and climate. The Act—a slimmed down version of the Build Back Better bill—also makes substantial policy changes. It should have an immediate effect on the wind and solar industries, as well as other energy projects. The Act contains numerous tax credits, rebates, and other incentives.

Renewable Energy The following incentives are provided (note that the details are particularly important, because the Investment Tax Credit (ITC) and the Production Tax Credit (PTC) have additional strings attached, as well as bonuses, as further described below).

[Continue reading.](#)

**Buchalter** - Gwenneth O’Hara, Nora Sheriff and Christopher Parker

August 17 2022

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## **[Expansion of Clean Energy Loans Is 'Sleeping Giant' of Climate Bill.](#)**

**The bill President Biden signed into law recently will greatly expand government loans and loan guarantees for clean energy and automotive projects and businesses.**

Tucked into the Inflation Reduction Act that President Biden signed last week is a major expansion of federal loan programs that could help the fight against climate change by channeling more money to clean energy and converting plants that run on fossil fuels to nuclear or renewable energy.

The law authorizes as much as \$350 billion in additional federal loans and loan guarantees for energy and automotive projects and businesses. The money, which will be disbursed by the Energy Department, is in addition to the better-known provisions of the law that offer incentives for the likes of electric cars, solar panels, batteries and heat pumps.

The aid could breathe life into futuristic technologies that banks might find too risky to lend to or into projects that are just short of the money they need to get going.

[Continue reading.](#)

### **The New York Times**

By Ivan Penn

Aug. 22, 2022

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## **[Fitch: Inflation Reduction Act May Spur Public Power Renewable Spending.](#)**

Fitch Ratings-Austin/New York-16 August 2022: The introduction of direct pay tax credits through the Inflation Reduction Act (IRA) is expected to spur greater direct investment in clean energy projects across the public power sector, Fitch Ratings says. Public power systems steadily added production from renewable energy projects, including wind and solar projects, to their energy mix over the last decade but energy is typically purchased from private developers. The ability to monetize production tax credits pursuant to the IRA will improve the economics of direct ownership and could help reverse a trend of declining investment in the sector.

In recent years, the rate of capital investment lagged historical levels at most of the wholesale public power systems rated by Fitch. Our 2022 US Public Power Peer Review reported that the median ratio of capital investment to depreciation was only 77% in 2021. This marked the sixth time in the last eight years that the ratio was below 100%, indicating that systems are depreciating their assets faster than they are reinvesting.

Fitch believes that this trend is due, in part, to the inability of tax-exempt enterprises to take direct advantage of production tax credits and other subsidies related to renewable energy projects. Public and cooperatively owned power systems instead added renewable energy to their power supply through purchase power agreements with private developers able to capitalize on tax subsidies. Wind and solar projects accounted for 13.8% of total US generating capacity in 2020 but only 0.9% and 0.5% of the total capacity owned by public power systems and electric cooperatives, respectively, according to the American Public Power Association.

Systems may continue to add new renewable purchase power agreements when economic but direct pay tax credits will lower the cost of alternative ownership, particularly for systems that prefer project design and operating control. When factoring power purchase agreements, wind and solar capacity available to public power systems increased to more than 9,300MWs in 2020 from roughly 1,050MWs.

Higher capital spending will drive increased borrowing but is unlikely to materially weaken credit quality, as Fitch's rating methodology factors purchase power obligations in its financial metrics and analysis, limiting the effect on leverage. This approach improves the comparability between systems that purchase and own resources and buffers the effect of debt-funded capital spending on projects that displace purchase power costs.

The expanded options for project ownership and financing made possible by the IRA are likely to provide the greatest benefit to systems operating in one of the 24 states or US territories that have adopted renewable energy portfolio standards for clean energy goals that apply to publicly- and cooperatively-owned systems. Although new project development is likely to be obstructed in the near term by inflationary pressures and supply chain constraints, delaying the delivery of solar panels and wind turbines, market conditions should improve in time for utilities to meet more stringent goals and targets set to take effect in 2025 through 2030.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[New Semiconductor Law Aims to Create ‘Silicon Valleys’ Across US.](#)**

**\$10 billion in funding will go to support 20 research hubs with a third of them set to be in small or rural communities.**

Little noticed in the bipartisan [CHIPS semiconductor bill](#) President Biden signed into law earlier this month are funds aimed at transforming where innovation happens in the U.S. Rather than sending money to traditional technology centers like Silicon Valley in Northern California, Seattle or Boston, the law will create technology hubs in many places, including small and rural places.

Most notably, the \$54.2 billion bipartisan bill passed by Congress last month contains \$39.4 billion in subsidies to try to restore the nation’s standing in the production of chips—which are used in everything from automobiles to washing machines—by encouraging companies to make them in the U.S. The law has bolstered the hopes of cities around the country—like Lafayette, Indiana, and Columbus, Ohio—because it will create jobs in their communities.

But also significant, said Mark Muro, a senior fellow at Brookings Metro, is that the law provides \$10 billion over five years to create 20 regional technology and innovation hubs. And, it says they cannot be in places “that are now leading technology centers.”

[Continue reading.](#)

### **Route Fifty**

By Kery Murakami

AUGUST 19, 2022

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## **[ARPA Impact Report: An Analysis of How Counties are Addressing National Issues With Local Investments](#)**

America’s nearly 40,000 county elected officials and 3.6 million county employees are on the frontlines of the nation’s response to the coronavirus pandemic. As the country emerges from the pandemic and grapples with the toll it has taken on our citizens, counties are responding and rebuilding. At the same time, many counties are still confronting significant workforce shortage pressures at a time with growing, critical resident needs.

With American Rescue Plan funds, counties are strengthening America’s workforce, addressing the nation’s behavioral health crisis, expanding broadband access, improving housing affordability and building prosperous communities for the next generation.

[DOWNLOAD](#)

NATIONAL ASSOCIATION OF COUNTIES

By TERYN ZMUDA, SARAH EDWARDS, JONATHAN HARRIS

Jul. 18, 2022

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## **Sustainable Fitch: Social and Political Issues Increasingly Shape Financial Market Shifts**

Fitch Ratings-Hong Kong-15 August 2022: Social, economic and political factors are increasingly driving developments in the sustainable finance market, says Sustainable Fitch in a new report. The expansion of sustainability-focused regulation has also continued, despite rising political resistance in key markets.

Regulatory and policy actions under the Biden Administration in the U.S. to address environmental, social and governance issues, such as the U.S. Securities and Exchange Commission's proposed climate disclosure rule and the U.S. National Action Plan on Business Conduct, have begun to generate scepticism from other stakeholders and in localities where the fossil-fuel sector is still a large employer and economic contributor. However, financial incentives for green technology and clean energy have attracted interest from many of the same regions, indicating that efforts to ease the carbon transition may alleviate political concerns.

Sustainable Fitch's analysis of climate-related credit risk indicates that key sectors, including agriculture, mining and metals, and real estate and property, are likely to face significant demand and regulatory changes by 2050 as a result of the global 'net-zero' carbon emissions transition. Sectors that are less vulnerable to climate transition risks, such as telecommunications and technology, are likely to face greater social risks, such as data privacy and customer welfare.

The Asia-Pacific region saw greater sustainable finance regulatory and policy activity in 2Q22, including the Australian Labor Party's victory in the May federal election. The Party has more ambitious climate policy and carbon emission reduction targets. The government of Singapore also released its green bond framework in May and announced plans to issue its first sovereign green bond by August. Meanwhile, the EU-China Common Ground Taxonomy was updated in June 2022 to identify where countries aligned on green activities to boost the document's usability by market participants.

More details are in the full report "ESG Credit Quarterly: 2Q22" at [www.fitchratings.com](http://www.fitchratings.com).

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

[View the current list.](#)

19 Aug, 2022

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## [S&P U.S. Public Finance Rating Activity, July 2022](#)

[View the S&P Activity Report.](#)

15 Aug, 2022

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## [How Federal Infrastructure Funds Can Build More Accessible Transit Systems.](#)

**COMMENTARY | By taking significant steps towards increasing accessibility, public transit systems will better incorporate equity and social mobility into their operations.**

According to the Centers for Disease Control and Prevention, as many as 61 million Americans live with some form of disability. Among those millions, one in five is blind or has a mobility disability. As such, nearly 30 million Americans travel less due to limited mobility, yet they disproportionately rely on public transit to get around.

Too often, investments in public transit have ignored the needs of its wide variety of riders. For example, most cities almost completely ignored wheelchair users until the late 1960s and early '70s. After demonstrations by disabled WW II veterans, Congress adopted the Architectural Barriers Act—a precursor to the 1990 Americans with Disabilities Act. Today, ramps and curb cuts are ubiquitous in cities and towns of all sizes—and they benefit a range of users beyond those in a wheelchair like the young, the old, people pushing strollers and the temporarily disabled.

For transit, the bipartisan infrastructure law signed into law by President Biden in November provides a once-in-a-generation opportunity to right this wrong by funding projects that will improve accessibility to public transit. It's critical that policymakers and transit agencies get it right and prioritize projects that incorporate the concept of universal design to create inherently accessible transit and better serve all riders.

[Continue reading.](#)

### **Route Fifty**

By Aline Frantzen

AUGUST 22, 2022

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## [Why Local Governments Trail Private Employers in Hiring.](#)

### **Slower wage gains and less nimble hiring processes create challenges for many states and municipalities trying to fill job vacancies**

U.S. employers have added jobs at a historically robust pace since emerging from the pandemic recession, with a notable exception: state and local governments.

The nation lost about 22 million jobs in March and April 2020, or 14% of the total, when the Covid-19 pandemic first hit the U.S. economy. Total payrolls started growing in May of that year, and by July of this year the overall labor market had more jobs than in February 2020, according to the Labor Department.

Meanwhile, state and local public employers—such as schools, hospitals, libraries and law enforcement agencies—lost about 1.5 million jobs in March through June 2020, or about 7.4% of the total. These payrolls started rising in July that year, and by last month they had 605,000 fewer filled jobs on their payrolls, or 3% less, than in February 2020.

[Continue reading.](#)

### **The Wall Street Journal**

By Bryan Mena

Aug. 15, 2022

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## [S&P U.S. Not-For-Profit Health Care Rating Actions, July 2022](#)

S&P Global Ratings affirmed 17 ratings without revising the outlooks and took eight actions in the U.S. not-for-profit health care sector in July 2022. There were two new sales in July. The eight rating and outlook actions consist of the following:

- Two downgrades on standalone hospitals;
- Two upgrades on standalone hospitals; and
- Four unfavorable outlook revisions on two standalone hospitals and two health systems (all to negative from stable).

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

[Continue reading.](#)

11 Aug, 2022

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## **Fitch Ratings Revises U.S. NFP Hospitals Sector Outlook to 'Deteriorating'**

Fitch Ratings-Austin/Chicago-16 August 2022: More severe-than-expected macro headwinds have prompted Fitch Ratings to revise its sector outlook for U.S. not-for-profit hospitals and health systems to 'deteriorating', as detailed in Fitch's new report.

The biggest sector impediment has been labor, and broader macro inflationary pressures are rendering the sector even more vulnerable to future stress, according to Senior Director Kevin Holloran. Investment losses have contributed to a rockier 2022 to date than anticipated for hospitals, and operating metrics are down significantly compared to last year.

"While severe volume disruption to operations appears to be waning, elevated expense pressure remains pronounced," said Holloran. "Even if macro inflation cools, labor expenses may be reset at a permanently higher level for the rest of 2022 and likely well beyond."

Where this will be the most felt is nurses, which were already in high demand pre-pandemic with Covid only exacerbating a glaring shortage of nursing staff.

As a result, many NFP health providers will violate debt service coverage covenants in 2022. As to what that scenario means for hospitals in the coming months, "We may be in a period of elevated downgrades and Negative Outlook pressure for the rest of 2022 and into 2023," said Holloran.

"Fitch Ratings 2022 Mid-Year Outlook: U.S. Not-For-Profit Hospitals and Health Systems" is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Fitch: Deceptively Strong Medians Likely Coming to an End for U.S. NFP**

## **Hospitals**

Fitch Ratings-Austin-18 August 2022: U.S. not-for-profit hospitals saw another strong year of mostly across the board median improvements, though it appears almost certain to be a high-point for the sector with Fitch Ratings projecting declines for next year and beyond in its latest annual sector report.

2022 medians (using audited 2021 data) showed a 20% increase in cash to adjusted debt to 249% for 'AA' rated hospitals, compared to an 8% increase for 'BBB' health systems to 102%. That said, "the deceptively strong numerical improvements over prior years' medians are less a sign of sector resiliency and more a cautionary calm before the storm," said Senior Director Kevin Holloran. "Additional expenses, primarily labor, have become part of the permanent fabric of hospital operations, that when combined with ongoing incremental challenges will exert tremendous pressure on providers through calendar 2022 and beyond."

Fitch expects to see hospital medians reverse course this time next year due to a conflagration of events, including the very challenged operational start to calendar 2022, additional Omicron sub-variants and inflationary pressures. Staffing, or an adequate lack thereof, is particularly troubling. Clinical and non-clinical shortages will continue into 2023 and likely longer in some markets, with high growth markets being better able to mitigate staffing shortages.

"We are likely two years before some level of "normal" returns to the sector," said Holloran. "For many hospitals, their "value journey" will be on temporary hold until expenses stabilize and become more predictable.'

'2022 Median Ratios: Not-for-Profit Hospitals and Healthcare Systems' is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

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## **Hospital Finances are Deteriorating, Fitch Says.**

Rising labor and supply costs will land many nonprofit hospitals in violation of debt covenants to bondholders this year, according to an analysis released Tuesday by Fitch Ratings.

Salaries for nurses are particularly competitive, with Covid-19 driving up demand. Labor costs and other inflation pressures are squeezing budgets at senior-living facilities as well.

Many hospitals are operating with slimmer margins than last year, Fitch found, with lower-rated hospitals hit particularly hard and hospitals rated triple-B, slightly higher than junk-bond status, operating with negative margins. That could lead some institutions to run afoul of promises to bondholders about how much of a financial cushion they will maintain.

[Continue reading.](#)

## **The Wall Street Journal**

By Heather Gillers

Aug 16, 2022

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### **[Western U.S. Drought: Declining Supply, Rising Challenges - S&P](#)**

Prudent supply and demand management, solid financial margins, and rate-setting capacity will be critical to rating stability.

[Download the S&P Report.](#)

Aug 16, 2022

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### **[ESG Fixed Income Space Evolving, Maturing.](#)**

It's been a rough year for fixed income investors, but there are some bright spots in the world of exchange traded funds, including ongoing adoption and maturation of bond ETFs.

That includes bond ETFs focusing on environmental, social, and governance (ESG) investing — a space long viewed as fertile growth territory for fund issuers. Broadly speaking, inflows to ESG ETFs are decent this year, though well off their prior highs, and that's impressive when considering that these funds are usually heavy on growth stocks, which struggled in the first half of the year.

Regarding ESG bond ETFs, there's still plenty of room for growth, but these products come with some advantages relative to actively managed rivals that could propel long-term adoption.

"US-listed fixed income ETFs have a median expense ratio of 0.29%, versus mutual funds' 0.61%. While many ETFs are index based, this lower-cost profile carries over to actively managed ETFs that have a median expense ratio of 0.40%, versus 0.63% for actively managed bond mutual fund strategies," noted State Street Global Advisors (SSGA).

There are other benefits associated with fixed income ETFs, ESG and otherwise.

"ETFs offer structural advantages, compared to a single security or individual bond exposure. With individual bonds, broker-dealers collect commissions on bonds they sell or buy through markups and markdowns, which are bundled into the quoted price to investors on both sides of the transaction," added SSGA.

Those benefits are particularly meaningful for investors looking for the combination of ESG and

fixed income exposure because owing to the still-nascent status of this asset class, looking for individual bonds with adequate ESG standing can be a taxing endeavor for many advisors and investors. Fixed income ETFs ease that burden and can provide much needed liquidity, too.

“ETFs’ robust secondary market allows investors to tap into market liquidity more easily than they can with single-CUSIP bond holdings,” concluded SSGA. “This enables them to reallocate portfolios quickly across asset classes or meet investor redemptions by selling an ETF position into the market without having to sell single-CUSIP bonds. Fixed income ETFs are also more liquid than mutual funds, as ETFs trade intraday and mutual funds are typically transacted end of day.”

For investors seeking the marriage of ESG and municipal bonds with the ETF wrapper, the SPDR Nuveen Municipal Bond ESG ETF (MBNE) is an idea to consider. Those desiring a bit more income by way of corporate bond exposure can evaluate the SPDR Bloomberg SASB Corporate Bond ESG Select ETF (RBND).

## **ETF Trends**

editor@etftrends.com

AUG 17, 2022

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## **[Corporate and Municipal CUSIP Request Volumes Sink in July.](#)**

NORWALK, Conn., Aug. 18, 2022 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for July 2022. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a significant monthly decrease in request volume for new corporate and municipal identifiers.

North American corporate requests totaled 5,253 in July 2022, which is down 9.6% on a monthly basis. On a year-over-year basis, corporate requests were up 8.5%. July volumes were driven by an 11.7% decrease in requests for new U.S. corporate equity identifiers and a 33.3% decline in request volume for new U.S. corporate debt identifiers. Short-term certificates of deposit (CDs) identifiers continued their seven-month growth streak, rising 1.9% in July. Longer-term CDs, with maturities of one year or longer, saw an 8.0% decline in new CUSIP request volume this month.

Municipal request volume also declined in July. The aggregate total of identifier requests for new municipal securities - including municipal bonds, long-term and short-term notes, and commercial paper - fell 23.6% versus June totals. On a year-over-year basis, overall municipal volumes were down 17.3%. New York led state-level municipal request volume with a total of 164 new CUSIP requests in July, followed by Texas with 144 and California with 65.

“We’re seeing a combination of rising interest rates and the seasonality of new security issuance rear their heads this month’s CUSIP Issuance Trends report,” said Gerard Faulkner, Director of Operations for CGS. “July is a notoriously slow month for new issuance - particularly in the municipal and equity space - and that is definitely a factor in this month’s numbers, but it’s likely not the only factor. As the 7-month growth trend we’ve been seeing in long-term CDs will attest, interest rates do have an effect on new issuance volumes.”

Requests for international equity and debt CUSIPs were also down in July. Requests for international

equity CUSIPs fell 33.7% this month, while international debt CUSIP requests fell 20.0%. On an annualized basis, international equity CUSIP requests were down 40.9% and international debt CUSIP requests were down 30.3%.

To view the full CUSIP Issuance Trends report for July, [click here](#).

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## **Municipal Borrowing at Three-Year Low.**

State and local governments are pulling back on bond sales, issuing \$250 billion so far this year compared to \$287 billion during the same period last year, according to a report by Citigroup.

The biggest reason? Rising interest rates have discouraged refinancing, cutting year-to-date taxable debt issuance to \$44 billion from \$79 billion last year. (Most municipal bonds pay tax-exempt interest, but early refinancings are not eligible for a federal tax exemption.)

**One example:** New York state is planning to sell \$8.6 billion in bonds in its current fiscal year, down from \$11.8 billion last year, according to state documents.

Tax-exempt bond issuance is down slightly this year too. Many cities and counties already flush with stimulus cash may have less need for borrowing. Others, facing rising costs from inflation, may be scaling back their ambitions.

### **The Wall Street Journal**

By Heather Gillers

Aug 15, 2022

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## **The Muni Markets In 2022 (Bloomberg Audio)**

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

[Listen to audio.](#)

### **Bloomberg**

Aug 19, 2022

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## **Yields 'Definitely' Going Higher: Kayne's Friedrichs**

Kim Friedrichs, Kayne Anderson Rudnick managing director of fixed income, discusses the outlook for Federal Reserve monetary policy and its potential impact on the muni market with Taylor Riggs and Sonali Basak on “Bloomberg Markets: The Close.”

[Watch video.](#)

## **Bloomberg Markets: The Close**

August 17th, 2022

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### **[College of Business Professor Presents Paper on Discrimination in Municipal Borrowing at Brookings Institute Conference](#)**

Matthew Wynter, a research professor in the Stony Brook University College of Business, presented his paper, "[Black Tax: Evidence of Racial Discrimination in Municipal Borrowing Costs](#)," at the Brookings Institute 2022 Municipal Finance Conference, held online July 18-20.

The paper, co-authored with Ashleigh Eldemire Poindexter of the University of Tennessee and Kimberly Luchtenberg of American University, shows that municipalities with higher proportions of Black residents pay higher borrowing costs to issue rated bonds compared to other cities and counties that issue within the same state and year. These higher costs are unexplained by credit risk, more pronounced in states with higher levels of racial resentment, and robust to state-tax incentives to hold municipal bonds.

In time-series tests using political election periods during which racial resentment has been shown to intensify, the research finds that the differences in borrowing costs also increase. Collectively, the findings illustrate that racial bias can increase borrowing costs, especially where racial resentment is severe.

The Brookings conference is considered the best municipal finance conference in the field, is highly selective, and attended by academics, policy makers, and market participants.

Wynter also had another paper on minority and low-income homeownership accepted by the Review of Corporate Finance Studies. "Does homeownership reduce wealth disparities for low-income and minority households?" uses restricted data from the U.S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher (HCV) program to study the wealth effects of homeownership for low-income households.

The paper looks at whether becoming a homeowner affects the wealth of low-income White and minority households differently. HUD's HCV program provides low-income households with housing assistance for rental and mortgage payments. To identify whether homeownership affects wealth, the paper compares a household's wealth as a renter to its own wealth as homeowner, and uses variation in the wealth outcomes amongst households to measure the effect of homeownership on racial disparities in wealth. In using this differences-in-differences approach, the research controls for the many unobservable and confounding differences within households that are likely to affect wealth accumulation, while also allowing wealth outcomes to vary by race.

Using this empirical approach, the paper establishes that low-income households that receive assistance in owning a home experience increased wealth relative to their tenure as renters. However, these wealth gains are not present among low-income minority households. The findings provide evidence that homeownership is a driver of wealth formation for low-income households and that homeownership does not inherently reduce racial disparities in wealth.

Wynter conducts research that focuses on behavioral and international finance. His research has been presented at finance and economics conferences around the world, including the Brookings Institution, the American Economic Association, and the China International Conference in Finance.

His research has been published in the Review of Corporate Finance Studies, World Economy, and the Journal of Management, Policy, and Practice.

August 19, 2022

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## **[Pension Veteran Tears Into Public Funds for 'Bogus Benchmarking'](#)**

- **Fund managers benefit as public employees, taxpayers foot bill**
- **Critic says public pensions underperform by \$60 billion a year**

Richard Ennis knows a thing or two about how US public pension systems work. For half a century, he's managed money for some funds and advised untold others at EnnisKnupp, a consulting firm he co-founded. He's also the former editor of the Financial Analysts Journal and recipient of lifetime achievement awards for his work.

Now semi-retired, Ennis doesn't pull punches: To him, the benchmarks that many public funds use to grade their investment performance raise questions about their integrity. "Bogus benchmarking is the single biggest problem in the field of institutional investing," he said.

In his most recent broadside, in the April issue of the Journal of Portfolio Management, Ennis wrote that the public officials who manage \$4 trillion for 26 million working and retired teachers, cops, and other public employees routinely set their benchmarks too low and in many cases receive bonuses for their accomplishments.

[Continue reading.](#)

## **Bloomberg Businessweek**

By Neil Weinberg

August 17, 2022

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## **[Outflows Slow From Municipal Bond Funds.](#)**

Investors are slowing down after dumping muni bond holdings at record speeds in the first half of 2022.

Outflows from municipal bond flows fell to \$229 million for the week ended Wednesday from \$635 million last week, according to data from Refinitiv Lipper. Mutual and exchange traded funds have had a couple of weeks since the beginning of June when they received more than \$1 billion in inflows. Earlier this year, these funds lost more than \$30B over 15 consecutive weeks of outflows as rising rates drove down the market value of their portfolios.

Those investors may view the Fed minutes released Thursday as more reason to chill, with expectations of a smaller rate increase rising and predictions of a bigger rate increase falling after the release.

**The Wall Street Journal**

By Heather Gillers

Aug 19, 2022

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## **[Future Returns: Finding an Inflation Hedge in Municipal Bonds](#)**

For wealthy investors, municipal bonds issued to build hospitals, roads, and schools, have often been a no-brainer, offering good yields free of taxes.

But the market backdrop for muni bonds “hasn’t been as attractive as investors would have liked for the better part of 10 years,” says Jonathan Mondillo, head of North American fixed income for abrdn, a U.K.-based investment firm. Interest rates kept falling during that period and yield spreads between municipals and other types of fixed-income securities compressed, providing fewer advantages.

With the Federal Reserve sharply raising short-term rates to combat inflation (the latest was a 0.75 percentage point increase in July), yields on municipal bonds are two to two-and-a-half percentage points higher, in general, than at the beginning of the year, and investors are starting to tip-toe back into the sector. Cash flows into municipal bond funds and ETFs have been turning slightly positive in August after experiencing outflows all year, according to Refinitiv, which tracks fund flows.

[Continue reading.](#)

### **Barron’s**

By Abby Schultz

Aug. 16, 2022

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## **[Buy These 3 Municipal Bond Funds for Steady Returns.](#)**

Municipal bonds, or “muni bonds,” comprises debt securities issued by various states, cities, counties and other governmental entities to raise money to build roads, schools and a host of other projects for the public good. These municipal securities regularly pay interest payments, usually semi-annually, and pay the original investment or principal amount at the time of maturity. Interest paid on such bonds is generally exempted from federal taxes making them especially attractive to people in higher income tax brackets.

Thus, risk-averse investors looking to earn a regular tax-free income may consider municipal bonds mutual funds. These mutual funds are believed to provide regular income while protecting the capital invested. While mutual funds from this category seek to provide dividends more frequently than other bonds, they offer greater stability than those primarily focusing on equity and alternative securities.

[Continue reading.](#)

**Zacks Equity Research**

August 18, 2022

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## **Fitch: U.S. State Budgets Brace for Macro Uncertainties Ahead**

Fitch Ratings-New York-08 August 2022: State budgets are in a much better position coming into fiscal 2023 and are structured to combat inflationary and macro pressures over the next several months, according to Fitch Ratings in a new report.

All 50 states have enacted budgets as fiscal 2023 gets underway, an improvement from pre-COVID dynamics thanks largely to a second year of surging revenues. “Enacted budgets have effectively moved from restoring cuts taken during the brief but severe downturn to programmatic spending, while also adding to reserves and reducing taxes,” said Senior Director Karen Krop.

Slower economic growth and rising inflation do pose some downside risk. The enacted budgets consider potential economic and geopolitical headwinds. After historically strong US GDP growth of 5.7% in 2021, Fitch expects growth to slow sharply in 2022 to 2.9% and then further to 1.5% in 2023, due to rapidly rising interest rates.

“States are well positioned for slower growth, as a result of generally prudent fiscal choices made over the last two fiscal years,” said Krop. The budgetary safeguards states are enacting include making sizeable deposits to rainy day funds (many of which are now considered fully funded), creating new reserves to address future uncertainty and reducing long-term liabilities.

Strong labor markets, while integral to state revenue strength, also pose a challenge to government and school district in recruiting and retaining employees. In response, states are providing additional funding for school districts and higher education, allotting some of that funding to increase salaries and sweeten compensation packages to retain employees.

“U.S. State Budgets Balanced in 2023” is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **[How FY2022 Investment Returns Are Adding to the Pension Obligation Burden for Local Governments.](#)**

**In FY2022, from July 2021 to June 2022, tumultuous financial markets played a key role in many pension funds registering negative investment returns. Since these pension funds invest in a wide array of investment sectors, everything from public and private equity to real estate investments, both domestic and global events adversely impacted these pension fund performances.**

These pension fund performances ultimately determine the funding levels of pension obligations for all state and local governments that take part in pension funds for their employees. In addition, when pension funds calculate the pension burden for each participating agency, they use a discount rate to calculate the present value of obligations for a future pension payout. This discount value will typically be adjusted based on the investment performance of the pension fund.

In this article, we will take a closer look at how market investment returns are shaping the future of pension obligations for many local governments in the United States.

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

Aug 10, 2022

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## **[Why Municipal Bonds Are Emerging as a Key ESG Investment.](#)**

**The municipal bonds market is ripe for sustainable investing. These bonds are often tied to ESG projects without a premium price—at least for now.**

When investors think about sustainable investing, they often focus on broad themes—such as water scarcity or clean energy—or individual companies that are leaders in environmental, social and governance (ESG) practices.

But those looking to build their ESG portfolios could also tap into municipal bonds. Increasingly issued by state and local governments to fund public projects that can have a positive social or environmental impact—from schools in underserved areas to infrastructure for zero-emission transportation—muni bonds can clearly align with sustainability goals.

What makes them potentially alluring right now? New analysis from Morgan Stanley Research finds that muni bond valuations are still driven largely by the issuer's credit rating, and not according to their ability to address ESG-related risks—a pricing advantage that may soon change.

[Continue reading.](#)

**Morgan Stanley**

Aug 9, 2022

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## [Green Bond Sales Drop to 19-Month Low on Tight Issuance Windows.](#)

- **July is typically a slow month for global green bond sales**
- **BloombergNEF sees issuance slowing under greenwashing scrutiny**

Global sales of green bonds, the largest category of sustainable debt by amount issued, plunged to a 19-month low in July amid a typical summer lull and as opportunistic borrowers preferred traditional bond offerings that are faster to complete.

Sales of green bonds fell to about \$24 billion last month from over \$45 billion the previous month, data compiled by Bloomberg show. That's the lowest since December 2020, when companies and governments issued about \$7.7 billion of green debt.

July, August and December are historically three of the slowest issuance months for green bonds. And while global bond issuance is picking up after a rough first half, borrowers find it harder to accelerate a sustainable transaction when market conditions are favorable because these transactions require more work leading up to the sale, according to top underwriters of the debt.

[Continue reading.](#)

### **Bloomberg Green**

By David Caleb Mutua

August 9, 2022

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## [S&P: CDFIs Demonstrate Strengths Post-Pandemic, But Are Equity Increases Only Temporary?](#)

### **Key Takeaways**

- We expect ratings to remain stable or improve over the next two years as rated CDFIs take steps to mitigate risks from inflationary pressure and rising interest rates.
- Some higher equity ratios in 2021 may prove temporary, and thus may not be the sole factors in potential near-term rating actions.
- On lending their recent influx of capital, we expect some CDFIs' equity to decrease relative to assets over time.
- Other credit factors such as asset quality and liquidity are likely to remain strong.

[Continue reading.](#)

10 Aug, 2022

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## [The Revival of Supplemental Environmental Projects and How It May Impact Settlement Agreements Moving Forward - Squire Patton Boggs](#)

As the US Department of Justice (DOJ) begins to revive the use of Supplemental Environmental Projects (SEPs), it is likely that they will appear again with increasing frequency in settlement agreements moving forward. DOJ received comments through July 11, 2022 on its interim final rule to revoke the Trump-era regulation that prohibited payments to non-governmental, third-party organizations who are not parties to an enforcement action—the regulation that effectively prohibited SEPs in settlement agreements. This post will provide an overview of SEPs, regulations surrounding SEPs, comments received pertaining to the revival of SEPs, and the likely use of SEPs moving forward.

[Continue Reading](#)

By Katherine Wenner on August 4, 2022

**Squire Patton Boggs**

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## **[Four Questions \(and Answers\) About the Infrastructure Investment and Jobs Act.](#)**

The Infrastructure Investment and Jobs Act (IIJA), also known as the bipartisan infrastructure bill, will increase federal spending on infrastructure by about \$550 billion over the next decade, nearly all through grants to state and local governments, which own much of the nation's infrastructure. At our annual Municipal Finance Conference in July 2022, four experts addressed several questions about the IIJA: Ryan Berni, senior advisor to Mitch Landrieu, the infrastructure implementation coordinator in the White House; D.J. Gribbin, former special assistant to President Trump for infrastructure; Shoshana Lew, executive director of the Colorado Department of Transportation; and Eden Perry, head of the U.S. Public Finance Operation and S&P Global Ratings.

A video of the panel is posted here. Here are some highlights.

[Continue reading.](#)

**The Brookings Institution**

by Nasiha Salwati and David Wessel

Monday, August 8, 2022

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## **[How the American Rescue Plan Is Backstopping the 'Submerged State'](#)**

**The Prospect interviewed researchers Amanda Kass and Philip Rocco on the American Rescue Plan, an unprecedented fiscal outlay for local governments that remains widely unknown.**

In March of last year, the American Rescue Plan put \$350 billion toward a fiscal recovery fund for state and local governments. Lately, ARPA only seems to get media attention when the center-left complains that it funded tax cuts or set off inflation. Critics who say it was overkill grumble that it was "fighting the last war"—that ARPA overshot in its attempt to avoid the austerity of the Great

Recession.

But ARPA is unrivaled in recent history as a flexible, open-ended public-funding package. A multipurpose fund available to tens of thousands of governments nationwide, ARPA is the largest broad-based aid transfer in 50 years, since the General Revenue Sharing program President Nixon enacted in 1972, which ended in 1986. ARPA is also bigger than its \$150 billion predecessor, the CARES Act's Coronavirus Relief Fund, which only went to larger state governments, cities, and counties. That makes it a great trove of information for researchers studying public investment.

Amanda Kass, the associate director of the Government Finance Research Center at the University of Illinois at Chicago, and Philip Rocco, a political scientist at Marquette University, have broken down expenditures by local governments. The Prospect interviewed the researchers about their findings as part of our Twitter Spaces series. The audio is embedded below.

[Listen to podcast.](#)

THE AMERICAN PROSPECT

BY PROSPECT STAFF

AUGUST 10, 2022

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## [\*\*Farebox Shortfalls Soon to Create 'Sizable' Transit Budget Gaps.\*\*](#)

**The problem is looming for big city transit agencies in places like New York and San Francisco, with ridership unlikely to recover before federal pandemic aid dries up, Fitch Ratings warns.**

Some of the country's busiest transit systems will face big budget pressures in the coming years, because their post-pandemic ridership is not likely to recover before federal stimulus funds run out, a major bond ratings agency warned this week.

Fitch Ratings, one of the three dominant ratings companies, said in a report released Wednesday that transit agencies that relied the most on fare revenues—rather than local sales taxes or other income streams—are “expected to face sizable budget gaps” when the federal aid dries up, Fitch analysts warned.

“Transit agencies and governments have the tools to adjust to volume declines. However, the usual tweaks to spending, service levels and fares will not be enough for the nation's most economically important urban transit agencies, which rely heavily on fares,” they wrote in their report.

[Continue reading.](#)

### **Route Fifty**

By Daniel C. Vock

AUGUST 11, 2022

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## **Fitch: US Public Transit Faces Multi-Year Recovery**

Fitch Ratings-Chicago/New York-10 August 2022: The pandemic was a severe blow to US public transit systems, resulting in durable declines in ridership and pressures on operating budgets, Fitch Ratings says in its report U.S. Public Transit Faces Multi-Year Recovery. Hybrid and remote work fundamentally changed demand, with ridership facing a long recovery to a new normal that will require new sources of revenue or service reductions at the most fare-dependent agencies.

Public transit ridership was trending lower before the precipitous declines of the pandemic. Overall US ridership subsequently plummeted 53% in 2020 and remains around 50% below pre-pandemic levels.

The nation's largest transit agencies previously were able to employ pricing power based on commuter demand for transportation to urban job centers but commuter volumes are unlikely to return to pre-pandemic levels. Our base case assumes ridership does not fully recover, although some agencies may exceed this expectation. Major fare-dependent agencies estimate ridership will recover to 70%-90% of pre-pandemic levels.

[Continue reading.](#)

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## **Fitch: US Public Transit Faces Multi-Year Recovery**

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Transit agency financial performance in the pandemic and recovery varies by revenue structure. Transit systems that rely heavily on tax revenue experienced steady revenue growth, even with declines in ridership, primarily reflecting the growth in sales tax revenue and federal aid during the pandemic. Fare-dependent agencies, such as New York's Metropolitan Transportation Authority (MTA) and Bay Area Rapid Transit (BART), lag sales tax-dependent agencies, such as Los Angeles County Metropolitan Transportation Authority (LA Metro).

Extraordinary federal aid as part of federal pandemic relief measures helped compensate for lost fare revenue, particularly at the most fare-dependent agencies. These agencies will face sizeable budget gaps when this aid runs out in the next few years unless they are able to adjust budgets

based on new baseline levels of demand and fare revenue.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[Municipal Bonds And Public Transport \(Audio\)](#)**

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

[Listen to audio.](#)

### **Bloomberg Markets**

Aug 12, 2022

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## **[Extreme Weather Is Only Getting Worse. Can Cities Protect Public Transit?](#)**

## **Climate-resilient public transportation is crucial to meeting our climate goals and ensuring mobility for vulnerable communities.**

Last September, New York City was so thoroughly inundated by Hurricane Ida that some commuters waded through water up to their waists just to get in and out of the subway station. Across the country, extreme heat battered the West Coast, melting Portland's streetcar power cables. This summer is seeing similar headlines, with heatwaves warping the BART train tracks in San Francisco and sudden rainfall interrupting Northeastern commutes.

These extreme weather events, which are increasing in severity and frequency due to climate change, pose a problem to the millions of Americans who rely on public transit to get to and from work, school, the grocery store, the hospital and social events. According to Maria Sipin, a former Transportation Justice Fellow at the National Association of City Transportation Officials (NACTO), public transit is a "lifeline" for many groups of people that already face disproportionate challenges due to historic discrimination or marginalization — think disabled individuals, low-income communities where private car ownership is rare, and Black and Brown communities that are less likely to have access to a car and more likely to live further from their jobs and rely on public transit for their commutes (thanks in part to the legacy of redlining and ongoing disinvestment in minority neighborhoods). When extreme weather impacts public transit, it has the potential to deepen existing inequalities.

It also threatens the country's ability to meet climate goals: Transportation is responsible for 27% of U.S. carbon pollution, and public transit is a key tool for bringing those emissions down. If train and bus service is disrupted by extreme weather, people may turn to more emissions-intensive ways of getting around, creating a negative feedback loop that fuels the global temperature rise that caused the disruptions in the first place.

[Continue reading.](#)

NEXT CITY

WHITNEY BAUCK

AUGUST 12, 2022

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## **Fundamentals for Municipal Bonds Remain Healthy.**

It's been a six-month slog for municipal bonds as inflation fears have racked one of the bond markets with some of the best investment-grade and yield options. Nonetheless, for investors who are still wary of municipal bonds, there's solace in knowing that fundamentally, munis remain healthy.

"It's hard to believe: Municipal bonds have suffered through one of the worst six-month stretches in their history, yet few marketwide credit concerns are on the horizon," Vanguard noted in its latest fixed income perspective. "State and local tax collections have been strong in correlation with the robust economic growth of 2021. Credit fundamentals are as healthy as they have been in decades."

One of the determinants of how healthy those credit levels stay is how local governments handle their surpluses, according to Vanguard. Those flush with cash will be best suited to handle a recession, should one occur.

“Maintaining that credit profile over the long term will be directly tied to how municipal fiscal surpluses are spent,” Vanguard added. “State and local governments that established or bolstered rainy day funds and resisted the temptation to use temporary surpluses to create enduring programs will be best positioned for future downturns.”

[Continue reading.](#)

ETF TRENDS

by BEN HERNANDEZ

AUGUST 11, 2022

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## **[Municipals Shine Amid Seasonal Summer Strength.](#)**

### **Summary**

- Municipals posted strong total returns and outperformed comparable U.S. Treasuries in July.
- Light issuance and improved fund flows provided a favorable technical tailwind.
- Supply-and-demand dynamics are expected to remain supportive in August.

[Continue reading.](#)

### **Seeking Alpha**

by Peter Hayes

Aug. 09, 2022

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## **[The Municipal Bond Opportunity in Three Charts.](#)**

### **Three key trends that signal a positive backdrop for municipal bonds.**

Municipal bond market volatility has been high this year. Headwinds, such as rising interest rates, slowing U.S. economic growth, and the uncertainty over the persistence of inflation, weighed on investors' concerns, prompting historically large outflows from municipal bond (muni) funds. But these key trends may suggest a more positive outlook for municipal bonds lies ahead:

- 1) Resilient municipal bond credit strength and negligible defaults
- 2) State government issuers in a position of historic fiscal strength
- 3) Low new issue supply combining with improving demand

Let's examine each of these trends, illustrated by a telling visual.

[Continue reading.](#)

**Lord Abbett**

By Sean Carroll  
Product Consultant

Aug 9, 2022

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## **[High Yield Bond ETFs Find Favor Once More.](#)**

**To celebrate the 20th anniversary of the first bond ETFs, investors flocked to the asset class, pouring in \$28 billion in July, double the amount that flowed into equity ETFs during a strong month for the U.S. stock market. Demand was widespread, with 46 products gathering at least \$100 million last month. While two credit-risk-averse bond ETFs, the iShares U.S. Treasury ETF (GOVT A) and the iShares 20+ Year Treasury Bond ETF (TLT B+), led the charge with a combined \$8.5 billion of net inflows, we are particularly pleased to see many high yield ETFs also gain traction.**

In mid-July, we highlighted a survey that VettaFi conducted with advisors during a webcast with State Street Global Advisors where high yield credit/senior loans were the bond investment style most appealing to add to client portfolios, ahead of ultra-short bonds, investment-grade credit, long-term Treasuries, and municipal bonds. Both the poll and the article occurred before the Federal Reserve hiked interest rates by 75 basis points in late July and Chair Powell said the U.S. was not in a recession. During July, the yield on the 10-year Treasury note narrowed by 33 basis points to 2.64%, and investors were willing to take on credit risk to receive higher yields. Indeed, six large high yield corporate bond ETFs managing \$44 billion pulled in \$5.2 billion in July alone.

The iShares iBoxx \$ High Yield Corporate Bond ETF (HYG B+) received \$1.9 billion of new money in July, shrinking its year-to-date net outflows to \$4.6 billion and pushing its asset base back to \$15 billion. Demand was also strong for the SPDR Bloomberg High Yield Bond ETF (JNK A-) and the iShares Broad USD High Yield Corporate Bond ETF (USHY A), which gathered \$1.7 billion and \$1.1 billion, respectively. USHY remained modestly larger than JNK with \$8.1 billion in assets (\$8.0 billion for JNK). Among the three largest high yield ETFs, USHY has the lowest expense ratio at 0.15%.

[Continue reading.](#)

**etfdb.com**

by Todd Rosenbluth

Aug 08, 2022

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## **[After a Quick Run Up, Muni Bond ETFs May Look Pricey.](#)**

Municipal bonds have rebounded off their lows, but the munis segment may have bounced back too quickly and could be overpriced relative to Treasuries and other government-related exchange traded funds.

Over the past month, the iShares National Muni Bond ETF (NYSEArca: MUB) rose 1.1% while the

iShares 7-10 Year Treasury Bond ETF (IEF) gained 0.1%.

The municipal bond market just marked its best monthly gain in July in over two years, and this segment did not pull back as heavily as U.S. Treasuries after Friday's unexpectedly strong labor market update, which triggered warnings that the Federal Reserve could have more leeway to enact aggressive interest rate hikes, Bloomberg reports.

Consequently, some market observers have warned that munis are now trading at their costliest level since early 2022 relative to U.S. Treasuries. Yields on 10-year tax-exempt munis were hovering around 2.25%, or 80% of the level on similar-maturity Treasuries, according to Bloomberg data. This ratio, which reflects relative value, is near its lowest since February after the outperformance in munis.

"Municipal valuations are completely unattractive at current levels — the muni market simply went too far, too fast in July and early August," municipal strategists at Barclays Plc led by Mikhail Foux said in a recent research note. "Investors should lighten up going into September, and should look for a better entry point in the fall."

Municipal bonds have increased 2.5% so far in the new quarter, outperforming Treasuries by almost two percentage points.

"People either really love munis or they really hate them, we're coming off a period where they love them and it's harder to get allotments of deals," John Flahive, head of fixed-income investments at BNY Mellon Wealth Management, told Bloomberg.

"The front end of the curve is very rich," Flahive added. "It doesn't make a lot of sense to own at these levels - you should start looking at Treasuries, T-bills with more liquidity."

## ETF TRENDS

by MAX CHEN

AUGUST 8, 2022

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### **[Munis Now 'Completely Unattractive' as Debt Outpaces Treasuries.](#)**

- **Some maturities are priciest since early 2022 in comparison**
- **'Investors should lighten up going into September': Barclays**

Municipal bonds have become the costliest since early 2022 relative to Treasuries after a furious rally in recent weeks, spurring some strategists to recommend that investors seek alternatives.

US state and city debt surged in July by the most in more than two years and hasn't sold off as dramatically as Treasuries in the wake of Friday's unexpectedly strong labor data, which roiled bond markets as it spurred bets on further aggressive Federal Reserve interest-rate hikes.

Benchmark 10-year tax-exempts yield 2.25%, which is about 80% of the level on similar-maturity Treasuries, data compiled by Bloomberg show. That ratio, a key gauge of relative value, is close to the lowest since February, and compares with an average of 90% in the five years before the pandemic. The muni outperformance is even more glaring in shorter maturities.

“Municipal valuations are completely unattractive at current levels — the muni market simply went too far, too fast in July and early August,” municipal strategists at Barclays Plc led by Mikhail Foux wrote in an Aug. 5 research note. “Investors should lighten up going into September, and should look for a better entry point in the fall.”

Munis have gained 2.5% this quarter through Friday, beating Treasuries by almost two percentage points, according to Bloomberg index data. To be sure, on Monday, city and state debt was trailing, showing little movement while Treasuries gained, paring some of Friday’s big decline. But the bigger picture is that munis have been on a roll in comparative terms.

The tax-exempt market has been buoyed of late by cash flowing back to investors through maturing bonds, redemptions and coupon payments, while offerings of new debt have been lackluster. Since the start of June, new long-term muni sales have dropped by nearly 30%, according to data compiled by Bloomberg.

That’s made it difficult for buyers to get bonds and caused the securities to grow more expensive, said John Flahive, head of fixed-income investments at BNY Mellon Wealth Management.

“People either really love munis or they really hate them, we’re coming off a period where they love them and it’s harder to get allotments of deals,” he said in an interview.

For him, shorter maturities in particular are costly.

“The front end of the curve is very rich,” he said. “It doesn’t make a lot of sense to own at these levels — you should start looking at Treasuries, T-bills with more liquidity.”

## **Bloomberg Markets**

By Danielle Moran

August 8, 2022

— *With assistance by Amanda Albright*

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### **[Summer Buying Could Kick-Start Muni Bond Rebound.](#)**

Municipal bonds, like the bulk of the fixed income space, are being adversely affected by the Federal Reserve’s aggressive interest rate hikes — more of which could be on the way due to persistently high inflation.

However, some market observers believe that the worst is behind munis and that the summer could stoke fresh buying of these bonds among professional investors. That could be a boon for exchange traded funds such as the Franklin Dynamic Municipal Bond ETF (NYSEArca: FLMI).

“Municipal bonds rebounded in July and posted their strongest total returns since the COVID-19 performance snapback experienced in May 2020. Falling interest rates provided positive direction as recession fears intensified amid a backdrop of elevated inflation and continued U.S.,” according to BlackRock research.

That bodes well for the near-term outlook for municipal bonds, but FLMI offers investors the goods to capitalize on a more substantial rebound. For example, FLMI is actively managed, meaning the

fund's managers can potentially capitalize on a variety of market settings. That's an important point at a time when things are changing on a dime.

"Favorable supply-and-demand technicals surpassed already lofty seasonal expectations and provided a strong tailwind in July. Issuance underwhelmed historical norms at just \$26 billion, 20% below the five-year average. Reinvestment income from maturities, calls, and coupons outpaced issuance by \$23 billion and made July the largest net-negative supply month since December 2016," added BlackRock.

Further enhancing the allure of FLMI's status as an actively managed fund is the point that an active muni bond ETF can more readily capitalize on credit opportunities while searching for value across the municipal debt spectrum. FLMI's index-based rivals generally don't offer such advantages.

Something else to consider with FLMI is that state finances are mostly healthy at the moment, indicating that if a standard recession comes to pass in the U.S., the bulk of the fund's holdings should be in decent shape.

"With reserves at historically high levels, states are well positioned to weather an economic downturn. According to the National Association of State Budget Officers' recent Fiscal Survey of States, total fund balances for the 50 states reached \$234.7 billion, or 25.4% of general fund (GF) expenditures at the end of fiscal year (FY) 2021, the highest level since at least 1979," concluded BlackRock.

Illinois, Florida, and California are the largest state allocations in FLMI, combining for about 41% of the fund's roster.

## **ETF Trends**

AUG 11, 2022

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### **[3 Advantages to Getting Municipal Bond Exposure.](#)**

Getting core bond exposure to investment-grade debt holdings might be the default move for investors who want to simply diversify their portfolios of equities, but municipal bond exposure offers its own benefits that investors should also consider. U.S. News offered three advantages to municipal bonds that investors may not be aware of.

With investors already knee-deep into 2022, it's hard to believe that the year will soon be coming to a close. As such, it's never too late to try to minimize the year's tax burden when April 2023 is around the corner.

Municipal bonds can provide tax-free income, making it an ideal source of cash flow for high net worth individuals. Its relative safety compared to other riskier assets also make it an ideal option for retirees.

"Investing in municipal bonds doesn't incur federal income tax and, in certain cases, state and local income taxes," the article noted.

[Continue reading.](#)

ETF TRENDS

by BEN HERNANDEZ

AUGUST 12, 2022

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## **[Senate Approves Democrats' Sweeping Climate and Health Bill.](#)**

**The legislation would unlock billions in new grants for states and local governments. But some lament its lack of help on housing and other issues. It will next go to the House.**

Democrats' multi-billion dollar climate, health care and tax package cleared a major hurdle on Sunday after the Senate passed the measure in a strictly party-line 51-50 vote, with Vice President Kamala Harris breaking the tie.

The bill, which includes around \$370 billion for climate and energy programs, is expected to get a vote in the Democratic-controlled House on Friday. If approved there, it would go to President Biden for his signature. The legislation would send billions in climate funding to states and local governments—notably \$4.75 billion to reduce greenhouse gas air pollution.

A smiling Senate Majority Leader Chuck Schumer, of New York, stepped off the floor after the vote giving reporters a big thumbs up.

[Continue reading.](#)

### **Route Fifty**

By Kery Murakami

AUGUST 7, 2022

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## **[Update: The Growing Trend of Anti-Boycott Laws and the Effect on Public Finance - Is Arkansas Next?](#)**

In our [previous blog post](#) we noted the emerging trend of anti-boycott and anti-discrimination laws in multiple states and discussed potential effects on the public finance market, particularly in Arkansas.

### **Potential Costs:**

One of the potential effects we noted was that by limiting potential underwriting (or direct purchaser) options, bond issuers may see increased borrowing costs. This possibility was examined in great detail in a recent paper authored by Daniel G. Garrett of the University of Pennsylvania, Wharton and Ivan T. Ivanov of the Federal Reserve Board. The paper, titled "*Gas, Guns, and Governments: Financial Costs of Anti-ESG Policies*," focused on the recent anti-boycott and anti-discrimination laws passed in Texas that addressed the energy (in particular, oil and gas) and firearms and ammunition industries. The paper makes note of the exit of some of the largest municipal bond underwriters from the Texas market and estimates that this reduction in

underwriting options could result in substantial increases in interest costs for municipal issuers across the state.

The paper was presented at the Brookings Institution's 11th annual Municipal Finance Conference in July. The full paper is available from the conference's website and may be accessed [here](#).

### **West Virginia:**

Last week, the West Virginia state treasurer, Riley Moore, announced that the state was barring Goldman Sachs, JPMorgan, Morgan Stanley, Wells Fargo and BlockRock from doing business with the state due to their policies regarding the coal industry. This action was undertaken pursuant to a law passed this year that provides the treasurer with the authority to ban financial institutions from state business if the institutions are determined to have policies boycotting fossil fuels. The immediate focus of the impact of this decision is on depository relationships with the state, but this decision will likely have significant impacts on municipal bond underwritings, as well.

Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.

August 8, 2022

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## **[S&P U.S. Public Finance Housing Rating Actions, Second-Quarter 2022.](#)**

[View the Rating Actions.](#)

1 Aug, 2022

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## **[S&P: Oil And Gas Prices Fuel U.S. Mineral-Producing States' Coffers As Economic Momentum Slows](#)**

### **Key Takeaways**

- On the tail of elevated oil and natural gas prices, mineral-producing states' severance taxes and mineral royalties are surging, although the inflationary pressures they have in part caused could stymie broader economic momentum across other sectors.
- Oil and gas-producing states are poised to lead economic (real gross state product [GSP]) growth in calendar 2023, with seven ranking among the top-15 for real GSP growth nationally after a sluggish 2022.
- Among the eight states surveyed, forecast median GSP growth is 75 basis points (bps) and 16 bps higher than the median growth rate for all states in 2023 and 2024, respectively.
- Mining sector employment remains well below levels from a decade ago despite an uptick in mining activities following the onset of the pandemic. Regional economies that rely more heavily on mining activities will likely experience the most benefit from increased production and high prices, though sector concentration poses longer-term credit risks when boom cycles turn to bust.

[Continue reading.](#)

2 Aug, 2022

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## **[Inflation Reduction Bill Uses Public Finance to Stoke Energy Investment.](#)**

**Billions in public financing would keep investment flowing into energy sector despite interest rate hikes.**

A surprise deal by Democrats on tax reform, climate investments, and health care features new ways of using public finance for clean energy.

The Inflation Reduction Act (IRA) breathed new life last week into President Joe Biden's climate agenda, which had been pronounced dead earlier in July. A variety of tax credits would help consumers buy technologies that are less prone to price spikes. One set of rebates would encourage drivers to buy electric cars. Another would help households install heat pumps, as Japan did after the 1970s oil crisis.

Beyond tax incentives, the bill directs new streams of public finance to rally private energy investment. It gives authority to the Department of Energy to issue up to \$250 billion in loans, and creates a \$27 billion national green bank.

[Continue reading.](#)

THE AMERICAN PROSPECT

BY LEE HARRIS

AUGUST 2, 2022

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## **[Senate Package Has \\$3B for Communities Cut Apart by Highways.](#)**

**The “neighborhood access and equity grants” would supplement earlier funding in the infrastructure law and could go towards a range of projects. About a third of the money is earmarked for lower-income areas.**

More help could be coming from Washington for neighborhoods that have long been cleaved apart by highways and other infrastructure, if a major spending bill now before Congress becomes law.

The legislation would set aside \$3 billion for reconnecting the divided communities, through a new program called Neighborhood Access and Equity Grants. The program would greatly expand similar efforts contained in the federal infrastructure law that passed last year, both in terms of the amount of money available and the scope of projects that would qualify.

The new neighborhood grants are included in the Inflation Reduction Act, a spending measure backed by Democrats, which the Senate approved on Sunday in a party-line vote. The sweeping proposal—which includes around \$370 billion for climate and energy programs, as well as health care and tax provisions—surprised advocates and just about everyone around Capitol Hill, who had assumed negotiations on the bill had stalled.

[Continue reading.](#)

**Route Fifty**

By Daniel C. Vock

AUGUST 5, 2022

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## **[How Do You Implement an Infrastructure Bill?](#)**

### **Passed in November, the \$1.2 trillion infrastructure plan is the country's largest in decades**

Last November, President Joe Biden ushered in a bipartisan agreement that launched the most comprehensive infrastructure plan that United States has seen in more than half a century.

The \$1.2 trillion Infrastructure Investment and Jobs Act—the largest infrastructure plan since President Dwight Eisenhower authorized the \$25 billion Federal-Aid Highway Act of 1956—includes \$110 billion to repair roads and bridges and support what the White House calls “major, transformational projects.”

The plan also allots \$39 billion for public transit; \$25 billion for airport improvements; and \$17 billion for port infrastructure and waterways. In addition, it calls for spending \$55 billion to expand water access and clean drinking water, and \$65 billion to improve broadband internet access, particularly in rural areas.

[Continue reading.](#)

### **UChicago News**

By Ted Gregory

Aug 8, 2022

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## **[State and Local Pensions Post Worst Losses Since Great Recession.](#)**

### **The public sector retirement plans are in better overall shape than they were back in 2008. But some are still badly underfunded and many are gambling on riskier investments.**

Welcome back to another edition of *Route Fifty's Public Finance Update*! I'm Liz Farmer and this week, I'm looking at public pension plans, which just wrapped up their worst year of investment losses since the financial crash in 2008. But—as if we needed any reminder—it's a very different world today than it was in the late 2000s. This year's damage hurts, but it isn't sending people running for the hills. I'll explain why.

The predictions of just how poorly public pension plans performed in the year ending June 30 range from average losses of 7% to more than 10%. But the bottom line is that the stock market has fallen by more than 20% in value over the past six months and investment losses from that will wipe out all the historic gains pensions made in 2021.

It means that pension funding levels, the share of assets plans have on hand to meet all their promised obligations to current employees and retirees, are likely to dip back down to an average of

72%, according to S&P Global Ratings.

[Continue reading.](#)

## **Route Fifty**

By Liz Farmer

AUGUST 2, 2022

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## **S&P: Market Swings Could Signal Contribution Volatility For U.S. State Pensions And OPEBs**

### **Key Takeaways**

- The average U.S. state pension funded ratio rose significantly in fiscal 2021—to 81.7%, from 68.9% in fiscal 2020—due to extraordinary investment returns. However, we expect most of these funding gains will be undone in fiscal 2022.
- 16 U.S. states met our minimum funding progress metric for pensions, indicating they made meaningful contributions toward full funding in fiscal 2021.
- We expect fixed rate funding and actuarial smoothing techniques will keep short-term contributions mostly consistent, but there could be longer-term fallout from market volatility.
- Retiree health care plans remain substantially underfunded because most states direct limited resources to other priorities.

[Continue reading.](#)

3 Aug, 2022

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## **Market Rout Sends State and City Pension Funds to Worst Year Since 2009.**

### **Simultaneous declines in stocks and bonds hammered the funds in the year ended in June, adding to pressure on government finances**

Public pension plans lost a median 7.9% in the year ended June 30, according to Wilshire Trust Universe Comparison Service data released Tuesday, their worst annual performance since 2009 and a fresh sign of the chronic financial stress facing governments and retirement savers.

Much of the damage occurred in April, May and June, when global markets came under intense pressure driven by concerns about inflation, high stock valuations and a broad retreat from speculative investments including cryptocurrencies. Funds that manage the retirement savings of teachers, firefighters and police officers returned a median minus 8.9% for that three-month period, their worst quarterly performance since the early months of the global pandemic.

“It was a really, really bad quarter for investing, there’s no way around it,” said Michael Rush, a senior vice president at Wilshire.

[Continue reading.](#)

# The Wall Street Journal

By Heather Gillers

Aug. 9, 2022

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## [Fitch: Timely US State Budgets Facilitated by Revenue Gains](#)

Fitch Ratings-New York-28 July 2022: Budget enactment before the start of fiscal year 2023 (July 1 for 46 states) for practically all US states is an improvement from the years preceding the pandemic when a number of states delivered belated state budgets, Fitch Ratings says. Seven states entered fiscal 2020, the last pre-pandemic budget cycle, without an enacted budget, according to the National Conference of State Legislatures (NCSL). Fitch attributes budget timeliness this year to large revenue surpluses in fiscal 2022 for many states, easing fiscal decision making.

Earlier this month Pennsylvania's legislature and governor reached agreement on a budget for fiscal 2023, leaving Massachusetts as the only state without an enacted full-year fiscal plan. Massachusetts is close to finalizing its 2023 budget, as the legislature unanimously voted to approve the budget on July 19, and it was sent to the governor, who has 10 days to review it. In each of the last six years, Massachusetts started the fiscal year without an enacted budget.

Fitch expects US growth to slow sharply in 2023 to 1.5% from 2.9% in 2022, due to rapidly rising interest rates. States are well positioned for slower growth, as a result of generally prudent fiscal choices made with tax revenue growth that far outpaced budget projections for two consecutive fiscal years.

States are focused on building fiscal resilience by building up reserves, paying down liabilities and using federal aid for one-time measures such as infrastructure. Most tax changes seem to be prudent, reflecting states' caution with inflationary conditions and risk of recession. States have also made investments in government employee salaries.

Pennsylvania's slight budget delay appeared to reflect policy and fiscal questions around how to utilize significant revenue surpluses reported for the current fiscal year. This is a twist on past budget deliberations, which revolved around fiscal constraints. The commonwealth historically delayed its budget enactment into the start of each new fiscal year with sometimes contentious negotiations between the governor and legislative leadership extending well past July 1.

The Pennsylvania budget is somewhat indicative of other states' budgets in making preparations for deteriorating economic conditions, such as a \$2.1 billion deposit to its rainy-day fund and leaving a \$3.6 billion unallocated balance in the general fund, despite calls for more substantial policy actions in areas such as K-12 education. The commonwealth's Independent Fiscal Office (IFO) projects a sizable yoy decline in net tax revenue in fiscal 2023 of nearly \$1.5 billion, or just over 3% in fiscal 2023, primarily citing weakening macroeconomic trends. This is \$1.3 billion worse than the official budget estimate and follows tax revenue growth of \$5.5 billion (14.4%), which was ahead of the official estimate in fiscal 2022, and boosted by the waning effects of pandemic-driven federal fiscal and monetary stimulus.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[Cyber Insurance Price Hike Hits Local Governments Hard.](#)**

**Some rates have more than doubled, and many insurers require new security protections.**

Horry County, South Carolina, officials were in for a shock earlier this year, when they discovered their cyber insurance premium would be spiking from \$70,000 last year to about \$210,000.

And if they couldn't satisfy the insurance company's requirements and prove they had the robust controls needed to protect and defend themselves against cyberattacks, they learned, they wouldn't be able to get their \$5 million policy renewed at all.

"The insurance companies have you over a barrel. There was not a lot of negotiation," said Tim Oliver, the county's chief information officer.

[Continue reading.](#)

**governing.com**

July 29, 2022 • Jenni Bergal, Stateline

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## **[How Local Governments Are Handling a Threat They Can't See.](#)**

**The proliferation of cyberattacks has prompted Pennsylvania municipalities to take extra steps to secure their systems. Here's what they're doing.**

In 2018, an Allentown city employee took a city laptop with him on a work trip. During that trip, he opened a phishing email that ultimately cost the city more than \$1 million in repairs to its digital infrastructure. Hackers, based in Ukraine, hit the Lehigh Valley city with malware known as Emotet—which the federal Cybersecurity & Infrastructure Security Agency ominously describes as

“an advanced Trojan primarily spread via phishing email attachments and links that, once clicked, launch the payload”—that began to self-replicate, steal credentials and work its way across their computer systems.

“A colleague came down the hall and said, ‘Hey, my account’s locked’—and I went to sign in and found that my account was locked” as well, Matthew Leibert, Allentown’s longtime chief information officer, recalled of the moment he knew something was seriously wrong—a realization that hit him physically as well. “I definitely felt sick,” he added.

Four years—and millions of dollars of sunk costs later—his staff still struggles to keep up with the monitoring and maintenance required to keep their systems safe for this city of more than 120,000 residents.

[Continue reading.](#)

## **Route Fifty**

By Harrison Cann

JULY 28, 2022

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## **[Municipals & Climate Change Series: Drought & Extreme Temperatures.](#)**

Municipal bond issuers are often linked to tangible, physical assets directly exposed to the effects of climate change. Over the long term, we believe municipalities will increasingly have to contend with the effects of this exposure, such as preparing for rising sea levels, managing constraints on local water supply, or rebuilding infrastructure after a hurricane or wildfire. This series will explore how various climate-related risks and policy responses could impact municipal issuers and describe our approach to assessing those risks.

In recent years, recurring drought conditions and rising temperatures have negatively affected large parts of the United States. According to the National Drought Mitigation Center, 76.4% of the western US was experiencing drought conditions at the end of June, with 38.1% under extreme drought.<sup>1</sup> Continually hot, dry conditions have constrained local water supply for municipal water and sewer utilities and could stress public power utilities. Here, we’ll examine how these conditions can affect municipal utilities and how we approach these risks in our analysis.

### **Water and Sewer Utilities**

With drought conditions increasing in frequency and severity, water supplies for retail and wholesale providers are likely to remain constrained, particularly in the western US. Persistent drought has forced many utility providers to rely more on expensive imported water from state or regional sources rather than local sources. However, state and regional sources generally have many stakeholders and some have begun reducing annual allocations to retail providers, underscoring the importance of water rights, which determine priority access to water supply. Additionally, some municipalities have implemented voluntary or mandatory conservation measures to help combat supply challenges, potentially decreasing customer demand.

[Continue reading.](#)

## **[6 Things For State and Local Governments to Watch With Democrats' Climate and Tax Deal.](#)**

**With billions in proposed spending, the package could affect both government programs and regional economies.**

The unexpected climate and tax deal Democrats in the U.S. Senate announced this week raises the possibility of billions in new federal spending that would help to support state and local government programs, while also potentially spurring new economic development and jobs around the country.

Central to the plan is \$369 billion for programs meant to cut carbon emissions, restore land, reduce pollution in disadvantaged neighborhoods, lower energy costs and strengthen domestic manufacturing of products like wind turbines and electric vehicles. On the revenue and savings side, estimates released by Democrats show the bill would raise \$739 billion through a mix of drug pricing reforms and tax measures, including a 15% corporate minimum tax.

Democrats say the deal would not increase taxes on households earning up to \$400,000 a year or small businesses. And the watchdog group Committee for a Responsible Federal Budget says the bill would reduce federal deficits by more than \$300 billion over a decade.

[Continue reading.](#)

### **Route Fifty**

By Bill Lucia

JULY 28, 2022

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## **[Muni Defaults: Should Investors Worry?](#)**

### **Summary**

- At the end of April, Moody's Investors Service released its annual municipal bond market snapshot, US municipal bond defaults, and recoveries, 1970-2021, with updates through 2021.
- Even though the average five-year municipal default rate since 2012 has been 0.1%, compared to 0.08% throughout the study period (1970-2021), it remains extremely low.
- According to Moody's report, there were only 114 distinct Moody's-rated defaults, representing a little over \$72 billion, across the whole universe of more than 50,000 different state, local, and other issuing authorities between 1970 and 2021.

[Continue reading.](#)

### **Seeking Alpha**

Jul. 28, 2022

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## **[S&P Updated U.S. Transportation Infrastructure Activity Estimates Show Air Travel Normalizing And It's A Long Road Back For Transit Operators.](#)**

### **Key Takeaways**

- Evolving remote or hybrid work practices, the growth of online shopping, the persistence of coronavirus variants, and other factors will delay indefinitely a recovery in public transit ridership to pre-pandemic levels compared with other U.S. transportation infrastructure asset classes.
- Our updated activity estimates reflect slower but still resilient economic growth and inflationary pressures, combined with momentum observed across the broader transportation sector.
- Our current baseline activity estimates show public transit recapturing about 60% of pre-pandemic activity by the end of 2022 and only about 75% by the end of 2025; and U.S. systemwide enplanements returning to near pre-pandemic levels by the end of this year, with the international component continuing to lag the broader domestic rebound.
- Our current downside activity estimates show public transit ridership returning to only 70% of pre-pandemic levels by the end of 2025, and U.S. systemwide enplanements returning to near pre-pandemic levels by the end of 2023.

[Continue reading.](#)

27 Jul, 2022

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## **[Inflation Drives Unstable Bond Financing in First Half of 2022: Ziegler](#)**

Driven by inflation, bond financing has been slow and unstable during the first half of the year, according to specialty investment bank Ziegler.

After previously raising the short-term interest rate by 75 basis points, the Federal Reserve is expected to attempt to slow the market again by raising "its benchmark overnight interest rate by three-quarters of a percentage point to a target range of 2.25% to 2.50% at the end of a two-day policy meeting on Wednesday," Reuters reported.

According to Ziegler, the issuance of senior living tax-exempt debt for the first half of 2022 was down approximately 9% from the same period last year. That compares with a change of 41% in 2021 over 2020, due to the pandemic. Total par volume was slightly below last year at nearly \$1.6 billion through June 30, compared with nearly \$1.8 billion for the same period in 2021, Ziegler said.

[Continue reading.](#)

### **McKnights Senior Living**

by Kathleen Steele Gaivin

JULY 27, 2022

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## **[Where Traditional Public Financing Fails, Blockchain Steps In.](#)**

**Both private and government funding have weaknesses. Crypto networks offer a third way to coordinate big collective projects.**

This week saw big moves from the U.S. Securities and Exchange Commission. First, the regulator declared several digital assets “securities” in the course of lobbying insider-trading allegations at an employee of crypto exchange Coinbase. The SEC then opened an investigation into Coinbase’s own alleged unauthorized sale of securities.

That’s huge grist for those trying to read the tea leaves of U.S. crypto regulation, but I want to take a big step back and think about the underlying issue of how societies fund large collective projects. Securities are a well understood way of doing that, and the SEC regulates that system in large part to keep money flowing to genuine, socially useful investments.

But one of the major promises of cryptocurrency networks is an entirely new approach to pooling and deploying capital, one that complicates the traditional split between public and private funding. It’s a major reason crypto has captured the global imagination and a key topic for those who would like to see regulators strike a balance between protecting the public and fostering innovation.

[Continue reading.](#)

**Yahoo Finance**

by David Z Morris

Fri, July 29, 2022

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## **[Privatized Student Housing: A Guide for Municipal Bond Investors.](#)**

**Municipal bonds are a key source of financing for on-campus or university-affiliated residences at many colleges.**

Colleges and universities fund student housing and related facilities with operating surpluses, reserve draws, philanthropic receipts, appropriations, and, in many cases, proceeds from municipal bond offerings. Public and private colleges are not strangers to the municipal market. In fact, over the last five years, four-year universities accounted for 6% of total municipal issuance.<sup>1</sup>

A substantial portion of that issuance can be traced to financing auxiliary operations—namely housing, dining, and recreational facilities.

In a traditional, higher-education debt transaction, a university will borrow for construction, and bonds will be backed by either the full faith and credit of the university, or some pledge of university revenues. In some cases, a university will create a narrow auxiliary pledge to accommodate these housing borrowings separate from its broader, primary lien. These narrower pledges come with varying degrees of incremental credit risk and are typically rated one or more notches below the university’s primary rating. Regardless of structure, however, in all these cases, the university is the ultimate borrower, and bondholder security is explicitly derived from university revenues.

[Continue reading.](#)

## **Lord Abbett**

By Richard T. Gerbino

July 26, 2022

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### **[The View From Muniland: Lions And Tigers And Bear Markets?](#)**

#### **Summary**

- This has been a historical year in fixed income, and municipals are no exception. Yields rose dramatically this year in anticipation of Fed moves, as the market is trying to get ahead of the Fed as the Fed is trying to tame inflation.
- The largest reason being outflows in the municipal market. That's another record that was set, and that just forces bond managers to need to sell - and when there's more supply, that drives up yields.
- But one thing that I'd like to remind investors of [is] that if your time horizon is longer than the duration of your portfolio, you want yields to rise. You're begging yields to rise.

[Continue reading.](#)

## **Seeking Alpha**

Jul. 27, 2022

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### **[A 2022 Bounce Back For Munis?](#)**

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

[Listen to audio.](#)

## **Bloomberg**

Jul 29, 2022

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### **[Vanguard Tells Investors Bonds Are Attractive After First-Half 'Horror Show'](#)**

- **Fixed-income team sees opportunities in corporates, munis, EM**
- **But not all market sectors have fully priced in slower economy**

Investors should look to bonds for income and as a hedge to equities again after fixed-income assets suffered a "horror show" first half, Vanguard Group Inc. said.

The \$7.1 trillion money manager sees the TINA mantra — there is no alternative to equities — as a thing of the past with a weakening economy likely validating bonds as a portfolio diversifier, the firm’s fixed-income team led by Sara Devereux wrote in a note on Monday.

“Corporates, municipals, high yield, and emerging markets present more opportunity than any time in the recent past,” according to the Vanguard team.

[Continue reading.](#)

## **Bloomberg Markets**

By David Caleb Mutua

July 25, 2022

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### **[Should You Buy Muni Closed-End Funds?](#)**

**Many investors are avoiding the bond market after another surprise inflation reading sparked fears of steeper-than-expected interest rate hikes. While that’s not necessarily a bad idea, the sell-off in the bond market is creating some opportunities for value investors - especially in municipal bond-focused closed-end funds.**

Let’s take a closer look at why municipal bond-focused closed-end funds are attractive and whether you should invest.

[Continue reading.](#)

## **municipalbonds.com**

by Justin Kuepper

Jul 26, 2022

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### **[NASBO FY2023 Enacted Budget Summaries.](#)**

#### **Overview**

Over the course of the past several months, governors in 33 states have released their fiscal 2023 budget proposals. Last year, 17 states enacted budgets covering both fiscal 2022 and fiscal 2023; in eight of those states, governors released a supplemental or revised budget recommendation for fiscal 2023. The remaining nine states did not release a new or revised budget proposal for fiscal 2023. 46 states begin their fiscal year on July 1 (New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1).

As of July 20, one state has yet to finalize their budget for fiscal 2023:

- Massachusetts - The legislature approved the budget and the governor is currently reviewing the budget bill. Earlier the governor filed an interim budget funding the state through July 31.

[Continue reading.](#)

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## **Fitch: Covid-Hardened U.S. State Governments Ready for Tougher Macro Pressures**

Fitch Ratings-New York-21 July 2022: Most U.S. state governments will exhibit financial resilience strong enough to navigate the next several months of slowing broader economic growth, according to Fitch Ratings in its inaugural 2022 U.S. States Median Metrics report.

Fitch's medians show U.S. state government ratings on an overall upward trajectory for the past five years with a faster rate of improvement coming, surprisingly, during the first year of the coronavirus pandemic. "States were able to repurpose at least some of the remarkably strong revenue growth towards improved resilience, with some states seeing historically high reserves," said Eric Kim, Senior Director and Head of Fitch's U.S. state government ratings group.

That said, a stiffer test of state governments' fiscal resolve awaits for the remainder of 2022 and into next year. "Revenue projections for fiscal 2023 suggest continued slower growth and possibly even declines as states anticipate various headwinds including a weaker macro environment with higher inflation and tightening monetary policy," said Kim. That is likely to manifest in the form of shifts in consumer spending towards less-taxed services and away from more-taxed goods and weaker markets driving down income tax revenues and consumer confidence.

As a result, Fitch anticipates some fall back in state government rating metrics by the end of fiscal 2022 or 2023, reflecting a material deceleration of economic growth. However, the very high ratings reflect Fitch's view that states will continue to act prudently in managing current budget surpluses to prepare for the next inevitable downturn.

Fitch's inaugural "2022 U.S. States Median Metrics" report is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **S&P: Cyber Security Should Be A Team Sport, Say Experts**

### **Key Takeaways**

- Public sector entities can best combat cyber risks by sharing information, collaborating, and pooling resources, industry experts told an S&P Global Ratings conference.

- The sector should also assess cyber risk exposure as part of their selection process of third-party vendors .
- Companies can minimize potential damage from a cyber security breach by building resistance into their operations, panelists said.

[Continue reading.](#)

18 Jul, 2022

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## **[S&P U.S. Not-For-Profit Health Care Ratings And Outlooks As Of June 30, 2022.](#)**

[View the Ratings and Outlooks.](#)

21 Jul, 2022

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## **[Most US Cities Plan to Use Infrastructure Aid on Roads and Bridges.](#)**

- **In survey, 82% of cities said their funds will go to roads**
- **Drinking water projects also score high on the priority list**

Most US cities will pour their share of the federal infrastructure spending package into fixing crumbling roads and bridges, prioritizing motor vehicle infrastructure over other projects like public transit, airports and railways.

About four in five cities said they plan to spend their money on local roads, bridges and major projects, with 56% prioritizing road safety, according to a survey of 153 localities conducted by the National League of Cities and Polco. About 60% said they would use funds from the Infrastructure Investment and Jobs Act on water projects.

A little more than a third of the municipalities said they would spend their money on broadband Internet access. About 26% said they'd put the money toward public transportation, while a little more than a quarter cited electric vehicles, buses, and ferries. Just 13% identified airports as a spending priority. Ports and waterways and passenger and freight rail came in at the bottom with less than 10% each.

[Continue reading.](#)

### **Bloomberg Markets**

By Mackenzie Hawkins

July 19, 2022, 11:41 AM PDT

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## **[From Broken Cities, a Plea for Grassroots Fixes.](#)**

**In “The Fight to Save the Town,” legal scholar Michelle Wilde Anderson shows how four poverty-struck communities fought back against austerity measures.**

When Stockton, California, declared bankruptcy in 2012, it was the largest municipal failure in American history. But it wasn't exactly a surprise: By the late 20th century, the city had already become a symbol of urban decline. Once a hub of canning, farming and manufacturing jobs, Stockton saw its major employers begin to leave the region; the city's tax base evaporated and housing values plummeted.

As Michelle Wilde Anderson recounts in her new book, [“The Fight to Save the Town: Reimagining Discarded America,”](#) Stockton's economic woes deepened in the wake of the Great Recession: Between 2007 and 2011, the city was saddled with 20% unemployment and suffered a higher foreclosure rate than any city in the nation apart from Detroit.

Since it couldn't keep up with its outlandishly overleveraged bond payments, Stockton began slashing emergency, health and recreation services; in that era it cut almost \$90 million in public spending. Even as the nation recovered after 2015, joblessness rates in Stockton remained elevated and fully a quarter of people under 18 lived below the poverty line. Homicide rates soared, as did civilian killings by police.

[Continue reading.](#)

### **Bloomberg CityLab**

by Michael Friedrich

July 19, 2022

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## **[Fitch: Global Port Labor Issues Add to Bottlenecks, Limited Credit Effect](#)**

Fitch Ratings-New York-21 July 2022: Labor issues at cargo ports could prolong shipping bottlenecks and temporarily reduce volumes, Fitch Ratings says. Global ports are sensitive to labor-related disruptions as they are still clearing residual pandemic-related backlogs with shippers entering their peak season. However, stable, contractually guaranteed revenues and robust liquidity will limit the effects on port credit profiles.

In the US, the International Longshore and Warehouse Union (ILWU) and Pacific Maritime Association (PMA) continue to negotiate a new contract following the expiration of their prior contract on July 1. Both parties announced that operations will continue, despite the failure to agree to a contract extension, but the risk of disruptions remain as long as an agreement has not been reached. Negotiations affect 29 West Coast ports, the largest of which are Port of Los Angeles (POLA) and Port of Long Beach (POLB), which together handle roughly 30% of US container volume. Major points of negotiation are salary increases and cargo handling automation. No end date for negotiations is set but market reports indicate a new contract may be in place by August or September.

Twenty-foot equivalent units (TEUs) at US ports remain elevated this year compared with 2019 and early 2020, and US port import volumes are expected to tick up as retailers stock up for back to

school and holiday season sales. Stronger volume growth for East Coast ports beginning in 3Q21 was the result of shippers rerouting some cargo from the West Coast ports to avoid congestion and adjusting ahead of contract negotiations. East Coast and West Coast port TEUs were up 9.9% and 0.4%, respectively, this year through May 2022 versus the same period in 2021.

[Continue reading.](#)

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## **[GFOA Streamlining the Budget Process: Albany International Airport Embraces Technology](#)**

Make technology fit your needs, rather than making your needs fit technology. Embrace it! Everyone is familiar with the budget process diagram that shows a circle made up of four arrows: it's a repetitive process done every year, over, and over, and over. And this kind of repetition is a perfect fit for technology.

At the Albany County (New York) International Airport, the budget preparation process typically begins each year when an organization distributes the same spreadsheet to each of its department managers. The spreadsheet format includes four columns: the previous year actual results, current budget amounts, estimated current year projections, and next year's requested budget, account line by account line. Each department then completes the last column and returns the spreadsheet to the budget department, which in turn merges all the departments' spreadsheets into one consolidated budget document. This process has worked for many years, but using the right technology can make it work more efficiently and with greater accuracy.

Publication date: June 2022

Author: Michael Zonsius

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## **[America's Bus Driver Shortage Has Left Transit Systems in Crisis.](#)**

**With the nation's current drivers retiring in large numbers, agencies need to cultivate a new generation of transit operators, a new report says.**

The number of bus drivers across the US is declining as many retire or seek higher-paying private-sector jobs that require less in-person contact.

The shortage is creating a major challenge for transportation agencies as they try to revive their systems and win riders back after taking steep losses throughout the pandemic, according to a report by TransitCenter, a public transportation advocacy group, released on Wednesday. The report sheds light on the industry and what agencies can do to retain workers and attract younger drivers.

"While the culprits can vary from agency to agency, two causes stick out: an increased number of retirements by an aging workforce and difficulties recruiting and retaining new workers," the report said.

[Continue reading.](#)

## **Bloomberg CityLab**

By Skylar Woodhouse

July 20, 2022

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### **[Is the Key to the Affordable Housing Crisis More Capitalism?](#)**

**It now costs \$600,000 to build a unit of affordable housing in Los Angeles. SoLa Impact is doing it for \$250,000—and making money for investors.**

In 2017, Martin Muoto got a call from his real estate agent about a four-unit building for sale on Budlong Avenue, in the heart of the South Central district of Los Angeles. The deal had “some hair on it,” the broker noted. The property was controlled by the 57 Neighborhood Crips gang, which was using it as a narcotics bazaar, according to a civil complaint filed against the owner in state court by the Office of the Los Angeles City Attorney. The dealers stashed the drugs inside the garage and met their customers in an outdoor stairwell, where they sold rock cocaine, smoked marijuana and drank alcohol, and played loud music day and night, the city alleged.

Muoto, who’d been scouring the area for properties for his development company, SoLa Impact LLC, bought the building anyway, for \$440,000. SoLa specializes in challenging situations. After closing the deal, he did what he’s done since growing up in strife-torn northern Nigeria: “I deescalated.” He got to know the neighborhood gang leader and made his pitch, saying SoLa Impact wanted to improve the neighborhood not for affluent White outsiders—he wasn’t trying to gentrify South Central—but for the families of color in South LA who’ve been ignored by banks and other businesses for generations. About 95% of SoLa Impact’s tenants are Black and Brown. Muoto calls his development approach “same neighbors, better neighborhoods.” The drug dealers backed off.

“The people in South LA are undervalued, and so is the property,” Muoto says. “If we don’t invest in these communities, who will? That’s the big question not just for LA, but for American capitalism.”

[Continue reading.](#)

## **Bloomberg BusinessWeek**

By Peter Waldman

July 20, 2022

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### **[Drone Delivery Is Near With FAA, NASA Focused on Safety.](#)**

**NASA and the FAA are working to revolutionize air traffic control for the drone era.**

“Please stay clear of the flight line,” warns Keith Hyde, director of U.S. operations for Wing. Safety comes first on these two fenced-off acres at the dead end of Welcome Street in Christiansburg, Va., where Wing has since 2019 been running the first North American drone delivery service. The drones are electric vertical takeoff and landing (eVTOL, pronounced “ev-tol”) aircraft, so instead of a runway, they park on a grid of landing pads that double as charging stations. Three dozen of the

pads are arranged on a gravel patch the size of a basketball court, each topped with a QR code large enough for an incoming drone to scan and confirm its touchdown location.

Wing, owned by Alphabet Inc., has no competition for the skies over Christiansburg, a town of 22,000 not far from Virginia Tech, and it operates only in clear, windless weather. Its drones are made of light plastic and polystyrene but still weigh in at 10 pounds because of the controllers, lasers, cameras, and battery packs required to achieve their 12-mile round-trip range. This morning a dozen drones recharge, awaiting orders. The flight line is flanked by 11 shipping containers. The ones labeled C1, C2, and C3 are where the drones “sleep” during off hours. Containers C3, C4, C5, and C6 hold inventory from partners such as Walgreens, a local coffee shop, and an area Girl Scout troop, which relied on Wing to shore up flagging cookie sales during the pandemic.

On the perimeter, “merchant success associate” Folake Adeshina, who’s wearing a hard hat, an N95 mask, and a yellow safety vest, waits for an order. Her tablet dings, and she glances at the request: hot coffee. C6 is stocked with carafes, cups, cream, sugar, and stir sticks. Adeshina fills two cups with steaming hot brew. As she works, the pilot in command (PIC), a man identified only as P.J. who’s stationed in C11 behind a computer, chooses which drone will fulfill the mission. The system has already calculated an optimal flight plan, but the Federal Aviation Administration requires a “pilot” for the mission, along with an observer who’s surveying the operation from a nearby hill. “The PIC could probably be replaced with a decision algorithm,” Hyde says as P.J. smiles behind the window of his container. (Hyde is no longer working for Wing.)

[Continue reading.](#)

## **Bloomberg BusinessWeek**

By Chris Feliciano Arnold

July 21, 2022

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## **[Facing Largest Single-Year Decline in Funded Ratio Since the Great Recession.](#)**

*Report finds funding shortfall to grow to 1.4 trillion in 2022, erasing nearly half of the gains from 2021’s record investment returns; three-year funding trend remains net positive.*

NEW YORK, July 20, 2022 /PRNewswire/ — State and municipal retirement systems are on track to lose nearly half of 2021’s once-in-a-century investment returns in 2022, according to [Equable Institute’s annual State of Pensions report](#). Following a year of record investment gains and economic growth, unfunded liabilities dipped below \$1 trillion in 2021, bringing the aggregate funded ratio to 84.8%, the analysis finds. However, Equable estimates that the aggregate funded ratio for U.S. public pension funds will decline to 77.9% in 2022 and unfunded liabilities will increase to \$1.4 trillion — the largest single-year decline in funded ratio since the Great Recession.

[Continue reading.](#)

## **Yahoo Finance**

Wed, July 20, 2022

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## **[Citi Shuttters Muni Proprietary-Trading Desk Amid a Wave of Departures.](#)**

- **Bank slips to fifth place among US muni underwriters**
- **More than two dozen bankers, traders, salespeople depart**

Citigroup Inc.'s municipal-bond business, for decades a powerhouse in the \$4 trillion market for US state and city debt, has seen a wave of high-profile departures as the bank revamps parts of the group's trading and banking units.

The bank in recent months shuttered its muni proprietary trading unit — which used the firm's own cash to trade and invest — as part of a push to focus on providing more of its balance sheet to larger, institutional clients, according to people familiar with the matter. Citigroup offered buyouts to more than a dozen senior traders, bankers and salespeople, spurring further departures across the group as rivals moved quickly to poach talent.

The New York-based lender had been the nation's second-biggest municipal underwriter since 2015, but slid to fifth place this year, according to data compiled by Bloomberg. Should it hold, the ranking would be Citigroup's lowest annual showing since at least 2012. Taken together, the personnel changes and decision to rejigger trading offerings have sparked concern that the bank is taking a step back from its once-storied public-finance business.

[Continue reading.](#)

### **Bloomberg Markets**

By Martin Z Braun, Amanda Albright, and Jennifer Surane

July 22, 2022

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## **[S&P Second Party Opinion: Everett Housing Authority's Social Bond Framework](#)**

S&P Global Ratings said today that Everett Housing Authority's (EHA's) social bond framework is aligned with the Social Bond Principles (SBP). The framework alignment opinion does not assess the alignment of any individual transaction with ICMA's Social Bond Principles.

[View the Opinion.](#)

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## **[BlackRock's Carney Sees Opportunities in Long-Term Munis.](#)**

Sean Carney, BlackRock's head of municipal strategy, says his firm is seeing "good opportunities" in longer-term municipal debt as demand for one and two-year muni bonds has driven prices higher. He speaks on "Bloomberg Markets: The Close."

[Watch video.](#)

## **Bloomberg Markets: The Close**

July 20th, 2022

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### **[GSAM's Yeh Sees Clients Buying Muni Bonds Again After Rout.](#)**

- **Clients plan to get to neutral from underweight in munis: Yeh**
- **Clarity around Fed's path has bolstered the case for munis**

Goldman Sachs Asset Management's Sylvia Yeh is "moderately bullish" about municipal-bond debt even after the market's worst annual start in decades.

The firm's co-head of municipal fixed income says the Federal Reserve's aggressive policy-tightening campaign has been a boon for investors who had a hard time justifying their investments when interest rates were low. Benchmark 10-year muni yields have risen more than 140 basis points since the start of the year, luring some buyers.

"It's almost like a back to basics for our market," Yeh said. "Clients are reminded why they own fixed income and why now is a good opportunity to put money to work."

[Continue reading.](#)

## **Bloomberg Markets**

By Nic Querolo

July 19, 2022, 9:58 AM PDT

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### **[Corporate and Municipal CUSIP Request Volumes Rise in June.](#)**

NORWALK, Conn., July 12, 2022 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for June 2022. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly increase in request volume for new corporate and municipal identifiers.

North American corporate requests totaled 5,808 in June 2022, which is up 4.0% on a monthly basis. On a year-over-year basis, corporate requests were up 10.6%. June volumes were driven by a 20.6% increase in requests for new short-term certificates of deposit (CDs) identifiers and a 33.2% increase in request for medium term note identifiers. This is the sixth consecutive month of increasing request volume for CDs with maturities less than one year. Longer-term CDs, with maturities of one year or longer, saw a 0.7% decline in new CUSIP request volume this month.

Municipal request volume also rose in June. The aggregate total of identifier requests for new municipal securities - including municipal bonds, long-term and short-term notes, and commercial paper - climbed 10.6% versus May totals. On a year-over-year basis, overall municipal volumes were down 16.5%. New York led state-level municipal request volume with a total of 174 new CUSIP requests in June, followed by Texas with 163 and California with 80.

“Rising rates have not slowed municipal and corporate issuers, but they have certainly breathed new life into CDs,” said Gerard Faulkner, Director of Operations for CGS. “Once again, short-term CDs continue to see a surge in new activity. Likewise, we continue to see pockets of strong volume among muni space with the annual peak season for municipal notes issuance that starts in June.”

Requests for international equity and debt CUSIPs were mixed in June. International equity CUSIP request volumes rose 46.2% in June, while international debt CUSIP requests were flat on a month-over-month basis. On an annualized basis, international equity CUSIP requests were down 41.5% and international debt CUSIP requests were down 28.8%.

To view the full CUSIP Issuance Trends report for June, [click here](#).

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## **[S&P U.S. Public Finance Rating Activity, June 2022](#)**

[View the S&P Activity Report.](#)

14 Jul, 2022

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## **[S&P U.S. Public Finance Mid-Year Outlook: The Heat Is On](#)**

Ratings performance across U.S. public finance (USPF) remains stable despite continued high inflation, supply-chain issues, and a weaker economic outlook. While these economic conditions are all felt by USPF issuers differently, they have yet to materially weaken credit quality. Revenue growth remains positive due to relatively healthy employment and real estate conditions. Revenues have also benefited in the short term from inflation, but this won't be sustainable as the economy slows.

Federal stimulus and strong revenue performance have kept reserves at robust levels, which provides fiscal cushion. A significant amount of the \$350 billion in stimulus received by governments as part of the American Rescue Plan Act remains unobligated; while inflation and rising costs may affect the number or scope of projects that can be completed, a spending deadline of 2026 means it will continue to flow through the system for at least the next 18 months, generating jobs and supporting the economy.

Our recent North America credit conditions report (“Credit Conditions North America Q3 2022: Credit Headwinds Turn Stormy,” published June 28, 2022, on RatingsDirect) highlights the U.S. suffering a “hard landing” as a top credit risk. As the Fed forges ahead with an aggressive cycle of monetary tightening, there's a growing risk that sharply rising interest rates, combined with a pullback by U.S. consumers in the face of nagging inflation, will push the world's biggest economy into recession (with an associated rise in unemployment). In a worse scenario, fuel and food inflation could remain high even if core inflation declines, leading to stagflation. All of this is compounded by the lingering effects of the pandemic.

[Continue reading.](#) [Free registration required.]

14 Jul, 2022

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## **Fitch: Modest US Public Power Effects from Potential Rolling Blackouts**

Fitch Ratings-New York/Austin-15 July 2022: Summer capacity constraints and rolling blackouts are not viewed as a near-term risk to US public power and electric cooperative credit quality, Fitch Ratings says. Fitch's rated portfolio of public power issuers typically own or contract for sufficient electric generation during the summer months to match or exceed their expected load demand, providing a financial hedge against market scarcity and volatile energy prices.

However, general economic inflationary pressures will necessitate rate increases in the sector, and customer tolerance for rate increases could be diminished by recurring rolling blackouts. To the extent utilities cannot pass through needed rate increases, utility financial profiles would likely weaken and could put pressure on credit quality over the longer term.

Supply shortages and the potential for rolling blackouts are likely to happen with more frequency across the US. The combined impact of heat conditions made worse by climate change, lower hydroelectric supplies resulting from drought, and the closure of carbon emitting coal-fired plants, have led to increased demand and reduced generation capacity in multiple parts of the country. Electricity market officials warned about capacity shortages this summer that could lead to temporary controlled outages, or rolling blackouts, including the Electric Reliability Council of Texas (ERCOT), the California Independent System Operator (CAISO), and the Midwest Independent System Operator (MISO) that manages an organized electric market covering 15 US states and one Canadian province.

Public power and cooperative utilities tend to own or contract for generation supplies conservatively so that they have more than sufficient reserves to meet potential increases in demand but there may be residual risk if temperatures cause demand to be substantially higher than anticipated. Costs of meeting demand in excess of power supply are typically modest in relation to utilities' overall budgets. Most utilities have a power cost adjustment feature in their rate structure that recovers power costs above budget or reduces rates to customers if power costs are below budget throughout the year. As a result of the conservative planning in the sector, public power utilities are often net sellers during scarcity events, protecting the financial profile of utilities during shortage or volatile pricing periods.

ERCOT, the organized electricity market operator across the majority of Texas, called for voluntary power conservation on Monday and Wednesday afternoons this week, given high temperatures across the state. The grid must remain balanced in real-time, with supplies exactly matching demand, a balance that can be challenging to maintain with large amounts of intermittent generation resources, given the natural fluctuation in solar and wind fuel types.

The call for voluntary conservation was successful, reducing peak demand to approximately 78.3GW on both days, and no rolling blackouts occurred. ERCOT noted the peak demand on the system on Monday and Wednesday was expected at 79.7GW and 78.5GW, respectively. Demand levels exceeded expected generation on these days given lower wind than typical for the time period, with less than 12% of available wind capacity on the grid for both days. ERCOT noted on Wednesday supplies were constrained by thermal plant outages and cloud cover in West Texas, which resulted in lower solar generation.

If rolling blackouts occur during a heat event in Texas this summer, they will likely last for a few hours, not days, as occurred in February 2021 during Winter Storm Uri, and would not impact long-term public power utility credit quality.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[Busting the Myths Around Public Investment in Clean Energy.](#)**

**Critics have opposed clean energy public investment by claiming that governments must not pick winners, green subsidies enable rent-seeking behaviour, and failed companies means failed policy. These arguments are problematic and should not determine the direction of energy investment policies.**

A slew of recent studies has made clear that the pathways to net-zero greenhouse gas (GHG) emissions by 2050 demand significant re-gearing of the global economy — which will require major governmental funding across the world<sup>1,2,3</sup>. These public investments need to go beyond research and development — and support technology demonstration, manufacturing, and deployment as well as energy efficiency and the build-out of electricity infrastructure at scale.

Public finance focused on climate change has grown significantly over the last decade (Fig. 1) and is currently accelerating further. The European Union's Green Deal, the Biden Administration's climate change investment plans, South Korea's green spending, and other government initiatives reflect this shift. To put this trend into perspective: The European Green Deal includes €503 billion for clean energy over the next ten years<sup>4</sup>, compared to €30 billion of climate spending in the 2008/09 stimulus response over two years<sup>5</sup>.

[Download pdf.](#)

**nature.com**

15 July 2022

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## **[It's Been a Poor Year So Far for Municipal Bonds.](#)**

**Still, investors may have cause for optimism since yields on the bonds are rising and many state and local governments are financially flush.**

The big perk of municipal bonds is that they are exempt from federal taxes.

But that benefit comes at a cost: Their yields are usually lower than those of comparable taxable bonds.

In May, the cost briefly disappeared, as the average yields on municipal bonds pulled even with those of U.S. Treasury securities. Investors were, in effect, enjoying municipal bonds' tax benefits free.

[Continue reading.](#)

### **The New York Times**

By Tim Gray

July 15, 2022

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## **[Understanding De Minimis as it Relates to Municipal Bonds.](#)**

The primary benefits offered by municipal bonds are generally well known to investors. Chief among these benefits is steady, predictable income, which is typically exempt from federal income tax—and, in some cases, also exempt from state and local income tax, depending on whether you are a resident of the state in which the bonds are issued.

However, something that municipal bond investors may not be aware of is a potential tax liability as it pertains to discounted bonds. While income from municipal securities may be tax-exempt, price appreciation on a bond purchased at a discount in the secondary market is generally taxable. And how this tax is treated pertains to the de minimis rule, a tax rule that defines when a municipal bond redemption may be considered a capital gain rather than ordinary income.

De minimis does not affect the way original issue discount ("OID") municipal bonds are treated. The term "OID" is a discount from par value at the time a bond is originally issued. There is no taxation of the original issue discount because the difference between the discount price and the matured value is considered interest, which is tax-exempt. However, if an OID municipal bond is purchased at a discount in the secondary market, the discount amount generally taxed as ordinary income at the time the bond is sold or redeemed, as with other tax-exempt securities.

[Continue reading.](#)

**advisorperspectives.com**

by James Thompson of Aquila Group of Funds, 7/11/22

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## **[Inflation-Resistant Municipal Bond Sectors.](#)**

**Sectors such as public power and toll roads have characteristics that may alleviate the pressure from high inflation.**

Consumers have felt the impacts of higher inflation in their daily lives, from the gas pump to grocery stores. Investors have also felt the impacts of higher inflation in basically every asset class. Municipal bonds have not been an exception, but despite recent market underperformance, municipal credit has remained generally strong. In this article, we discuss several municipal sectors with built-in credit protections, which help offset the pressures of higher inflation.

### Countering the Effects of Inflation

Public power is one of the municipal sectors with protections in place that help to mitigate the impact of inflation. First, public power utilities have rate covenants, which are legal requirements to set electric rates at levels that generate revenues that provide a minimum cushion over expenditures. For example, the City of San Antonio has legally covenanted to always maintain electric rates that produce revenues that exceed all electric operating expenditures and debt service. In addition to rate covenants, public power utilities can increase rates as high as needed without third party approval, and utilities typically have provisions in place that allow them to pass on higher commodity prices to ultimate ratepayers, automatically and without much delay. It is important, however, to monitor ratepayer affordability in this environment. In theory, all higher costs can be passed through to ratepayers, but in practice, the utility may feel pressure to not pass on all additional costs, especially if the utility serves a lower-income population. Nevertheless, public power utilities generally have credit protections, which make them resilient in all types of market cycles and environments.

[Continue reading.](#)

### **Lord Abbett**

By Derek A. Gabrish, Gary M. Huang

July 13, 2022

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## **[Municipal Workers Have Joined the Great Resignation.](#)**

**New York City employees are back in the office, and many of them are not happy about it.**

The last time anybody checked, only 8 percent of the people who work for private employers in Manhattan were back in their offices full time. But nearly 100 percent of the municipal work force is back. And there are signs that the municipal work force is less than 100 percent happy about it.

There's no survey on the happiness factor. But some city workers relish the flexibility that remote work can provide and don't like Mayor Eric Adams's push to bring them back. Some worry about Covid exposure at work. "There was an outbreak at my office," one city employee wrote on Instagram, "and everyone continued as if nothing happened."

And some see new opportunities — and bigger paychecks — in private-sector jobs when the labor

market is as hot as it has been.

[Continue reading.](#)

## **The New York Times**

By James Barron

July 14, 2022

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### **[S&P U.S. Not-For-Profit Private College And University Fiscal 2021 Median Ratios: Financial Margins Improve, Balance Sheets Strengthen Despite Enrollment Declines](#)**

#### **Key Takeaways**

- Enrollment declined across all rating categories in fall 2020.
- Fiscal 2021 operating performance generally improved year over year due to expense reductions coupled with federal relief funds.
- Balance-sheet ratios saw sizable growth in fiscal 2021, spurred by healthy investment returns.
- Median debt levels remained consistent across rating categories, but those universities that did issue debt tended to issue larger amounts.
- As of June 15, 2022, 80% of S&P Global Ratings' rating outlooks on private colleges and universities are stable, 16% are negative, and 4% are positive. This represents an improvement in credit quality from the previous year, when 30% of outlooks were negative and only 1% were positive.

[Continue reading.](#)

12 Jul, 2022

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### **[Fitch: Strong Margins, Significant Gains Boost Some 2021 Medians for US Colleges & Universities](#)**

Fitch Ratings-Chicago/New York-11 July 2022: U.S. colleges and universities bounced back from a rough 2020 with solid operating performance and balance sheet growth in fiscal 2021, according to the latest medians report from Fitch Ratings.

The aftershock of the pandemic has been far-reaching with uneven enrollment, a third straight annual decline in student fee revenues, and the first drop in net tuition in several years. Nonetheless, institutions preserved margins by curbing spending, keeping median ratings unchanged at 'AA' for public institutions and 'A-' for private institutions. Fitch downgraded five colleges and upgraded four in 2021, a much milder output after 22 downgrades and one upgrade in 2020.

"Strong operating and expense controls have been key, particularly for those more reliant on student fee and auxiliary revenue," said Senior Director Emily Wadhvani. "Mixed enrollment trends

are pressuring those colleges more reliant upon tuition and student fees in demographically challenged or competitive markets, and will be key areas to watch as we head into fall.”

Revenue mix shifted materially in 2021, with the largest student-fee component falling and federal stimulus adding weight to the federal grants component of operating revenue. That said, “federal stimulus has a finite shelf life with the bulk of those funds realized during fiscal 2021 and 2022, so it will be necessary for colleges to adjust once those funds run out,” said Wadhwani. This is on top of ever-present sector headwinds, the most immediate of which include inflation and labor pressures.

Fitch will be providing a 2022 mid-year update on U.S. higher education during a webinar set for later this week (Details in the registration link:

<https://events.fitchratings.com/ushighereducationmidyearupdate>). ‘Fiscal 2021 Median Ratios for U.S. Colleges and Universities’ is available at ‘[www.fitchratings.com](http://www.fitchratings.com)’.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **[Fitch: Higher Education Tuition Hikes Insufficient to Offset Inflation Pressures](#)**

Fitch Ratings-Chicago/New York-14 July 2022: Inflation’s effects will weigh on college and university budgets over the next few years, Fitch Ratings says. Inflationary pressures are reflected in tuition increases, lower capital outlays, less debt issuance and reduced endowment spending power, which will have longer term repercussions for operations and could also negatively affect enrollment. Schools will need to continue managing expenses or supplement revenues to preserve their budgetary flexibility.

Fitch forecasts average annual inflation of 7.8% and 3.7% for 2022 and 2023, respectively. Higher education wages increased in 1Q22 by around 3% yoy, slightly lower than broader wage trends amid a tight labor market. Increased wages are difficult to lower once in place and will have a significant impact on operating budgets, with personnel costs comprising an average of about 30% of a college’s expense base.

Tuition has increased over 5% per year since 1980, with the exception of 2020-2021 and 2021-2022, when tuition was held flat. Fitch expects larger tuition hikes as universities try to keep pace with higher costs and continue to recover from foregone revenues and other pandemic impacts. We expect net tuition growth will remain constrained at best, with more challenged institutions facing declines.

Tuition price increases may dampen student demand at a time when the value proposition for a degree remains under scrutiny. Recent tuition rate increases at more competitive universities have been as high as 6%, but importantly, are at least partially offset by institutional aid at schools with available internal resources. Private institutions with stronger demand characteristics inherently retain more pricing power, while some less selective institutions that are typically much more reliant on student fee revenue will need to make sharper adjustments to their expense base to counter revenue pressures. Lower enrollment is a risk if some students delay or forgo entry into higher education, given the prospects of a strong labor market and rising cost of living.

Public universities have benefited from favorable state budgetary conditions, which have supported growth in state funding for higher education. However, state funding, which comprises about 24% of total public university revenue, may not be sufficient to fully compensate for rising operating costs. In addition, public universities' pension liabilities and required contributions may increase as a result of COLA adjustments, and may not be offset by corresponding increases in state funding. While tuition increases at public universities may be necessary to preserve budgetary balance, such increases are often tempered by caps, state approval, and their public mission to keep higher education accessible and affordable.

For both public and private schools, federal aid has acted as a meaningful replacement for lost revenue and helped preserve margins and budgetary flexibility in both fiscals 2021 and 2022. That aid has now largely been used, and institutions with underlying structural imbalances may see widening budget gaps in fiscal 2023 and beyond due to expense pressures. Cost cutting may be the only option for those institutions lacking financial flexibility or accretive revenue diversity. Colleges and universities are likely to curtail capital plans when under financial pressure, as some schools have done throughout the pandemic, particularly as construction and financing costs increase. While endowments enjoyed a very strong 2021, market performance has been choppy in 2022 and inflation may constrain endowments' effective spending power.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **S&P ESG U.S. Public Finance Report Card: Midwest And Central Region Governments And Not-For-Profit Enterprises**

S&P Global Ratings' ESG report cards qualitatively describe how and why environmental, social, and governance factors may have a more positive, negative, or neutral influence on an individual entity's credit fundamentals that we incorporate into our forward-looking credit rating analysis. In this report, we analyze the ESG credit factors that could be most influential and material in our credit rating analysis for U.S. public finance (USPF) government and not-for-profit enterprise issuers in the Midwest and Central region of the country, which includes Iowa, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, North Dakota, Ohio, Pennsylvania, South Dakota, Wisconsin, and West Virginia. These comparative views of ESG factors are qualitative and established by analysts during analytic discussions and described in issuer-level credit rating reports, with the goal of providing insight and transparency.

We grouped the states covered in this report based on geographic proximity and commonly shared credit rating risks, including those associated with ESG. The risks and opportunities highlighted in this report are not exhaustive but rather broadly illustrative and represent where issuers across different sectors are positioned relative to those risks and opportunities. Beginning April 2020, S&P Global Ratings incorporated a summary paragraph in all issuer-level credit reports to provide transparency, on a comparative basis, of how material and influential ESG risks and opportunities are in our credit rating analysis. Select ESG summary paragraphs from issuers within this region are reproduced in the Appendix.

[Continue reading.](#)

13 Jul, 2022

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## **Public Pension And Mass Transit (Bloomberg Radio)**

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. Hosted by Matt Miller and Kriti Gupta.

[Listen to audio.](#)

**Bloomberg Radio**

Jul 15, 2022

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## **The Default of Elvis's Graceland Should Worry Tourism Sites.**

- **Pandemic cuts crowds visiting Graceland mansion in Memphis**
- **Baz Luhrmann's biopic on King of Rock n' Roll may spur rebound**

A debt default by Graceland, the Elvis Presley mansion turned tourist attraction, shows why investors in other municipally financed venues may one day be singing the blues.

For years, I've used attendance at Graceland as the standard by which museums and other projects hoping to tap the bond market must be judged.

Though the King of Rock and Roll died Aug. 16, 1977, he has active fan clubs and buyers of his music worldwide and a new biopic in theaters. That's why his Memphis home still draws around 500,000 visitors a year, down about a third from the crowds that came 25 years ago.

[Continue reading.](#)

## **Bloomberg Markets**

By Joseph Mysak Jr

July 13, 2022

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## **[How Cities and Counties are Putting American Rescue Plan Dollars to Work.](#)**

As the COVID-19 economic and public health emergencies slowly abate, local leaders nationwide are adjusting to a reality in which—at least in the short term—they have significant resources to address both acute and long-standing challenges. Many of those resources are flowing to cities and counties via the American Rescue Plan Act's (ARPA) flexible [State and Local Fiscal Recovery Funds \(SLFRF\)](#).

Our three organizations—the [National League of Cities](#), the [National Association of Counties](#), and [Brookings Metro](#)—are tracking how cities and counties are using these flexible funds via our Local Government ARPA Investment Tracker. The latest data, which jurisdictions [submitted](#) to the Treasury Department for activity through December 31, 2021, reflects decisions that cities and counties made in the seven months after receiving their first tranche of SLFRF dollars. This data comes from 89 cities and 240 counties that have at least 250,000 residents; they are required to make frequent reports to Treasury on how they are deploying the funds.

ARPA permits SLFRF recipients to use the dollars to address a wide range of needs in response to the pandemic and its impacts. As of the end of 2021, those 329 jurisdictions had identified more than 4,500 discrete projects for which they had budgeted at least a portion of their flexible funds. Our organizations analyzed the project data, including (as we described in February 2022) “coding” each project into one of seven overall spending groups (community aid; economic and workforce development; government operations; housing; infrastructure; public health; and public safety), and then into 41 spending sub-groups that provide further detail on the use of the funds. In this piece, we identify four key takeaways about city and county priorities from the new data.

[Continue reading.](#)

## **The Brookings Institution**

by Alan Berube, Teryn Zmuda, and Christine Baker-Smith

Tuesday, July 12, 2022

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## **Muni Bond Market Is Left Behind in Move to Electronic Trading.**

- **11% of trading volume by par amount is executed electronically**
- **\$4 trillion market is still ripe for automation, analyst says**

Municipal bonds are being left behind as other fixed-income sectors move to electronic trading.

Only about 11% of muni bond trading volume was executed electronically in May, a share that hasn't moved in the past three years, according to an estimate last month from Coalition Greenwich, a financial services industry analytics firm.

By contrast, investment-grade corporate bond e-trading has more than doubled since May 2018 to 41% and more than tripled for high-yield bonds to 28%. Two-thirds of the US Treasury market traded electronically in May 2022.

[Continue reading.](#)

### **Bloomberg Markets**

By Martin Z Braun

July 12, 2022

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## **Volatility 'Great' for Muni Investors: Appleton's Fitts**

Whitney Fitts, Appleton Partners senior vice president, says too many Federal Reserve rate hikes are "cooked" into markets. Speaking with Taylor Riggs on "Bloomberg Markets: The Close," she adds that she sees a lot of opportunities in municipal bonds right now.

[Watch video.](#)

### **Bloomberg Markets: The Close**

July 13th, 2022

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## **Investors Are Renewing Faith in Municipal Bonds.**

As is the case with nearly every other corner of the bond market this year, municipal bonds are languishing due to the Federal Reserve's interest rate tightening efforts.

However, muni bonds and the related exchange traded funds are performing less poorly than aggregate bond strategies. Adding active management to the mix can further support investor outcomes. On that note, the Franklin Dynamic Municipal Bond ETF (NYSEArca: FLMI) is an ETF for income investors to evaluate.

Income investors are in fact renewing their affinity for municipal debt following a rough first half for the asset class. Market participants allocated \$5.4 billion to muni ETFs in the second quarter.

[Continue reading.](#)

**etftrends.com**

JUL 12, 2022

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## **Muni Bonds' Fire Sale Prices Enticing Retail Investors.**

**As institutional investors try to sell the segment, retail investors looking for tax-free yield are there to buy it, according to Tradeweb.**

Retirees have flocked to institutional municipal bond markets amid market volatility even despite substantial losses in the segment, according to a new report.

The “liquidity crisis” spurred by the Covid-19 pandemic caused municipal bond funds to shed more than \$28 billion in March 2020 alone, electronic marketplace provider Tradeweb said in a new report. This year, amid rising inflation and further economic turmoil, municipal bond prices dropped 9% through June, according to Tradeweb, which cites the Bloomberg Municipal Bond Index.

The broader municipal bond market has seen fund outflows in 18 of the 19 weeks, Tradeweb says.

Institutional investors have been spooked by the volatility, causing them to exit the segment, “all at fire sale prices,” according to the report.

But the rising yields accompanying the falling prices have attracted retail investors even as institutional investors fled, Tradeweb says.

The company attributes it to better access through electronic trading.

“Historically, those two classes of investors would never cross paths, but — thanks to recent advances in electronic trading that have given retail wealth managers a direct conduit to the institutional sell-side — retiree investors have come to wield big buying power in the institutional municipal bond markets,” Tradeweb said.

Retail investors have been municipal bond buyers at a four-to-one ratio, while institutions have been selling at a rate of two-to-one, according to the report.

This has led to a “mutually beneficial outcome,” with institutional investors tapping Tradeweb to sell municipal bonds — often, according to the firm, at far better prices than otherwise would have been possible — to retail investors looking for tax-free yield.

**financialadvisoriq.com**

By Alex Padalka | July 13, 2022

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## **Investor Interest in Muni ETFs Surge.**

**After municipal debt faced a rocky first half of the year, muni bonds and the related**

**exchange traded funds are performing less poorly than aggregate bond strategies. In fact, munis are showing their best yields in five years. As a result, municipal debt is seeing a renewed interest from investors.**

In the second quarter, investors allocated roughly \$5.4 billion to muni ETFs. And while inflows don't always indicate strong investor demand, Strategas strategist Todd Sohn told CNBC that "the overall trend seems to be toward more conservative areas like municipal bonds."

Risk-averse investors often enjoy the tax benefits and steady income streams that muni ETFs can provide. While debt issued by state and local governments pays interest, that income usually isn't taxed at the federal level. The same goes for common stock dividends or interest from other fixed-income assets.

At CNBC, Jesse Pound wrote that the tax advantages of municipal bonds "versus private debt can help boost the payouts for income-hungry investors," before adding: "As yields have jumped this year, and concerns about an economic slowdown have widened spreads, high-quality debt that is slightly riskier than Treasuries could be a sweet spot for investors."

Fixed income investors seeking the safety and tax advantages that munis offer may want to consider Invesco's BulletShares municipal bond ETFs. BulletShares ETFs in the muni space come with a range of maturity dates.

Depending on the maturity date, the ETF is based on the Invesco BulletShares® USD Municipal Bond (2021 to 2030) Index. The fund will invest at least 80% of its total assets in municipal bonds that comprise the index. The index seeks to measure the performance of a portfolio of U.S. dollar-denominated debt issued by states, state agencies, or local governments.

Fixed income investors are less exposed to changes in interest rates with shorter duration bonds. But with longer duration bonds, they can extract more yield while taking on more rate risk.

**etfdb.com**

by James Comtois

Jul 14, 2022

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## **[FLMI Could Fly as Municipal Bonds Regain Form.](#)**

**Headline risk remains in the fixed income space. On Wednesday, the Labor Department said that the June reading of the Consumer Price Index (CPI) checked in at 9.1%.**

That increase was larger than expected and represents another 40-year high. It's also stoking speculation among bond market participants that the next interest rate hike from the Federal Reserve could be as high as 1%. To put that 1% into context, the central bank's prior three rate hikes this year total 1.5%.

Obviously, the more rates rise, the more pain is incurred by longer-dated bonds. On the one hand, there are opportunities in the middle of the duration spectrum, including with beaten-up municipal bonds. Enter the Franklin Dynamic Municipal Bond ETF (FLMI). The actively managed FLMI has an average duration of 5.73 years. Add to that, some experts are modestly bullish on munis, assuming

some easing of interest rate volatility is realized this year.

[Continue reading.](#)

**etfdb.com**

by Tom Lydon

Jul 14, 2022

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## **SIFMA US Municipal Bonds Statistics.**

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

YTD statistics include:

- Issuance (as of June) \$208.2 billion, -11.7% Y/Y
- Trading (as of June) \$14.0 billion ADV, +78.3% Y/Y
- Outstanding (as of 1Q22) \$4.0 trillion, +0.7% Y/Y

[View xls](#)

July 5, 2022

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## **Economic Outlook of U.S. Public Sector for Fiscal Year 2023.**

**Given the nature of recent global events, like the Russia-Ukraine conflict or coronavirus re-emergence, it is evident that national, state, and regional economies aren't as financially insulated as originally thought.**

The inflationary pressures—combined with the rising cost of capital, employee retention, and continued supply chain issues—are all contributing to the assessment of local governments' fiscal health. However, with the federal government's COVID-19 response and the recent infrastructure push, many public finance government sectors are experiencing a sense of stability, including airports, transportation infrastructure, utilities, higher education, and more. But recession fears are looming for the U.S. and world economy in general, which will likely have adverse impacts on local and state government finances.

In this article, we will take a closer look at some economic indicators and how they are shaping the economic outlook for public finance sectors of the economy.

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

Jul 07, 2022

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## **[S&P: Increase In U.S. State Debt Levels In 2021 Was Likely A Blip](#)**

### **Key Takeaways**

- U.S. state total tax-supported debt increased 4% in 2021; however debt levels may begin to slow down again as states grapple with higher interest rates.
- Federal aid received during the COVID-19 pandemic may provide additional options for capital spending and affect new debt issuance through 2023.
- Overall, debt levels remain sustainable with few exceptions.

[Continue reading.](#)

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## **[S&P: As Budget Deadlines Approach, U.S. States Look To Manage Revenue Windfalls Without Creating Shortfalls](#)**

### **Key Takeaways**

- With exceptional current-year tax revenue growth and extraordinary federal assistance, U.S. states have abundant resources on which to build their fiscal 2023 budgets. However, intensifying downside economic risks and the sustainability of future revenue growth could complicate budget decisions for some.
- Three states with fiscal years that end on June 30 have yet to enact their 2023 budgets; however, two are on track to cross the finish line before the start of the new fiscal year. This is below the 13 states that had not yet adopted a fiscal 2022 budget on June 30, 2021.
- Sharper focus on sustaining reserves in anticipation of stiffening economic headwinds and emphasizing structural balance will remain essential to minimize potentially significant out-year revenue cliffs and fiscal gaps.

[Continue reading.](#)

30 Jun, 2022

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## **[How Fed's Inflation Fight May Impact State, Local Debt.](#)**

Chris Brigati, Valley Bank managing director of municipal investments, takes a look at how Federal Reserve policy will impact the municipal bond market. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets. The Close."

[Watch video.](#)

**Bloomberg Markets: The Close**

July 6th, 2022

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## **US State Debt Levels Rose in 2021 at Fastest Pace in Five Years.**

- **State tax-supported debt increased 4% last year, S&P says**
- **Uptick in debt levels likely a fleeting 'blip' as market turns**

US state debt loads jumped last year as historically low interest rates and a bounty of investor demand led to record sales in the \$4 trillion municipal bond market.

State tax-supported debt increased 4% in fiscal year 2021, the fastest in five years and a departure from recent years' declining trends as the market favored issuers with low borrowing costs for much of the year, according to an analysis published on Wednesday by S&P Global Ratings.

About two-thirds of states upped their tax-supported debt loads in 2021, though the bond payments remain manageable, the company said. The median debt-per-capita increased 4.6% to \$984, still below the peak level of \$1,036 in 2012.

"States have benefited over the past year from an economic environment boosted by federal stimulus injections, low bond interest rates, and strong revenue growth," wrote the analysts at S&P led by Ladunni Okolo.

States and municipalities flooded the municipal bond market last calendar year, selling around \$460 billion of bonds spurred by low borrowing costs and unprecedented demand from investors. That environment has shifted in 2022 as the Federal Reserve hikes interest rates to combat inflation, leading municipal bonds and other fixed-income markets to slump and investors to sell their holdings.

The about-face in market sentiment means last year's rise in state debt levels was likely a "blip," S&P said.

"Debt levels will begin to slow down again as the states grapple with economic contraction and cut back on debt issuance either as a result of unfavorable costs of borrowing or a weaker outlook," the group at S&P wrote.

Most states have reasonable debt-service payments which are small compared to other fixed costs like retirement payments and Medicaid, S&P said. However, for some, like Connecticut, New Jersey and Hawaii, debt service expenditures are "near or at high levels and could be a source of budgetary stress in the future."

"While states that lack the flexibility to adjust capital or operating expenditure may have little choice but to increase debt issuance in the face of worsening economic conditions, we expect that for most states, the unfavorable cocktail of headwinds could dampen debt issuance in the short term," the group said.

### **Bloomberg Markets**

By Danielle Moran

July 7, 2022

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## [What the Revival of 'Build Back Better' Could Mean for State and Local Funding.](#)

**Senate Democrats appear to be moving forward with a slimmed down version of the social and environmental spending package following a failed push last year.**

Optimism is growing that Senate Democrats could try again to pass President Biden's Build Back Better plan. While environmental advocates expect the previous \$1.75 trillion proposal to be significantly scaled back, hundreds of billions of dollars in climate funding could still be headed to states and local governments.

"The chatter on the Hill is very hopeful. The bill could be very significant and game-changing for climate and communities," John Reuter, the League of Conservation Voters' vice president for state and local strategies, told *Route Fifty* in an interview.

Since the House version of the plan was blocked in the Senate by moderate West Virginia Democratic Sen. Joe Manchin last year, he and Senate Majority Leader Chuck Schumer of New York have been negotiating behind the scenes on a new, smaller proposal.

[Continue reading.](#)

### **Route Fifty**

By Kery Murakami,  
Senior Reporter

JULY 7, 2022

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## [The Simmering GOP Criticism of State and Local ARPA Spending.](#)

**Republican lawmakers in the House and Senate have been bashing projects paid for with American Rescue Plan Act dollars that they see as wasteful. It could be a sign of further scrutiny to come if they take back one or both chambers of Congress.**

From hiring social media influencers to tout the tastiness of Alaskan fish, to making it easier to park or access bathrooms at South Carolina beaches, or trying to bring World Cup soccer to New Jersey, decisions by cities and states on how to use American Rescue Plan Act dollars are providing congressional Republicans with fodder to portray the coronavirus rescue law as an inflationary and reckless use of taxpayer money by the Biden administration.

"We have cataloged numerous examples of ridiculous waste of federal tax dollars from the American Rescue Plan," Rep. Jason Smith of Missouri, the House Budget Committee's top Republican, said during a hearing last month.

Spokespeople for Smith and Senate Republicans, who have also charged that ARPA dollars are being spent for things that are not absolutely essential to deal with the pandemic, are silent on what Republicans would do should they win control of Congress next year.

[Continue reading.](#)

## Route Fifty

By Kery Murakami,  
Senior Reporter

JULY 8, 2022

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### [Fitch: US Federal Gas Tax Holiday Would Accelerate HTF Shortfall Timeline](#)

Fitch Ratings-San Francisco/Austin/New York-29 June 2022: President Biden's proposal to suspend the federal gas and diesel fuel taxes of 18.3 and 24.4 cents per gallon, respectively, through the end of September would likely move up the timeline for the Highway Trust Fund's (HTF) expected shortfall, Fitch Ratings says. Infrastructure Investment and Jobs Act (IIJA) funds would cover lost revenues in the short term, but the proposed gas tax holiday underscores the lack of stable revenues for the HTF, which is a key source of ongoing federal funding for transportation infrastructure. The proposal is meant to provide consumers relief from high gas prices, but faces significant political opposition in Congress.

Continued reliable and sufficient HTF funding underpins the ratings on standalone Grant Anticipation Revenue Vehicles (GARVEE) bonds, which are backed by future federal receipts from the HTF. HTF expenditures have outpaced revenues for decades, leaving it dependent on general fund transfers to remain solvent. HTF revenues come primarily from federal gas taxes, which have not been raised since 1993. A gas tax increase to address HTF deficits seems increasingly unlikely given high energy prices and expectations for slowing economic growth. Greater vehicle fuel efficiency has contributed to declining gas tax revenues, which also saw a material reduction at the height of the 2020 pandemic. The gas tax revenue recovery has been further hampered by reduced commuting due to work-from-home arrangements.

The latest Congressional Budget Office projections as of May 2022 indicate that HTF revenues will not meet the fund's obligations by the federal FYE 2027. The HTF is expected to have a huge positive net balance in 2022 given the \$118 billion in committed funding from the IIJA (effectively a transfer from the general fund), which could help offset a temporary fuel tax holiday in the short term. Nevertheless, the suspension could bring forward the projected HTF shortfall given the magnitude of its deficit, unless funds were made available to offset the revenue reduction. HTF spending outpaced revenues by approximately 20% in 2021.

Fitch's rating case stress assumes a 37% average annual reduction in HTF outlays starting in fiscal 2028 in order to align with projected incoming gas tax revenues. The credit profile of outstanding GARVEEs reflects the assumption of the ongoing levy of the federal gas tax to cover obligations.

Biden has asked Congress to allocate other revenues to the HTF to compensate for the temporary loss of revenue, which the White House estimates to be \$10 billion. A short-term fuel tax holiday is not viewed as a structural change to the underlying drivers of the GARVEE ratings, as long as the government continues to support transfers to the HTF. The GARVEE program would have a different risk profile if the fuel tax is paused for a longer period and the primary revenues backing GARVEE bond payments shift to other federal government revenue sources, which could affect standalone GARVEE bond ratings.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[Climate Change, Hurricanes, and Their Toll on Municipal Credit.](#)**

Analysts expect climate change, combined with the political realities of either addressing the effects of it or not, will have increasing impacts on municipal credit in the coming years.

Droughts, fires, flooding, changed temperature patterns, reduced snow cover, and higher sea levels may all come from climate change and all have the potential to impact municipal credit. At least for the near-term, hurricanes are climate change's most expensive impact on municipal governments and their communities.

Scientists say that global warming and climate change are expected to increase the number of hurricanes and how many are categorized as intense.

And hurricanes are also chiefly of interest because of their potential impact on municipal creditworthiness and bondholder protections, particularly for issuers already in difficult financial situations.

:Risks to municipal bonds include damage to key government or utility facilities, changing migration

patterns, relocation of key employers, and rising insurance costs, said John Ceffalio, senior analyst for CreditSights. "Increased vulnerability can also raise capital costs, both for resiliency ahead of disasters and rebuilding after disasters."

The National Oceanic and Atmospheric Administration's initial 2022 outlook forecasts another above-normal season. This would make it the seventh straight above-average hurricane season.

"Hurricane risk is nothing new in the Caribbean, but climate change is making those hurricanes more frequent and more severe, and raising sea levels," Ceffalio said.

Just this year, NOAA is predicting 14 to 21 named storms with six to 10 hurricanes and three to six of those will be classified as major storms.

Additionally, NOAA expects global warming will lead to more Category 4 and 5 hurricanes, the most devastating varieties, in the coming years. Climate change will add precipitation to hurricanes, potentially leading to more flood losses.

"Hurricanes account for over half of the estimated \$1.7 trillion in total economic losses from severe weather events recorded since 1980," Moody's Investors Service said in a June 2019 report.

Climate change's intensification of hurricanes may already be taking place. Four out of the five costliest hurricanes in U.S. history took place in the last decade, Moody's said.

Intertwined with this impact is climate change's increase in sea levels. NOAA believes that sea levels in the U.S. rose 10 to 12 inches from 1920 to 2020 and will increase by a similar amount by 2050. According to NOAA and others this is certain to increase the impact of hurricanes and their flooding.

### **The lingering effects**

Hurricanes are not just potential problems for public finance. Their threat of these events lowers real estate values and economic activity. In January, McKinsey Global Institute wrote regarding hurricanes and sea level rise, "In Florida, for example, estimates based on past trends suggest that losses from flooding could devalue exposed homes by \$30 billion to \$80 billion, or about 15% to 35%, by 2050, all else being equal."

Some environmentalists and observers think sea level rise will force the abandonment of Miami and perhaps New Orleans, along with some less prominent cities, by 2100. Concern about sea level impacts is already having a profound impact on Miami. Real estate prices in the Little Haiti neighborhood are climbing quickly because it sits on elevated land. An academic study showed that land near Miami's coast is valued less than it would otherwise be.

Populations can shrink after hurricanes and, as in the case with New Orleans and Hurricane Katrina, they sometimes never fully return. Government and public utility revenues can decline. Infrastructure expenses from damaged capital stock frequently soar.

The general operating environment can be marred for months, years, or even decades due to the general destruction of public infrastructure. After Hurricanes Irma and Maria devastated Puerto Rico in 2017, service was not fully restored until nearly a year later.

### **Ratings and creditworthiness**

In a separate piece released in June 2019, Moody's Investors Service outlined how it sees hurricanes affecting credit. In most cases hurricanes have not resulted in ratings changes, it said. However, after Hurricane Katrina in 2005, the agency downgraded more than 30 public finance issuers. Hurricane Sandy led it to downgrade fewer than 10 issuers on the East Coast. Hurricane Harvey in

2017 led to five downgrades.

The impacts on municipal bonds have already gone beyond downgrades. Entergy New Orleans (ENO), a provider of gas and electricity to New Orleans, was in financial straits before Katrina but the hurricane pushed it into bankruptcy.

In 2019 after its power lines triggered wildfires in what may have been a climate change influenced drought in California, the state's largest utility, Pacific Gas & Electric, filed for bankruptcy. Albeit not related to hurricanes, The Wall Street Journal called it the "first climate change bankruptcy." The utility had over \$900 million of municipal bonds outstanding at the time.

How hurricanes may affect the Caribbean territories' credit is hard to lay out, as Moody's and S&P Global Ratings no longer rate essentially any Puerto Rico municipal bonds. S&P rates Housing Finance Authority bonds but these are federally supported.

Fitch Ratings only rates the Puerto Rico Aqueduct and Sewer Authority. In a November 2020 report, it gave the authority an ESG Relevance score of 4 for "exposure to extreme weather events," indicating moderate importance.

When Puerto Rico's Fiscal Agency and Financial Advisory Authority was asked how Puerto Rico's government and its authorities were preparing for hurricanes, it responded that current plans are to deposit \$130 million annually into an Emergency Reserve Fund until it reaches \$1.3 billion. In cases of a disastrous hurricane, Revolving Loan Funds supported by the Federal Emergency Management Agency and other federal departments could provide liquidity.

"Finally, in the case of a federally declared natural disaster, the government can issue additional disaster recovery debt to support recovery efforts and it would not be considered as part of the debt limit threshold as set forth in the Plan of Adjustment," FAFAA said.

In October 2021 Moody's said "high exposure to physical climate risks" was one of five key credit challenges facing the U.S. Virgin Islands and its matching fund bonds, whose senior lien the agency rates Caa2. Exposure to environmental impact is also a significant factor in its rating of the islands' Water and Power Authority bonds at Caa2.

### **Bondholder protections**

For a particular borrower's hypothetical exposure to climate change to become an actual indicator of default or distress, "the physical (and related policy) perils with which their location is threatened need to actually occur and the borrower's security has to be vulnerable to those perils," noted Matt Fabian, partner at Municipal Market Analytics in a June report. "So the better and more resilient the pledged bondholder security, the more severe things will need to be on the ground for a default or impairment to follow."

In other words, strictly geographic climate risk scores and similar "need to be re-expressed or recalculated pursuant to each separate municipal security type within that area," the report said. And because every geographic region in the U.S. contains a range of municipal bond credit types, the local transformation of long-term climate change risk into an imminent credit risk is as a cascade, from the least well-secured borrowers to the best, as conditions worsen.

"It's thus useful for even high-grade, governmental lenders to consider the climate-related impairment trends occurring, or likely to occur, in the states where they specialize," Fabian wrote.

MMA found in its database 11 borrowers that entered the default and impairment database "because of (or had a pre-existing impairment worsened by) a natural disaster that itself may well

have been caused or exacerbated by climate change.”

“These situations highlight how: 1) competitive enterprises, single-site facilities, and growth-dependent financings are all more exposed to single or multiple environmental events; and 2) inadequate insurance coverage or a weak state policy frameworks are highly detrimental details.”

### **Federal response**

Over the last few decades federal policy has been to cover most but not all reconstruction costs after hurricanes. For major hurricanes the Congressional Budget Office estimated that federal disaster assistance between 2005 and 2015 covered 62% of the costs.

In March 2021 the Brookings Institution released “Inviting Danger.” “Most [federal] policies have focused on ‘building back the same,’” wrote Sadie Frank, Eric Gesick, and David Victor. “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.”

“Many government policies create incentives for people to make economically detrimental decisions, including settling and building on land exposed to hurricanes, floods, and wildfires,” they wrote. “These policies already cost taxpayers tens of billions of dollars.”

The Federal Emergency Management Agency is starting to try to buy out properties suffering from repeated losses, they wrote, but this approach has been quite limited.

Studies show resilience funding is much more cost effective in the long-term, said Ari Sillman in “A New Approach to Disaster Relief Funding,” a paper done for a branch of Harvard Law School, and much more of the funding should be headed this way.

The Brookings study “made the point that when it comes to these [hurricane] events we should be discussing recovery versus resilience,” said John Hallacy, president of John Hallacy Consulting. “I cannot agree more. However, spending on projects that will probably reap some benefits in the future is less immediate than clearing debris and rebuilding in the aftermath of an event. At a minimum, the rebuilding should be done to a higher building code standard.”

Ceffalio said, “Generous federal disaster aid has protected bondholders from hurricanes and other natural disaster risks, but there are increasing demands on federal disaster dollars. There is no guarantee federal aid will continue to be so generous. Territories are particularly vulnerable since they have no congressional representation.”

It is possible that, “federal dollars could be increasingly used to relocate residents away from disaster-prone areas,” Ceffalio said. “This would remove property from the tax rolls and reduce tax revenues. My understanding is that Canada is increasingly taking this approach.”

Private flood and hurricane insurance is also becoming much more costly in areas prone to hurricanes. This may also encourage people to leave the areas, affecting the financial health of the governments and public utilities that serve them.

Less federal support to recover from natural disasters “is the direction where we are headed,” said Andrew Teras, Breckinridge Capital Advisors director of municipal bond research.

In 2018 the federal government adopted the Disaster Recovery Reform Act. It set aside more federal money for pre-disaster mitigation, adjusts the post-disaster cleanup to include resilience, and gives localities the authority to build to the latest building codes.

In coming years hurricanes will have the most effect on municipalities and public issuers that are already in financial distress, Teras said.

Increasingly, the federal government may focus its natural disaster resources on centers of economic activity, Teras said. This means that smaller communities may get less aid.

By Robert Slavin

BY SOURCEMEDIA | MUNICIPAL | 07/01/22 04:44 PM EDT

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## [\*\*S&P U.S. Municipal Water And Sewer Utilities Rating Actions, Second Quarter 2022.\*\*](#)

### **Overview**

S&P Global Ratings took 24 rating actions, 25 outlook revisions, and 10 CreditWatch actions within the U.S. municipal water and sewer utilities sector in the second quarter of 2022. In addition, 61 ratings were maintained with no outlook revisions. We removed three ratings from CreditWatch, but we placed seven ratings on CreditWatch with negative implications.

Positive rating actions outweighed negative, with nine upgrades compared with three downgrades in the second quarter. Favorable outlook revisions outpaced unfavorable, although the vast majority of outlook revisions returned to stable from negative. Three ratings were assigned negative outlooks, outpacing the one positive outlook.

Bond issuance remained stable against the first quarter in 2022, but it is trending significantly lower than the same period last year. Year-over-year, new ratings declined by more than half. Rating movement also cooled, declining by three rating changes in the second quarter relative to the same period in 2021.

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30 Jun, 2022

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## [\*\*As Federal Climate-Fighting Tools Are Taken Away, Cities and States Step Up.\*\*](#)

*Across the country, local governments are accelerating their efforts to cut greenhouse gas emissions, in some cases bridging partisan divides. Their role will become increasingly important.*

Legislators in Colorado, historically a major coal state, have passed more than 50 climate-related laws since 2019. The liquor store in the farming town of Morris, Minn., cools its beer with solar power. Voters in Athens, Ohio, imposed a carbon fee on themselves. Citizens in Fairfax County, Va., teamed up for a year and a half to produce a 214-page climate action plan.

Across the country, communities and states are accelerating their efforts to fight climate change as action stalls on the national level. This week, the Supreme Court curtailed the Environmental Protection Agency's authority to limit greenhouse gas emissions from power plants, one of the biggest sources of planet-warming pollution — the latest example of how the Biden administration's

climate tools are getting chipped away.

During the Trump administration, which aggressively weakened environmental and climate protections, local efforts gained importance. Now, experts say, local action is even more critical for the United States — which is second only to China in emissions — to have a chance at helping the world avert the worst effects of global warming.

[Continue reading.](#)

## **The New York Times**

By Maggie Astor

July 7, 2022

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### **[After Supreme Court Ruling, Cities 'Left Holding the Bag' on Climate Change.](#)**

**The decision to curb federal authority on emissions puts even even more pressure on local governments, which have attempted to fill the gaps in climate policy.**

The US Supreme Court severely limited the Environmental Protection Agency's authority to regulate greenhouse gas emissions under the Clean Air Act on Thursday, ruling 6-3 that it does not have broad authority to shift power generation from fossil fuels to renewable energy sources. The decision deals a major blow to the Biden administration's climate agenda of halving carbon emissions by 2030 and creating a carbon-free electric grid by 2035.

Scientists have already warned that the US is not on track to meet its emissions target, and the decision now renders the goal nearly impossible unless Congress acts to pass new legislation. That puts even even more pressure on local governments, which have attempted to fill the gaps in climate policy, particularly during the Trump administration. But the ruling could become a double whammy, severely hampering those local efforts, too.

"Cities are going to be left holding the bag, dealing with adverse health outcomes of the dirty air and dirty water, while our federal agencies that have the expertise and resources to promote and enforce standards are having to basically play 'mother, may I' with a Congress that is already deeply gridlocked on so many issues," says Kate Wright, executive director of Climate Mayors, a bipartisan network of more than 470 US city leaders focused on climate change.

While the decision doesn't explicitly affect cities' ability to set their own energy policies, local leaders warn that federal regulations are crucial to their effectiveness. Cities can tackle the demand side of the emissions challenge within their borders — by investing in wind and solar energy, for example, or mandating sustainable buildings — but they rely on the federal government to set broader and wider-reaching regulations.

An amicus briefing filed on behalf of city leaders in January by Columbia University's Sabin Center for Climate Change Law emphasized this point: "Local governments have little ability to regulate the circumstances imposed on them by the wider world, and greenhouse gas emissions from sources beyond municipal borders will still impact people, infrastructure, and resources inside them."

To achieve the very ambitious US climate goals, "we need the support of every level of government

and the private sector, and we have very limited time and a massive challenge on our hands,” Wright says. “Any restriction in the support that [cities] are getting from the federal government is going to have an impact.”

The Supreme Court case centers around the Obama-era Clean Power Plan, which never actually went into effect. It was repealed under the Trump administration, and President Joe Biden has not reinstated it. But its premise — to set the first-ever limits on carbon pollution from US power plants, and in effect, push the industry to shift to renewable energy sources — was enough to prompt Republican leaders and the coal industry to seek a preemptive block of such regulation.

The majority of the justices sided with plaintiffs who argued that the EPA overstepped its authority in setting rules that can reshape the country’s electricity grids, and that such actions from the executive branch were not explicitly authorized by Congress under the Clean Air Act. The dissenting justices vehemently disagreed. “The limits the majority now puts on EPA’s authority fly in the face of the statute Congress wrote,” Justice Elena Kagan wrote.

“It’s deeply disappointing to be working so hard on this issue and to have SCOTUS come in, yet again — they didn’t have to take this case — with a panel of activist judges who are actively trying to change the law,” says Mayor Satya Rhodes-Conway of Madison, Wisconsin. She says her city is working on decarbonizing its buildings and electrifying its fleets, but reducing citywide emissions will be more difficult without federal support.

The decision derails a core piece of Biden’s climate agenda, which is to create a 100% electric grid by 2035. That complicates efforts to procure renewable energy sources, though experts say some tools are available to local leaders — depending on state law — including purchasing power agreements, community choice aggregation and community solar projects.

“But for the most part, we really need the federal government and states to help us get to a place where all of the power in our electricity grid is green,” says Amy Turner, a senior fellow at the Sabin Center. “Cities really can’t do that on their own because they don’t have as much control or authority over the amount of renewable energy that they have in their electricity grid.”

Despite these concerns, experts stopped short of saying that cities’ hands were tied by the ruling. In fact, when faced with setbacks on combating climate change in the past, they’ve largely responded by doubling down on their commitment.

“It’s been more than a decade that cities, and to some extent states, had to be the ones to lead the way on climate and develop some of the more ambitious policies in a legal environment that is unfriendly to those kinds of policies,” says Turner.

When former President Donald Trump pulled the US out of the Paris Agreement in 2017, for example, city and state leaders vowed to continue honoring the climate pact and reaffirmed their commitment to reducing emissions. Membership in the Climate Mayors grew exponentially in the aftermath, according to Wright, “because so many cities recognized the need to continue having national leadership, even if it means a group of cities working together.”

The US also saw a spike in clean energy purchases made by local governments in the years following Trump’s withdrawal. According to the World Resource Institute, renewable transactions at the local level totaled nearly 2,300 megawatts in 2018 and more than 2,600 megawatts in 2019 — more than three times the figure in 2017.

Going forward, cities are likely to continue pursuing — or scale up — policies to curb emissions

within their municipal borders, as well as collaborate with neighboring municipalities and local environmental groups, says Kate Johnson, the head of US federal affairs at C40 Cities coalition.

They will have to also strengthen efforts to leverage federal funding, including from Biden's infrastructure law. "It could become even more essential that federal investment continue to allow cities to make that down payment on the transformational change that they need to deliver on their climate action plan," she says.

Wright adds that cities will need to put more pressure on federal lawmakers. "The pivot will be that we need to up the urgency of Congress acting," she says. "It becomes very important for us to weigh in related to [budget] reconciliation," which would allow climate investments to pass with a simple majority of 50 votes.

"Cities are on the front line of the climate crisis, and they are also at the forefront when it comes to solutions," Johnson adds. "This decision is not going to change that."

## **Bloomberg CityLab**

By Linda Poon

June 30, 2022

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### **[Fitch: SCOTUS EPA Ruling Will Not Stop Public Power Decarbonization Plans](#)**

Fitch Ratings-New York-08 July 2022: The recent Supreme Court of the United States (SCOTUS) ruling that limits the Environmental Protection Agency's (EPA) authority to cap greenhouse gas emissions will not materially affect public power utilities' credit quality or the move away from fossil fuels, Fitch Ratings says. The ruling is mildly favorable for those public power utilities that own and operate coal- and gas-fired units, as they will have more time to develop transition strategies and amortize investments in coal and gas plants. However, any benefits should be short lived. Moreover, the decision may slow decarbonization trajectory but will not reverse its course, as state and local government directives, investor preferences, and increased affordability continue to drive the transition toward renewable energy and lower carbon-emitting strategies.

Decarbonization strategies have largely been driven by states that have set their own clean energy standards, filling the void left by the absence of federal legislation. According to the National Conference of State Legislatures, 23 states and territories adopted renewable energy standards or goals that apply to public power and/or cooperative utilities. The transition could accelerate for these issuers if states with no standards or expired standards adopt new or expanded rules.

[Continue reading.](#)

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### **[High-Tech Weathermen Forecast Climate Risks for Bond Investors.](#)**

**Startups use satellite imaging, public databases and algorithms to map out threats of natural disasters for specific towns—and even buildings—that back bonds**

For centuries, bond investing has boiled down to forecasting two things: which way interest rates

are going to move and how likely a borrower is to repay its debts. A handful of startups are betting that to predict repayments in the future, bond analysts will need better data on something they've long overlooked—climate risk.

The new firms are competing to design algorithms that can predict the likelihood of natural disasters hitting specific towns, industrial parks, even individual buildings, and how much damage they will do. That could become more relevant as wildfires, floods, storms and drought strike more frequently, creating potential losses for holders of municipal, corporate and mortgage-backed debt.

One company marketing such geospatial data to Wall Street is risQ, a Boston-based firm launched in 2016 by a handful of academics. The firm created a digital grid that divides the U.S. into 100-meter by 100-meter patches of dirt, forecasts the probability of climate events in each square and assigns associated risk scores to the bonds that would be affected.

[Continue reading.](#)

THE WALL STREET JOURNAL

by MATT WIRZ

JULY 10, 2022

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## **[U.S. Supreme Court Decision in Carson v. Makin Reconfirms Availability of Municipal Bond Financing for Religious Organizations: Orrick](#)**

Historically, the ability of a governmental conduit issuer to issue bonds to facilitate a financing for a religious organization or a religiously affiliated school, university, senior housing facility or other nonprofit institution, raised concerns that such a financing might run afoul of the required compliance with the Establishment of Religion Clause (the “Establishment Clause”) of the First Amendment (the “First Amendment”) of the United States Constitution, which generally prohibits the government from advancing religion or becoming entangled with religious activity. Certain financings also raised concerns about whether relevant state’s laws, regulations and policies (“State Religious Aid Restrictions”) were violated, some of which are more restrictive than the requirements of the Establishment Clause relating to governmental aid toward religious organizations. The concern was elevated when a borrower was “pervasively sectarian” - meaning an institution in which religion is so pervasive that a substantial portion of its functions are subsumed in the religious mission - given certain Supreme Court case law on this matter.

More recently, the United States Supreme Court (the “Court”) has been finding that the disqualification of religious organizations from governmental aid programs (that was believed to be necessary to satisfy the Establishment Clause) violates the Free Exercise of Religion Clause (the “Free Exercise Clause”) of the First Amendment, which generally protects against indirect coercion or penalties on the free exercise of religion. On June 21, 2022, the Court rendered its decision in *Carson v. Makin* (“*Carson*”): the latest case involving the tensions between the Establishment Clause and the Free Exercise Clause. This client alert expands on and updates our previous alerts, titled “[U.S. Supreme Court Decision in Espinoza v. Montana Department of Revenue Confirms Availability of Municipal Bond Financing for Religious Organizations](#)” (“*Espinoza*”) and “[Public Finance Implications of the Trinity Lutheran Case](#)” (“*Trinity Lutheran*”) published July 2020 and August 2017, respectively. *Carson*, together with *Espinoza* (involving a scholarship program) and *Trinity*

*Lutheran* (involving playground resurfacing grants), reaffirm that the Free Exercise Clause prevents the application of State Religious Aid Restrictions to a generally available public benefit program based on an organization's religious status (and as *Carson* made clear, religious use), absent meeting strict scrutiny by advancing a compelling state interest and by narrow tailoring of such restrictions.

The facts of *Carson* are simple. Maine enacted a tuition assistance program for parents who live in school districts that neither operate a secondary school of their own nor contract with a particular school in another district. Under that program, parents designate the secondary school they would like their child to attend, and the school district transmits payments to that school to help defray the costs of tuition. Sectarian institutions were excluded from the program based on an opinion by the Maine attorney general that public funding of private religious schools violated the Establishment Clause. Petitioners sued the commissioner of the Maine Department of Education alleging that the "nonsectarian" requirement violated the Free Exercise Clause, the Establishment Clause and the Equal Protection Clause of the Fourteenth Amendment. The Court held that if a State chooses to subsidize private education, it cannot disqualify some private schools solely because they are religious. Hence, Maine's "nonsectarian" requirement for otherwise generally available tuition assistance payments violated the Free Exercise Clause.

Additionally, *Carson* expands on *Espinoza* through the elimination of any distinction between religious use-based discrimination (how the money will be used) and religious status-based discrimination (recipient's affiliation with or control by a religious organization). The Court in *Carson* explained that *Trinity Lutheran* and *Espinoza* held that the Free Exercise Clause forbids discrimination based on religious status, but those decisions never suggested that use-based discrimination is any less offensive to the Free Exercise Clause. Because the schools being excluded from this program were inherently sectarian, the Court acknowledges that the education provided by these schools involved indoctrination of students in their faith. The Court concludes that the prohibition on status-based discrimination under the Free Exercise Clause is not a permission to engage in use-based discrimination.

The Court in *Carson* also confirmed its holding in *Locke v. Davey* ("*Locke*"), a case also discussed in *Espinoza*, which highlights a restriction on a governmental aid program that satisfied strict scrutiny. *Locke* involved a Washington scholarship fund to assist academically gifted students with postsecondary education expenses that could be used for theology degrees but excluded vocational religious degrees (the "essentially religious endeavor" of pursuing a degree that trains a minister to lead a congregation). The Court confirmed the holding in *Locke* that there was a "historic and substantial state interest" against using "taxpayer funds to support church leaders" and that the program was narrowly focused to exclude vocational religious degrees. The Court in *Carson* concluded that *Locke* cannot be read to generally authorize the State to exclude religious persons from the enjoyment of public benefits, for "it is clear that there is no 'historic and substantial' tradition against aiding [private religious] schools." The discussion in *Carson* may provide support for narrowly tailored exclusions in conduit financing programs such as prohibitions on bond financing vocational religious schools or facilities based on *Locke*.

In our view, *Carson* makes clear that a generally available conduit financing program cannot exclude religious borrowers no matter how pervasively sectarian and no matter how closely tied to church, synagogue or mosque.

by Marc Bauer, Jenna Magan & Stephen Spitz

July 7, 2022

## **Single Family Mortgage Prepayment Recycling - A Rising Bond Rate Alternative: Kutak Rock**

As prevailing interest rates rise dramatically, funding costs for new debt are similarly increasing. For housing finance agencies (HFAs), this can put upward pressure on the mortgage rates they are able to offer borrowers. Accordingly, some HFAs are looking at the possibility of utilizing an alternate source of lower-cost funding of new loans — recycling repayments/prepayments from existing seasoned loans associated with outstanding lower-rate tax-exempt single-family mortgage bonds. Some background and considerations when employing recycling strategies:

- Single-family bond resolutions and indentures typically permit recycling of loan collections into new loans, subject to the need to pay current debt service including scheduled maturities, required redemptions and PAC bond requirements.
- Federal tax law generally permits recycling for only the first 10 years from the issue date of the related new money mortgage bonds that first financed a given loan. (Financial advisors and quantitative consultants generally track the portion of each bond issue (or loan) for which this 10 year period has elapsed, as refundings and the tendency to combine refundings with additional new money bonds can complicate the necessary math.)
- Some fixed rate bond issues utilize “closed” tax plans, in which the bond yield and mortgage yield are calculated at closing or after a relatively brief loan origination period, using prepayment assumptions authorized by applicable tax regulations. [Note - this is not available if any of the bonds are variable rate bonds.] Absent subsequent changes, these yield calculations are then used to demonstrate compliance with applicable arbitrage restrictions on the portfolio of financed loans (such as the 1.125% maximum positive spread permitted to an issuer) for the life of the bond issue. Such calculations generally are not required to be updated to reflect actual bond or loan repayment activity. However, when loan collections are used for recycling, it becomes necessary to recalculate the bond yield and loan yield to reflect both actual repayment experience to date and actual repayment experience for as long as recycling continues (unless the loans financed by the recycled collections have the same or lower yields than the initial new money loans). Once recycling ends, a final calculation of bond yield and loan yield can be made based on repayment experience to date and future prepayment assumptions authorized by applicable regulations.
- As suggested above, some analysis and calculation will be necessary to determine which of an HFA’s existing bond issues is suitable for recycling, and at what rates. It is possible, for example, that recycling could cause the HFA’s positive spread on the mortgages financed by a given bond issue to exceed the 1.125% arbitrage spread limit. Technical corrective action for excess yield, such as rebating interest to mortgagors or making a yield reduction payment to the U.S. Treasury, are available, but very rarely used; rather, HFAs recycle collections into new lower rate loans (or lower yield participations thereof).
- The common method of dealing with excess arbitrage spread on mortgage portfolios is to utilize a combination of recycled funds from an existing bond issue and sale proceeds of newly issued bonds to jointly finance a pool of loans. Recycled funds from a variety of bond issues could also be aggregated to make recycling economical. Subject to certain limitations, federal tax rules permit the yield on such jointly financed mortgage pools to be disproportionately allocated to the respective bond issues, enabling HFAs to allocate mortgage portfolio yield between bond issues to meet the federal arbitrage limitations. HFAs pursuing such a strategy should plan to consult with counsel to confirm that both tax law compliance and logistic bases are covered.

If you have any questions about this, please feel free to contact one of the attorneys in Kutak Rock's [Housing Finance Agency Practice Group](#).

Client Alert | June 28, 2022

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## **[S&P: U.S. Not-For-Profit Acute Health Care Midyear 2022 Update: Providers Face Mounting Pressures From Inflation And Labor Costs](#)**

### **Key Takeaways**

- The toughest performance quarter (first-quarter 2022) on record for U.S. not-for-profit hospitals and health systems highlights widespread inflationary pressures across the sector.
- High labor expenses likely will cause sustained operating hurdles through the remainder of 2022 and into 2023.
- Demands on cash flow and weaker investment market returns could reduce financial flexibility through the remainder of the year.
- The regulatory environment is becoming tougher and eliminating mergers and acquisitions (M&A) as an option for many providers.

[Continue reading.](#)

27 Jun, 2022

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## **[S&P Request for Comment: Request For Comment: Global Not-For-Profit Education Providers](#)**

[View the S&P Request for Comment.](#)

29 Jun, 2022

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## **[S&P 'AAA' Rated U.S. School Districts: Current List](#)**

[View the Current List.](#)

5 Jul, 2022

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