---

7 State and Local Fiscal Lessons from a Year Like No Other.

The COVID-19 pandemic recession has revealed major cracks in our systems of public finance, from the way we tax to the limits of fiscal federalism. We need to get to work on repairs.

As 2020 winds down, it's the time to look back on lessons learned from the unique experience we've all had in the COVID-19 era, which has challenged and stressed our systems of public finance in ways not experienced since the Great Depression. For state and local governments, there are some important takeaways that should be remembered for years to come:

Progressive taxation has its drawbacks when the economy tanks. Modern public finance theory typically favors progressive taxation, in which wealthier citizens pay a larger share of their incomes, as the most equitable way to raise revenues. This is a conventional credo among Democrats and moderate Republicans, and some states have reacted by shifting their income tax structures from a flat rate to a graduated schedule. California taxes its millionaires at a 13.3 percent marginal rate that takes in capital gains on investments. With movie and sports stars, corporate execs, beachfront billionaires and Silicon Valley fat cats contributing a big chunk of revenues, the state's progressive income tax produces huge budget surpluses whenever the stock market hits new highs.

It's no surprise that each time that happens, advocacy groups and unions line up with laundry lists of spending proposals to share the budget surplus by trickling that money down to needy residents and public employees. But the downside of this tax structure, with its over-reliance on taxing income as opposed to stabler revenue sources such as property, is that revenues collapse every time there is a recession or market crash, and the state quickly plunges into a budget deficit. That shortfall in turn ignites campaigns to raise income taxes yet further to avoid layoffs and cutbacks in an endless cycle of ratcheting and spending.

Continue reading.

GOVERNING.COM

GIRARD MILLER, FINANCE COLUMNIST | DECEMBER 22, 2020

Economic Boost From Stimulus Seen as States and Cities' Best Bet.

- **Federal package has no direct aid to cities and states**
- **Municipal governments will feel the recovery unevenly**

The federal stimulus passed by Congress this week doesn't include any direct cash to states and cities, leaving them to rely on the economic boost the aid package promises to fend off some of the deep spending cuts and budget shortfalls caused by the pandemic.

That means the recovery for municipal governments will likely be felt unevenly, dragging into late 2021 or even longer for those areas hit hardest by fiscal hit from Covid-19, according to a report by the National Association of State Budget Officers.

States saw revenue drop in fiscal 2020 after nine years of growth, and anticipate further declines in the following year, according the budget officers association. Local governments with revenues tied to battered industries, such as energy, travel, and tourism, will feel the sharpest impact.

The federal stimulus package passed by Congress this week includes billions of dollars in funding for small business assistance, education, transportation and other social programs that Moody's Investors Service said would bolster the credit of government bond issuers.

"We expect the new Covid-19 relief legislation to be accretive to annualized real GDP performance in Q1 2021 sufficient to avoid a contraction," said Jeffrey Lipton, a managing director and municipal debt analyst for Oppenheimer & Co., in a research note Wednesday.

The fate of the pandemic relief legislation, however, remains in doubt after President Donald Trump late Tuesday demanded last-minute changes to the bill.

Bloomberg Markets

By Nic Querolo

December 23, 2020, 10:00 AM PST

The State of Local Government in the Pandemic Era: Read the Survey Results

The local government survey of U.S. cities and counties reveals trends around COVID, remote work and digital infrastructure investments.

Local governments have done commendable work addressing urgent challenges to the way they work and serve their communities during the pandemic, while nearly all face revenue shortfalls, according to analysis of over 500 responses to OpenGov's State of Local Government Survey.

The other good news is over 60 percent of local governments represented in the survey are either using or considering CARES Act funding and other grants to modernize their technology and processes and enable staff. As always, however, there is more work to be done beyond meeting first-order needs.

The goal of the survey was to learn where towns, cities and counties across the U.S. are investing now, and what gaps they perceive across their technology, processes and talent. Survey respondents represent 501 local governments, including 113 elected officials and executive-level public leaders, 238 public finance leaders and 149 public finance staffers from small and large towns and counties across the U.S.

What is clear is that, given operational needs, local governments must move quickly to align around initiatives and make critical investments if they want to take advantage of federal and state grant funding that is currently available to make needed investments.

Continue reading.

OPENGOV/AWS | DECEMBER 3, 2020

Municipal Budget Crunch Pressures Payrolls. And Direct Federal Stimulus Isn't Forthcoming.

State and local governments won't receive direct aid if the latest version of the $910 billion stimulus package is signed into law—and when it comes to employment at municipalities, there is a lot of lost ground to recover.

The bipartisan stimulus deal that Congress passed on Dec. 21 includes $600 stimulus checks, expanded unemployment aid, and $325 billion of small-business funding, as well as extra direct funding for municipal entities such as schools, transportation, and state health-care efforts. The bill doesn't make grants to states—a topic of controversy during negotiations. And while it isn't clear if the package will be signed into law, stimulus should indirectly support municipal revenue through sales and property taxes.

"Overall, we think the agreement will allow finances to muddle through. It offers a short-term lifeline for schools, mass transit, and health care, and helps avoid the benefit cliff that was soon to occur," wrote Tom Kozlik, head of municipal strategy and credit with HilltopSecurities.

A Dec. 23 report from the National Association of State Budget Officers provides a sobering view of states' fiscal situations. Revenue fell for the fiscal year ended June 30, for the first time in a decade, according to preliminary data.

Part of the reason for the decline may be the Cares Act's tax-deadline delay to July 15. Even so, states are planning to reduce general-fund spending by 1.1% in the current fiscal year, according to the report. The second-most common way states say they are cutting back, behind "targeted cuts," is hiring freezes.

In fact, after a temporary hiring rebound in April and May, state and local governments have lost workers the past few months, according to the Bureau of Labor Statistics. This year's budget crunch and pandemic have dealt a severe blow to a sector that has historically provided nearly 15% of U.S. payrolls.

Since February, there have been roughly 1.4 million state and local government jobs lost, according to the BLS, nearly 7% of the jobs that existed in that sector before the pandemic.

That 7% may not sound too severe, as it is roughly comparable to the total share of jobs lost in the U.S. But even as the job-creation trend has continued across the total labor market, it has reversed course within state and local governments. While there have been a total of 1.5 million jobs created in the U.S. since August, state and local government payrolls have fallen by 321,000.

Excluding the worst of the job losses in May and June, state and local government employment hasn't been this low any month since 2001. Those payrolls now make up slightly less than 13% of the total U.S. nonfarm payroll workforce—the lowest proportion since at least 1975, BLS data show.

To be fair, it does look like at least 9,000 additional job losses could be avoided if the bill becomes law. Congress allocated about $4 billion in funding for New York's Metropolitan Transportation

Authority, and the agency says that money will allow it to "get through 2021 without devastating service cuts and layoffs."

Schools would also get some relief from the package. That and the transit relief should provide "a good chunk of money—to start," says Elizabeth Pancotti, policy adviser at Employ America. She estimates that a "plurality" of state and local jobs lost were in education, though it isn't yet clear how many are permanent.

Even if the aid arrives, 2021 may not get off to the best start—K-12 education is slated to see the largest cuts in state general-fund spending, with enacted budgets reflecting a $7.4 billion reduction. Before the pandemic, governors had recommended an aggregate $8.1 billion increase in spending.

"Schools are just facing insurmountable costs," Pancotti says. "It's likely we'll have to come back to explore more discretionary funding."

Barron's

By Alexandra Scaggs

Dec. 24, 2020 11:00 am ET

Fitch: New Federal Aid to Steady State and Local Budgets

Fitch Ratings-New York-22 December 2020: The roughly $900 billion federal stimulus package passed by Congress on Monday night will help stabilize state and local budgets in fiscal 2021 even if it does not include direct aid to most governments, according to Fitch Ratings. However, the new bill's ability to stem recent economic declines and related effects on tax revenues is not assured and depends upon increased business and consumer confidence, which is influenced by vaccination rates.

The aid to individuals, low-income communities and small businesses included in the relief package should help boost economic activity until widespread coronavirus vaccination enables more organic economic growth. Other provisions include direct aid for education, transit and pandemic response, as well as an extension of the deadline to spend earlier federal aid to state and local governments. While the total package is considerably smaller than the nearly $3 trillion in total stimulus provided last spring, it provides immediate relief and may be followed by additional stimulus early in the Biden administration.

The spring round of coronavirus legislation provided essential economic support, boosting activity and driving tax revenue performance ahead of expectations for state and local governments, as noted in our on-demand webinar US States' Path to Economic Recovery. Economic components of the new stimulus include $284 billion to restart the Paycheck Protection Program, compared with $670 billion previously authorized; $600 stimulus payments to qualifying individuals and $600 for dependents, versus $1,200 for individuals and $500 for dependents provided under the March Coronavirus Aid, Relief, and Economic Security (CARES) Act; supplemental weekly federal unemployment benefits of $300 into mid-March, less than the $600 provided under CARES; and an extension of CARES-specific unemployment programs until they are phased out beginning in March. Fitch's December Global Economic Outlook anticipated $1 trillion in stimulus in 1Q21, which would help stop erosion in economic gains, resulting in stagnation in early 2021.

The package, similarly structured to the CARES Act, includes $54.3 billion for K-12 schools and

$22.7 billion for higher education, well above the respective $13.5 billion and $14.25 billion provided under the CARES Act; $14 billion in additional transit funding, less than the $25 billion provided under CARES; and $10 billion for state transportation departments hit by declines in gas tax revenues – all of which will help alleviate fiscal pressure on state and local governments. It also provides $30 billion for vaccine procurement and distribution, with nearly $9 billion going to the Centers for Disease Control and Prevention and states. This should help cover most of the initial funding needs of state and local governments with regard to vaccination efforts, as the National Governors Association and the Duke-Margolis Center for Health Policy recently estimated public health leaders have requested at least $8.4 billion in federal funds to conduct vaccination program activities.

The legislation also includes a year-long extension of the Dec. 30 deadline to spend $150 billion provided under the CARES Act Coronavirus Relief Fund (CRF) for state and local governments. Based on guidance from the U.S. Treasury, many governments have used the CRF to address budget challenges, particularly in funding public safety and health costs. Similar to CARES, the new stimulus does not explicitly address pandemic-driven revenue shortfalls, but it does provide flexibility given the still-uncertain fiscal and economic environment.

Fitch's analysis does not assume receipt of any additional direct aid for state and local governments or higher education institutions. With at least a modest economic boost from the new stimulus and widespread vaccination on the horizon, we think direct governmental aid is less critical to financial stability than it was in the early days of the crisis.

Contact:

Amy Laskey
Managing Director, US Public Finance
+1 212 908-0568
Fitch Ratings, Inc.
Heart Tower
New York NY 10019

Eric Kim
Senior Director, Head of US State Ratings
+1 212 908-0241

Michael Rinaldi
Senior Director, Head of US Local Government Ratings
+1 212 908-0833

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

GFOA: Looking Back at 2020

"As we approach the end of the year, a time when we traditionally look back on the past year, there's no way to avoid the fact that 2020 was a period of unprecedented challenges, uncertainty, and loss. Through it all, though, state and local government employees did what they do best – serve their communities.

As CEO of an organization that represents more than 21,000 finance officers, I am proud of the way our members confronted this challenge. By being strategic, learning from each other, and employing best-practice approaches, governments have served their constituents through everything 2020 has thrown at us.

We at GFOA are proud of the ways in which we've been able to help governments be their best."

Continue reading.

SIFMA Expects Long Term Municipal Issuance to Reach $452 Billion in 2021.

New York, NY, December 22, 2020 – SIFMA today released the results its 2021 Municipal Issuance Survey. Respondents expect total long-term municipal issuance to reach $452.0 billion in 2021, a 3.2% decrease from the $466.9 billion expected to be issued in 2020. Short-term issuance is expected to increase to $50.0 billion in 2021, a 13.9% increase from $43.9 billion expected to be issued in 2020. Including short-term issuance, total municipal issuance is expected to total $502.0 billion in 2021, down 1.7% from $510.8 billion expected to be issued in 2020.

Respondents were polled as to events that would most likely have the greatest effect on the municipal market in 2021. Federal stimulus, COVID-19 vaccine and general economic weakness/slow growth were identified as factors to have the greatest effect in 2021, followed by federal government focus on infrastructure finance.

Respondents project long-term tax-exempt municipal issuance to reach $298.0 billion in 2021, slightly down from $315.1 billion expected in 2020. Projected volume for taxable municipal issuance in 2021 is $145.0 billion, a 1.9% increase from $142.2 billion expected to be issued in 2020.3 Alternative minimum tax (AMT) issuance is expected to decrease in 2021 to $9.0 billion, down 6.1% from $9.6 billion expected in 2020.

The share of refundings is expected to decrease in 2021, with 34.0% of long-term tax-exempt issuance expected as refundings compared to 44.3% expected in 2020.

Floating rate issuance is expected to total $2.0 billion in 2020, up 3.6% from $1.9 billion in 2019.

Respondents were generally unanimous that general purpose and education would be the two largest sectors for 2021, followed by utilities and public facilities. In prior years, the general-purpose sector has traditionally been the largest issuing sector by gross amount.

Respondents expect approximately 75 issuers to default in 2021 for a par value of $3.0 billion, defined for the purposes of the survey as the occurrence of a missed interest or principal payment or a bankruptcy filing.

Following the FOMC lowering the federal funds target rate to 0 to 0.25% in March 2020, the federal funds rate (mid-point) is expected to rise from 0.13% in end-September 2020 to 0.19% by end-December 2020 and then dip down as low as 0.11% in March and June 2021 and finish back at 0.25% by end-December 2021. The two-year Treasury note yield is expected to gradually rise from 0.14% end-September 2020 to 0.26% by end-December 2021. The 10-year Treasury note yield is expected to also gradually increase from 0.68% end-September 2020 to 1.18% end-December 2021. The ratio of the yield on 10-year AAA G.O. municipal securities to the 10-year Treasury benchmark is expected decrease from 122.92% at end-September 2020 to 76.0% end-December 2020 but increase back to 85.0% by end-December 2021.

December 22, 2020

SIFMA US Municipal Issuance Survey 2021.

Respondents to the 2021 SIFMA Municipal Issuance Survey expect total long-term municipal issuance to reach $452.0 billion in 2021, a 3.2% decrease from the $466.9 billion expected to be issued in 2020. Short-term issuance is expected to increase to $50.0 billion in 2021, a 13.9% increase from $43.9 billion expected to be issued in 2020. Including short-term issuance, total municipal issuance is expected to total $502.0 billion in 2021, down 1.7% from $510.8 billion expected to be issued in 2020.

View the Survey.

December 22, 2020

Municipal Bonds Aren't Out of Peril.

The initial Covid-19 shock has faded, but assuming that things are back to normal in the $ 4 trillion municipal bond market would be a mistake.

Investors in staid municipal bonds got a shock when the U.S. went into lockdown in March: Yields on some of the highest-quality issues ballooned to more than three times that of Treasurys of similar maturity. They usually are somewhat lower than those of Treasurys due to their tax advantages.

The dislocation didn't last long, but assuming that things are back to normal in the $4 trillion market would be a mistake. There were two reasons for the big divergence: Investors rushed to own Uncle Sam's liabilities—the safest, most-liquid securities in the world—to the exclusion of nearly everything else. But they also fretted that the collapse in commerce, travel and employment would crush state and local revenue.

"We have no money," said New York Governor Andrew Cuomo in a March radio interview at the height of this spring's emergency.

New York's situation now looks less dire, but the damage to it and other issuers is substantial. State tax collections nationwide were 6.4% lower between March and August against expected growth of 2% to 3%, according to the Center on Budget and Policy Priorities. Cities were even worse off with an average 21% revenue drop since the pandemic began, according to a survey released this month by the National League of Cities. Meanwhile, the pandemic brought unexpected expenses.

The degree to which state and local coffers were hurt depended largely on how they raise money. Jurisdictions that rely largely on income taxes took a hit and those relying on tourist spending did even worse. Cities that fund themselves mostly on property taxes could be in fairly good shape as long as they aren't dependent on struggling malls and office buildings.

Yet most municipal bonds don't rely directly upon the general taxing authority of state or local governments. About two thirds are revenue bonds backed by some other stream of income. Investors should take little solace in the fact that downgrades have been muted so far. They also didn't spike during the global financial crisis, instead peaking in 2012.

This recession is different, hitting certain parts of the economy hard. Municipal bonds backed by airports, hospitals, toll roads, universities, nursing homes or stadiums could be in particular trouble. Normally these are desirable issuers because they are paid with the asset's revenue or from special taxes. Even a city or state's bankruptcy might not affect them.

Some bonds in this category were surprise winners. For example, those backed by payments from tobacco sales have had a great year, outperforming even Treasurys, as people smoked more than expected. An index of tobacco-backed bonds maintained by S&P Dow Jones Indices had risen by 15.3% over the past year through Dec. 18 while two backed by higher education and transportation both were up by just 4.7%.

Investors need to look past the ledgers of individual issuers and ask what the broader impact of financial strain might be. For example, New York's Metropolitan Transportation Authority, America's largest public transit system, can't legally declare bankruptcy, but it faces daunting shortfalls. Half of its revenue in 2019 came from fares and tolls, which could take years to recover. If train and subway service have to be cut back, as threatened, that would harm New York's attractiveness to commuters and tourists, with all the tax revenue they bring. Although the MTA does stand to receive some stimulus aid to delay service cuts, the city and state, along with the MTA, have been downgraded recently.

New York City is still far from its predicament in 1975 when it was hours away from defaulting after a failed appeal to Washington that sparked the famous headline "Ford to City: Drop Dead." The Federal Reserve has helped push bond yields, most munis included, to near record-lows, and has bought bonds outright through the Municipal Lending Facility. Even so, a lack of direct federal assistance to struggling cities and states in the latest stimulus package, as well as a pandemic and remote-work fueled exodus to suburbs and low-tax states, could lead to service cuts and fiscal strains for already shaky borrowers in a vicious cycle.

One saving grace has been the boom in stock prices since March. That, along with low bond yields, helps to buoy the value of trillions of dollars in public pension funds and to fuel individual capital gains taxes. But even a continuing bull market won't be enough to bail out the most at-risk retirement systems. Those in Illinois, Kentucky, Connecticut and New Jersey are less than half funded according to the Pew Charitable Trusts.

The pandemic's initial effect on the muni market might be scattered defaults in categories obviously strained by its initial effect such as hospitals, but states' cash flow problems today could hasten the market's real doomsday scenario—a state being forced to choose between shortchanging bondholders or retirees.

Much like its human pathology, Covid-19's symptoms faded quickly for most in the muni market but could continue to haunt those with weakened systems.

The Wall Street Journal

By Spencer Jakab

Dec. 25, 2020 5:30 am ET

---

5 Trends to Watch in 2021 Public Finance.

- Increase of large infrastructure financings funded by the federal government – The Biden Administration is expected to continue and further advance a 2019 trend that saw the federal government spend $29 billion on infrastructure and a transfer of an additional $67 billion in infrastructure spending to states. Half of this funding went to highways with air and rail being the next biggest categories.
- Corresponding decrease of Public Private Partnerships (PPP) for infrastructure projects given more federal government funding and challenges in recent partnerships – Challenges include lack of public sector capacity and experience among private businesses; dealing with the complexity of the preparation, procurement, and management of PPP contracts; and the demand for extensive resources that can characterize these projects.
- Defaults in the area of commercial real estate debt held by REITs and financial institutions – This trend is a continuation of one that started in 2020 as banks demanded more cash collateral and borrowers halted loan payments amid the Coronavirus 19 (COVID-19) pandemic.
- Continued pressure on tourism related taxes may result in defaults in convention-based hotels and sports and entertainment facilities – Although the introduction of COVID-19 vaccines may encourage more people to travel, it is more likely that the 2020 trends will continue and cities and states will continue to struggle to collect the tourism related taxes pledged to secure the debt issued to build publicly owned convention center hotels and sports and entertainment facilities.
- Without significant federal aid, continued decreases in municipal and state services – As it appears uncertain that the federal government will assist states and municipalities with funding emergency services necessary due to COVID-19, they may be forced to devote resources to these and halt other services.

Greenberg Traurig LLP – Warren S. Bloom and Franklin D.R. Jones Jr.

December 24 2020

How Muni Bonds Fared in 2020 and What to Expect in 2021,

Municipal bonds fared better than expected throughout 2020 despite the global pandemic and subsequent impact on state and local government budgets. With record issuance and strong investor interest, muni bonds posted robust performance during the year and their yields have largely normalized since disruptions in March.

Let’s take a look at how muni bonds fared over the past year and what investors can expect in the new year.

Continue reading.

municipalbonds.com

by Justin Kuepper

Dec 23, 2020

Bond Boom Comes to America's Colleges and Universities.

Eyeing low rates and financial pressure tied to Covid-19, higher-education institutions are issuing a record amount of debt this year

Faced with a rapid deterioration in their finances in 2020, America's colleges and universities issued a record amount of bonds this year.

It is a stressful time for higher education. The coronavirus pandemic worsened existing pressures on tuition and auxiliary revenue, with international students opting to study outside the U.S. and money from room and board drying up as schools keep classes online. At the same time, demand for financial aid and costs related to providing protective gear and Covid-19 testing have jumped.

Hoping to address possible shortfalls and take advantage of ultralow rates, universities have flooded the market with debt. With few places to get a return in the bond market, investors have scooped up the issues, which in some cases offer yields of 2% or 3% for debt that matures in 15 to 30 years.

The higher-education sector "becomes attractive because it's under pressure," said Daniel Solender, who oversees tax-free fixed-income investments at asset manager Lord Abbett & Co., referring to rising yields on higher-education bonds as schools' ability to navigate the pandemic came into question. The firm added more than $300 million to its holdings of such bonds this year.

"There are a lot of high-quality institutions with great reputations, great balance sheets, that will find a way to make it through this environment," he said.

For the year through November, colleges and universities issued more than $41.3 billion in taxable and tax-exempt fixed-rate debt, including refinancings, a record since Barclays began tracking the data. The data included issuance from schools with top-notch credit ratings, including Brown University and the University of Michigan, as well as lower-rated schools like Linfield University in McMinnville, Ore., and Alvernia University in Reading, Pa.

Moody's Investors Service MCO 1.15% in March lowered its outlook on the entire sector to negative from stable, citing uncertainties and financial challenges brought on by the pandemic. S&P Global Ratings lowered its outlook on a raft of schools in May and no longer maintains a positive outlook on a single one of the schools it rates. Attempting to help alleviate some of the pressure, more than $20 billion was allotted to public and private higher education in the latest Covid-19 relief bill passed by Congress.

John Augustine, who leads the higher-education and academic medical-center finance group at Barclays, said the bond issuance came from institutions trying to reduce their fixed costs. For some, he said, borrowing money at low rates was more attractive than dipping into their endowments at a possible cost to future generations of students.

The New York Institute of Technology refinanced $17 million in debt this summer as it sought to bolster its cash holdings, extending the repayment timeline to 2030 and lowering its annual debt service to around $3 million from upwards of $7 million.

“Trustees were concerned about the market turmoil they saw going on and how that might affect our liquidity,” said Barbara Holahan, chief financial officer and treasurer of the private university.

She said freeing up cash became a bigger priority as international student enrollment fell and expenses rose.

Part of the sector’s appeal for investors stems from the long-term maturity of college and university bonds, said Jim Costello, who heads higher-education finance at J.P. Morgan. JPM -0.44% Corporate bonds rarely last more than a decade, while higher-education bonds typically have maturity dates 30 years out.

“The AAA- and AA-rated schools are pretty unique assets to own,” Mr. Costello said. “It’s very hard for these bond investors to find very highly rated, very long-duration assets.” He said many schools already had planned before the pandemic to issue bonds this year, but that they had subsequently increased the size of their borrowing.

A further boost for the asset comes from investors’ search for yield.

After the Federal Reserve cut rates to near zero in March to help stabilize the economy, investors have reset the benchmark by which they judge the relative attractiveness of various asset classes and risks. That has contributed to soaring equity markets this year, as well as appetite for municipal bonds.

Wofford College in Spartanburg, S.C., opted for a $17.5 million private placement with Synovus Bank in September. The small liberal-arts college was refinancing existing tax-exempt debt, drawn in part by low rates.

Wofford finance chief Chris Gardner said the school wound up cutting its yield on 15-year bonds to 2.1% from 3.39%, saving about $100,000 a year.

“Everybody’s looking for some kind of yield. As low as 2% is, you can compare that to sovereign debt where you’re getting negative yields on half the countries in the world,” Mr. Gardner said.

For decades, colleges and universities largely sold bonds to finance new construction of academic buildings, dorms and sports complexes, and to tackle deferred maintenance. Like many other municipal bonds, these offerings are typically tax-exempt. Some schools issue taxable bonds because they come with fewer restrictions governing use of the funds.

Tulane University in New Orleans received $1.5 billion in orders for $187 million in debt this summer. Institutions that invested include BlackRock Inc., BLK 0.50% Lord Abbett and Vanguard Group, said Tulane operating chief Patrick Norton.

Tulane had the new bonds in the works even before the pandemic to finance new construction and refinance $25 million in existing debt. The school waited until it firmed up plans to bring students back to campus for the fall, ensuring continued cash flows, Mr. Norton said.

It locked in an all-in 3.12% yield on bonds with an average life of almost 20 years, compared with the 3.31% it got on 2017 bonds with an average life of about 12 years.

The University of Wisconsin-Madison hasn’t been as fortunate.

Unlike most public universities, the flagship can't issue debt of its own because of state statutes. It instead participates in the state's issuance and refinancing of tax-exempt general obligation bonds. Campus administrators have been citing the pandemic in discussions with lawmakers this fall to press for the ability to issue bonds, said Laurent Heller, the school's vice chancellor for finance and administration.

Among other pressures, the University of Wisconsin-Madison has been hit by lost revenue related to room and board and its athletics program, whose 80,000-seat football stadium has been sitting empty since March. It has furloughed staff and made other cost cuts but still expects to have a significant budget shortfall in the fiscal year ending in June, he said.

"It's a part of the tool kit of every major university," Mr. Heller said. Without the ability to issue debt on its own, "we face more pressure to do immediate expense reductions."

The Wall Street Journal

By Juliet Chung and Melissa Korn

Dec. 26, 2020 5:33 am ET

—Heather Gillers contributed to this article.

SolarWinds Cybersecurity Exploit: What Water Providers Need to Know and Do - Nossaman

In light of the major cybersecurity breach of the SolarWinds Orion software by malicious actors, the Water Information Sharing and Analysis Center (WaterISAC) recently issued a series of advisories providing guidance for water providers across the country on how to respond and react to this unprecedented cyberattack.

As highlighted in the WaterISAC advisory issued on December 16, 2020, the Environmental Protection Agency has recommended that all water and wastewater utilities review the Cybersecurity and Infrastructure Security Agency's (CISA's) Emergency Directive 21-01 for mitigation procedures. While Emergency Directive 21-01 is specifically directed at federal agencies, it provides helpful steps that water providers can take to mitigate the potential impacts of this widespread attack that has impacted major international institutions.

The latest information about the SolarWinds cybersecurity exploit can be found on the website about this incident maintained by SolarWinds. It was first reported to the National Security Agency by cybersecurity firm FireEye, who has published a detailed blog post on this incident and shared a GitHub page with recommended detection countermeasures.

The incoming Biden Administration, echoing testimony this week on Capitol Hill from the former head of the Department of Homeland Security's CISA, stated that cybersecurity must be a top priority for the incoming Administration and Congress because America is vulnerable. We will continue to track and provide updates on this topic.

By Hon. Chris Carney, Willis Hon on 12.23.2020

Nossaman LLP

[The ‘Highway Boondoggles’ That the Pandemic Hasn’t Killed.]

The U.S. Public Interest Research Group singles out seven highway projects deemed especially wasteful in a coronavirus-challenged year.

Fun fact: A century ago, the word “boondoggle” referred to the boxy lanyards that kids weave at summer camp. It gained its other meaning in the mid-1930s, after U.S. news reports revealed that a federal New Deal program was paying jobless workers to learn and teach the craft to disadvantaged youth. President Roosevelt’s critics latched on, and while his administration defended and continued its policies, the term became synonymous with useless government spending.

Nearly 100 years later, arguments over what constitutes wasteful expenditures take on a more existential tenor as the U.S. faces a public health crisis and runaway global warming. Released this month, the U.S. Public Interest Research Group’s sixth annual report on highway boondoggles is an example: It calls out “seven budget-eating highway projects slated to cost a total of $26 billion that will harm communities and the environment, while likely failing to achieve meaningful transportation goals.”

Continue reading.

Bloomberg CityLab

By Laura Bliss

December 17, 2020, 1:05 PM PST

The Biggest Names in Municipals Reflect on an Unprecedented Year.

- **Pandemic hastened transition from rates to credit focus**
- **‘It is much more exciting than ever before,’ says Heppolette**

The municipal bond market’s top bankers say they’re worried about the continued impact of the pandemic next year, potential hiccups with vaccine distribution, a lack of federal aid to state and local governments and possible waning demand from investors.

Bloomberg News surveyed the heads of public finance at the market’s top investment banks about how they fared in 2020 and their outlook for 2021. They say the $3.9 trillion market’s resilience was on full display earlier this year when municipals experienced a record-setting sell-off and a quick rebound that has state and local debt returning 5%, heading for the seventh straight year of gains.

John Heppolette, Citigroup Inc.’s head of municipal markets and finance, said “the only thing more surprising than the most dramatic selloff in muni bond market history was the speed of the recovery.”

Here’s what the group had to say:

Continue reading.

Bloomberg Markets

By Danielle Moran

December 18, 2020

[What a Joe Biden Win Means for Munis and Taxes.]

Stephanie Larosiliere of Invesco talks about how a Joe Biden administration will impact municipal bonds and taxes. She spoke to Taylor Riggs on Nov. 18.

Watch.

Bloomberg Markets

December 18th, 2020

[Cities Save Hotels, Arenas From Bond Defaults After Pandemic Hit.]

- **Pledges to backstop debt raise new financial challenge**
- **Akron, Ohio, theater saved: 'There's a lot of history there'**

Cities across the U.S. are having to step in to keep civic projects from defaulting on bonds after months without events or public gatherings, dealing governments a fresh financial hit from the pandemic.

In Maryland Heights, Missouri, a St. Louis suburb, officials replenished the depleted reserves of an ice-skating and concert venue. San Antonio, Texas, used its hotel-tax revenue to help a Hyatt-run hotel make debt-service payments in July and plans to do so again in 2021. Akron, Ohio, in November honored its pledge to cover the debts of a nearly century-old downtown theater.

Such rescues are among the first of what may be many in the municipal-bond market, reflecting governments' decisions to guarantee bonds sold for stadiums, convention centers and other projects that promised to revitalize cities. Those businesses' revenues have dried up since March and it's unclear how soon they will recover once coronavirus vaccines allow American life to return to normal.

"It's an unprecedented crisis — these are structured to try to address that possibility," said Thomas Hazinski, a managing director at consulting firm HVS, which specializes in tourism and entertainment projects.

Debt for such projects is usually repaid by the revenue they generate or specific cash streams earmarked by cities and counties. But some local governments have also pledged to extend their own money, providing crucial support that helped increase bond ratings and drive down financing costs.

Making Good

With tourism battered by the 9-month pandemic and mass gatherings shut down, some local governments are having to make good on those pledges.

Maryland Heights, Missouri, had to step in and help even before its ice center and music arena got a chance to fully debut. Financed with $55.5 million of bonds, the ice center opened in 2019, only to close less than a year later because of Covid-19. It has since reopened. The arena, which had an agreement with events promoter Live Nation and was set to open in May 2020 with a concert featuring Kesha, had to cancel all its shows for this year.

As revenue from ticket sales and concessions disappeared, the price of some of the bonds sold for the project due in 2039 tumbled, indicating concern among investors. Then the city council transferred more than $38,300 from its general fund to a reserve account for the bonds, part of its commitment to set aside $625,000 each year to backstop the senior debt's reserve account. That buoyed confidence, with the bonds trading at nearly 92 cents on the dollar.

David Watson, the director of finance for Maryland Heights, said the payment wasn't a major challenge this year, given that the city received one-time federal aid that will help offset an estimated $6 million to $7 million shortfall. But the longer-term support for the bonds could be an issue given the uncertainty of Covid-19.

"We think it's going to be successful," Watson said. "But we certainly would like people to come out and be able to enjoy it."

Common Support

The local government guarantees are especially common among debt issued for convention centers and hotels that cities have built to lure in the type of business conferences that have since disappeared.

San Antonio, Texas, helped make debt service payments on bonds for a convention-center hotel run by Hyatt that was financed with municipal bonds in 2005. At the same time, the city had to institute a civilian pay and hiring freeze and slashed its fiscal 2021 budget by about $4.4 million compared to last year.

In July, the city used about $338,000 in hotel-tax revenue for a debt service payment, and is expecting to do so again in January and July 2021, amounting to an estimated $13.5 million. The city said it expects to be repaid.

In Myrtle Beach, South Carolina, the city in 2015 provided a "limited" guarantee to replenish withdrawals from debt-service reserve fund for $16.4 million of bonds sold for a convention-center hotel. It had to tap those reserves in October, according to regulatory filings, and if the hotel doesn't generate enough revenue the city will be on the hook to replenish the $28,064.90 withdrawal. It may also have to provide $150,000 in the next year for an insurance reserve fund tied to the project.

Michelle Shumpert, the city's chief financial officer, said tax revenue from short-term stays in hotels or other rental spaces were down about 35% in the first quarter of the fiscal year. Still, she said they expect a revival after vaccines are widely used, given the area's popularity with beach-goers.

"We tend to rebound rather quickly," she said.

More Help

Other projects will need even more help. The Washington State Convention Center, which tapped the municipal market for $1 billion in financing in 2018 for an expansion, is seeking about $300 million in loans from the state, King County and Seattle to help finish the expansion, according to Jeff Blosser, chief executive officer.

The financing district that sold bonds already used certain lodging tax revenue to pay debt service rather than send it to the state. That counted as a nearly $14.3 million loan that the district will have to repay the state.

Allison Dyer, senior counsel at Holland & Knight, said the bond guarantees are a tool that municipalities have to support the projects. "Without those, these projects do not get built," she said.

Akron, Ohio, extended such a guarantee nearly 20 years ago to restore the Akron Civic Theatre, a landmark built in 1929 that is one of five remaining theaters of its kind in the U.S. In late November, the city received notice that it would need to step in to cover debt service for December, or $45,452.98, according to a regulatory filing.

"There's a lot of history there," said Steve Fricker, Akron's director of finance.

Bloomberg Markets

By Amanda Albright

December 15, 2020, 7:00 AM PST

— With assistance by Stephen Gorin

The Unpredictable Future of Publicly Funded Stadiums.

Despite the positive news on the COVID-19 vaccine and the federal government's efforts to mass inoculate the American public by mid-2021, there is no foreseeable future for any large gatherings, including sporting events and business conferences in the United States – perhaps reflecting a permanent shift in this large crowd sector.

In 2020, the mass cancellation of events in sporting arenas and convention centers due to social distancing guidelines and the public fear of gathering was detrimental for their revenue streams, adding to the insurmountable pressure that already existed for local and state economies.

In this article, we will take a closer look at how publicly funded sporting areas and convention centers, once considered to have been the cash cows for local economies, are adding to the fiscal strain with no clear solution in sight.

Continue reading.

dividend.com

Dec 16, 2020

Fed's Daly Welcomes More Fiscal Aid as Stimulus Deal Nears.

- **'This support in unequivocally beneficial,' Daly says of plan**
- **San Francisco Fed chief 'bullish' on post-Covid labor market**

Another $900 billion of fiscal support would “absolutely” make a significant difference to the U.S. economy’s ability to endure Covid-19, but “challenging months” lie ahead, a top Federal Reserve official said.

“This support in unequivocally beneficial,” Mary Daly, president of the Federal Reserve Bank of San Francisco, said on CBS’s “Face the Nation” on Sunday, after congressional negotiations cleared the last significant obstacle for pandemic relief, setting up a possible vote later in the day.

The proposal had been held up by a dispute over the future of Fed emergency lending programs, which was resolved by changing language restricting what the central bank could do in the future to make it less sweeping.

Daly said she wasn’t privy to the details of the negotiations but stressed that the Fed’s powers were there for the benefit of all Americans.

“I believe completely that Congress, the Federal Reserve, the Treasury Secretary, the American people, really want us to be able to deploy our full tools” to their best benefit, she said. “Remember, these are emergency too, we only bring them out in times of crisis and then we put them back away.”

Republican Senator Pat Toomey of Pennsylvania has insisted the stimulus bill include a provision barring the Fed from resuscitating various lending programs, including to Main Street businesses, corporations, and municipalities.

Democrats objected that this would harm the Fed’s ability to react to future economic crises and threaten its independence. A compromise was being explored and Senate Democratic leader Chuck Schumer told reporters late Saturday that negotiators were “very close.”

Daly said that massive policy support from the Fed and Congress had been vital in propping up the U.S. economy since the pandemic struck in March “to ensure that the bridge through coronavirus -- over coronavirus -- is both strong enough and long enough to get Americans fully through this.”

Fed officials last week forecast their benchmark lending rate would be held around zero for at least the next three years. They also revised up their economic growth forecast for next year to 4.2% from 4%, and lowered their unemployment forecast to 5% from 5.5%.

As virus cases surge again across the U.S. and new restrictions are imposed, the economic recovery risks slowing further at a time when more than 10 million are unemployed.

“I’m bullish on the job market once we get fully through coronavirus but we’re not there yet,” Daly said. “So our future is bright, but we’ve got some challenging months ahead of this.”

Bloomberg Markets

By Alister Bull

December 20, 2020

[With No Federal Help Coming, Cities Cling to the Financial Cliff.]

State and local governments have been left out of a Covid stimulus deal, even as nearly 3 in 10 cities say they will be “significantly impacted” without federal relief.

No level of government has escaped harm or fiscal damage related to the coronavirus crisis. But the fluctuations in municipal revenue caused by the pandemic — left conspicuously unaddressed by the latest version of a federal stimulus bill — reflect both long-term trouble for U.S. cities and the deeply uneven state of local economies.

As of Friday, the $900 billion Covid-19 stimulus bill, negotiated in tandem with a $1.4 trillion stopgap funding package to keep the government open, includes money for vaccine distribution and schools, $300-a-week jobless benefits, roughly $330 billion in new small business loans, and a new round of $600-per-person stimulus checks. But relief for states and cities that have been hammered by revenue losses does not appear to be forthcoming.

The lack of direct aid in the deal means that Congress has "abandoned American cities," said Mayor Greg Fischer of Louisville, Kentucky, president of the U.S. Conference of Mayors, in a statement. "There is no doubt that the pandemic has wrecked the budgets of local governments from coast to coast, and Washington's unwillingness to help will cost people jobs and make communities less safe. Nearly 1.3 million state and local government employees lost their jobs over the last year — exceeding the total number of public sector jobs lost during the Great Recession. History has shown us that we cannot have a strong economy without strong cities. Congress is now making it much harder for our economy to rebound."

Continue reading.

Blooomberg CityLab

by Patrick Sisson

December 18, 2020, 1:22 PM PST

Republicans Bind Virus Aid to Limit on Fed Lending, Risking Bill.

- **Democrats warn move would handicap Fed crisis fighting tools**
- **Dispute could derail virus relief talks as clock ticks down**

A bid by Republicans to constrain the Federal Reserve's crisis lending programs is threatening to derail negotiations on a pandemic relief plan and has drawn the incoming administration of President-elect Joe Biden into the 11th hour fight.

Senator Pat Toomey, a Republican from Pennsylvania, wants a provision in the relief bill that would bar the Fed from restarting five programs that expire at the end of the year, or create similar ones going forward. The roughly $900 billion proposal being debated by Congress, would, among other things, extend support to out-of-work Americans and thousands of small businesses.

While Toomey said the language only would affect a "narrow universe" of Fed facilities, Democrats in Congress have accused Republicans of trying to hamstring the incoming Biden administration.

Brian Deese, whom Biden has picked to be director of his National Economic Council, said in a statement that the relief package "should not include unnecessary provisions that would hamper the Treasury Department and the Federal Reserve's ability to fight economic crises."

Democratic aides said the dispute over Fed lending powers is the biggest issue impeding final negotiations on coronavirus relief. Lawmakers are aiming to attach the aid to a bill funding the government, and a delay risks triggering a partial government shutdown after midnight Friday when current spending authority expires. Congressional leaders are trying to extend the deadline with another stopgap spending measure, but that too has become entangled in the wider debate on relief.

The Fed's aggressive action to provide liquidity and back-stop corporate America helped stem panic among investors that threatened to seize up financial markets as the pandemic took hold in March. The central bank opposed the Trump administration's Nov. 19 instruction to wind up several of those facilities but said it will comply with the request.

Fed Chair Jerome Powell and his colleagues have made plain their opposition to any measures that limit their emergency lending powers. They have repeatedly and publicly stressed the facilities played an important backstop role in supporting the economy during the pandemic.

A Fed spokesman declined to comment.

Legal exports said the prohibition on the Fed creating similar facilities could inhibit its response to future financial emergencies.

'Significant Change'

Jeremy Kress, an assistant professor of business law at the University of Michigan and a former Fed attorney, said this would be a "very significant change" in the Fed's emergency lending powers.

"I am concerned that this provision would tie the Fed's hands not in the short term during the coronavirus pandemic, but also handcuff the Fed in the long-term when responding to unforeseen crisis in the future," he said.

The language isn't clear about how much any future lending facilities would have to differ from the Cares Act programs to not be considered "similar," Kress said.

Toomey said the language will only apply to the five programs set to expire soon and wouldn't change the Fed's current powers.

"The language Senate Republicans are advocating for affects a very narrow universe of lending facilities and is emphatically not a broad overhaul of the Federal Reserve's emergency lending authority," he said in a statement.

Unusual and Exigent

Section 13(3) of the Federal Reserve Act allows the central bank to create emergency lending programs during "unusual and exigent circumstances" and with approval from the Treasury Department. It was invoked by Fed Chair Jerome Powell and his colleagues to launch a barrage of programs over the spring to shore up markets for everything from U.S. government bonds to the debt of corporates and cash-strapped municipalities.

The unprecedented scale and scope of their move was decisive in restoring order to markets that had been on the verge of seizing up.

Several of those facilities were backed with funds appropriated by Congress in the Cares Act, including support for small and medium-sized Main Street borrowers.

Democrats say that including the new language in the bill would fundamentally change the Fed's ability to respond to the pandemic and future economic crises. Republicans say this would prevent the unused money — some $455 billion — from being used for unintended reasons.

"It would just force accountability and consensus rather than allow unilateral action," Senator John Cornyn, a Texas Republican, said in a tweet Friday. "Shouldn't leave it lying around so it could be used for unapproved purposes, like a back door to more state and local aid."

The central bank has already seen its 13(3) powers narrowed after the 2008 financial crisis, when it was criticized for overstepping its authority and venturing into fiscal policy terrain. The Fed now has to seek Treasury approval before launching an emergency facility. Adding Congress to that mix might make it too cumbersome for the Fed to respond in a swift manner during a crisis, said Stephen Stanley, chief economist at Amherst Pierpont Securities.

"I don't know that I like the notion of Congress actually stipulating when these facilities can or can't be created or used," Stanley said. "If it's written in a way that makes it hard or impossible for the Fed to have the ability to engage in 13(3) lending without congressional action then I think it makes it more difficult in future crises to prompt a response."

Bloomberg Politics

By Catarina Saraiva and Laura Davison

December 18, 2020, 11:46 AM PST

Mayors Pessimistic About Cities' Prospects for Post-Covid Rebound.

Concerns highlighted by the Menino Survey of Mayors include possible deep cuts to local education and the changing economic landscape for local businesses.

A new survey finds U.S. mayors are pessimistic about the ability of their cities to economically recover from the coronavirus pandemic—expressing particular concern over anticipated education budget cuts and the closure of small businesses.

Forty-five percent of mayors said they expect "dramatic" cuts to K-12 school budgets and fewer than 10% expect childcare and public schools to return to normal before next year, according to the Menino Survey of Mayors conducted by the Boston University Initiative on Cities.

The survey also highlights the concern that local government leaders have for their cities' economies and the financial stability of residents.

Businesses like live entertainment venues, hotels and restaurants face significant financial difficulties, either unable to open at all during the pandemic or forced to significantly curtail how many people they serve at one time. In New York, for example, as many as a third of small businesses could shutter for good amid the economic turmoil.

The Menino survey found that only 36% of mayors expect new businesses to quickly replace those that permanently closed due to the pandemic, while 60% said downtown office buildings will become "less desirable" as employees continue to work remotely.

The survey collected responses from 130 mayors representing cities with more than 75,000 residents between June and August.

Researchers said mayors' responses this year stood in stark contrast to their generally optimistic views expressed in previous surveys.

"This year, while we still hear glimmers of optimism, their pessimism in the face of a once-in-a-century pandemic is palpable," said Graham Wilson, director of Boston University's Initiative on Cities. "And with the pandemic still spreading and the federal government still unable to come to an agreement on additional stimulus, we suspect mayors may actually be underestimating just how much their cities will change."

Since the CARES Act was passed in March, congressional lawmakers have struggled to come to an agreement over additional coronavirus relief funding. Negotiations between Democrats and Republicans stalled out ahead of the November election, but a bipartisan effort to restart discussions emerged this week with the introduction of a $908 billion coronavirus aid proposal.

State and local government leaders have continued to press Congress for more direct financial assistance to respond to the coronavirus. And the Menino survey found many mayors believed that the federal economic aid fell short of the needs of local businesses and economies. Only 13% of mayors said the Paycheck Protection Program, which provided forgivable loans to businesses, provided enough money to meet local needs. In their responses, several mayors highlighted the disparities in the banking system that made it more difficult for small and minority-owned businesses to obtain PPP funds.

Mayors also expressed concern over the disproportionate effect the pandemic is having on minority groups, which have faced higher Covid-19 infection rates. Two-thirds of mayors said they expect Latinos, renters, immigrants, and Black residents would continue to feel at least "a lot" of economic harm next summer. And 80% of mayors said the coronavirus pandemic is widening racial health disparities.

In the early months of the pandemic, cities explored a variety of initiatives to try and help residents and local businesses. The survey found residential eviction moratoriums were one of the most popular initiatives, with 81% of mayors supportive of moratoriums and 56% of cities enacting moratoriums shortly after the pandemic hit.

Other local initiatives that mayors reported utilizing included direct financial support, including grants (35%) or utility bill or tax forgiveness (16%), and regulatory relief (30%), including initiatives to loosen restrictions to allow outdoor dining or alcohol to-go.

ROUTE FIFTY

by ANDREA NOBLE

DECEMBER 3, 2020

Andrea Noble is a staff correspondent with Route Fifty.

[The Washington Weekly: Stimulus, Shutdown or Both?]

After 6+ months of negation, Congress appears to be on the brink of passing an additional stimulus bill. The package, which will most likely be attached to the year-end funding bill, looks to be approaching $1 trillion dollars but is **not expected to include additional direct funding to state and local governments.**

While the package provides little additional help for issuers, certain sectors are expected to receive some relief. These include:

- Education funding for K-12 and higher-ed,
- Transportation sector funding,
- Health care, and
- Housing.

The next steps at this juncture are uncertain. An additional short-term funding resolution is possible so that these discussions can continue into the weekend, or even a short shut down, but all indications are that Congress will act prior to the Christmas holiday.

The lack of funding to state and locals puts the early 2021 legislative calendar in-flux. Congressional leaders continue to issue promises that state and local aid will be revisited in early 2021, however, skeptics abound due to the continued struggles to pass stimulus measures in 2020. This could slow progress on issues such as infrastructure in which the BDA continues laying the groundwork for bond provisions to be included.

Transition Update:

Former Mayor Pete Buttigieg Nominated to Lead Infrastructure Push
Former South Bend, IN Mayor Pete Buttigieg, has been officially nominated for Secretary of DOT. While this role is historically a mid-range Cabinet post, due to President-Elect Biden's focus on infrastructure and his "Build Back Better" plan, DOT will likely play an outsized role in 2021.

Buttigieg is no stranger to the municipal market. During his tenure as Mayor, South Bend had dozens of bonds issued including general obligation bonds to bonds for park districts and economic development among others. South Bend had a dramatic economic turnaround during this tenure, mostly focusing on innovative infrastructure.

Infrastructure was also a pillar of the Mayor's platform during his brief presidential run. While there was no direct mention of municipal bonds, he focused heavily on transit and pushed for the continued funding of the Highway Trust Fund which was part of the House Moving Forward Act.

Fed Recap:

Powell Calls for Additional Debt Purchases

While noting economic predictions have improved mildly, Federal Reserve Chairman Powell continues to call for additional Congressional and Fed action and continued purchase of Federal debt. He also reiterated that the task of curbing government spending should be set aside until a time when "the economy is strong and when unemployment is low."

Powell noted: *"The Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals."*

Further, Powell also discussed the future of the American economy, while pressing Congress to take additional action regardless of projections. He also urged Congressional Leadership not to worry about debt and deficits in this time or need stating:

"We've always looked at debt to GDP, and we're very high by that measure. By some other measures, we're actually not that high. In particular, you can look at real interest rate payments — what does it cost? And from that standpoint, if you sort of take real interest costs of the federal deficit and divide that by GDP, we're actually on a more sustainable fiscal path."

Bond Dealers of America

December 18, 2020

Republican Bid to End Virus Lending Slows Relief Deal.

- **Key GOP lawmakers say bill must include Fed facility stop date**
- **Democrats say the lending programs can continue for years**

Two leading Senate Republicans say that language terminating the Federal Reserve's pandemic lending facilities should be in the economic relief bill — a demand that could slow negotiations as lawmakers look to make a deal.

Senator Pat Toomey of Pennsylvania said Thursday that ending the facilities is a top issue for him to include in the bill. Senator Mike Crapo of Idaho said including language to explicitly wind down the emergency lending programs by the end of the year is becoming a red-line issue for Republicans.

Democrats have said the central bank lending facilities should remain operational until 2026 as a way to help the economy recover from the coronavirus pandemic.

The central bank emergency lending programs, created under the March Cares Act, were intended to prop up struggling small businesses, municipal governments and credit markets. Toomey has said that the programs were always intended to be short-lived and that the law requires them to be terminated by the end of the year.

"It's not acceptable for anybody to decide that they're going to circumvent this law, restart these programs and turn them into something that they were never intended to be," Toomey said in a call with reporters on Thursday.

The Fed lending program dispute is one of several unresolved issues holding up the passage of a government funding and economic relief bill that lawmakers hope to pass in coming days. An eviction moratorium, stimulus payments and funding for the Federal Emergency Management Agency were among the sticking points to finalizing the legislation as of midday Thursday.

The holdup comes as some 11 million people are unemployed, and applications for U.S. state jobless benefits unexpectedly jumped to the highest level in three months. The data, released Thursday, suggests the labor market's recovery is faltering amid the surge in Covid-19 cases and widening business restrictions.

Toomey said on the call that work to end the facilities by year end began in March when the law was written and in July he began additional work on a provision that would make the end date exceedingly clear.

“In the future, if some kind of dire emergency occurs, at that point the Fed and Treasury should come to Congress if they believe any kind of extraordinary program is needed,” Toomey told reporters. “What this does is that nobody can revive or create a duplicate of the programs that received Cares Act money.”

Democrats have accused Republicans of trying to end the programs and repurpose the money as a way to limit President-elect Joe Biden’s Treasury Department.

“They are trying to take away some options for the new president to deal with some challenges to the economy,” Senator Ron Wyden, the top ranking Democrat on the Senate Finance Committee, told reporters Thursday.

Toomey rebuffed that idea saying efforts to end the program began long before the November presidential election.

Fed Chair Jerome Powell has repeatedly noted that the facilities could be renewed using funding from the Treasury’s Exchange Stabilization Fund that pre-dated the infusion from the Cares Act. He made that point again in a Wednesday press briefing.

Wyden said Democrats are conferring with Powell Thursday on the impact of the limits that Republicans are seeking.

Bloomberg

By Laura Davison, Saleha Mohsin, and Catarina Saraiva

December 17, 2020, 11:40 AM PST Updated on December 17, 2020, 12:26 PM PST

— With assistance by Erik Wasson

Jerome Powell Sees Fed’s Limits and Punts to Congress.

The central bank opts against extending the maturities of its bond purchases and instead leaves the heavy lifting to Washington lawmakers.

Perhaps it’s because my alma mater, Northwestern, is competing in the Big Ten Championship Game this weekend against Ohio State, but I can’t help but use a football analogy to explain Wednesday’s prudent decision by the Federal Open Market Committee.

The Federal Reserve has clearly done an admirable job of defending the world’s largest economy from a steep and prolonged fallout from the Covid-19 pandemic in 2020. Since March, the central bank has lowered short-term interest rates to near-zero, bought wide swaths of U.S. Treasuries and mortgage-backed securities and even provided a backstop for corporate debt and municipal bonds.

Yet it’s clear to most central bank observers that there’s not much the Fed can do beyond what it has already done to propel the U.S. economy back toward full employment and steady inflation around 2%. The much bandied-about option — extending the weighted average maturity of its bond purchases — would hardly do much to move the ball forward, given that so many homeowners, corporate treasurers and municipal governments have already taken advantage of rock-bottom borrowing costs and wide-open capital markets during the year.

In football terms, clamping down on the long end of the yield curve now to boost economic growth would be the equivalent of Northwestern going for an early conversion on fourth-and-10 from its own 25 yard line. The likelihood of success is low. It would probably put the vaunted Wildcats defense in a tougher spot. The smart play is to punt.

That's exactly what Fed Chair Jerome Powell and his colleagues did, putting the fate of the economy in the coming months in Congress's hands.

The FOMC left the fed funds rate unchanged in a range of 0% to 0.25% and didn't tweak the composition or pace of its asset purchases after its two-day meeting. It only adjusted the language around how long the central bank would keep up its monthly purchases of $80 billion of Treasuries and $40 billion of agency mortgage-backed securities, saying it would do so "until substantial further progress has been made toward the Committee's maximum employment and price stability goals." That leaves policy makers with ample wiggle room to monitor the economic recovery in the coming years and leaves no doubt that when the Fed decides to scale back accommodation, it will first cut back on its bond buying before raising interest rates. 1

As for when the first interest-rate increase might come, not much has changed since September. One official still sees the first one in 2022. Five of the 17 members saw the fed funds rate above its current range by 2023, up from just four in September. This aligns with the Fed's updated economic projections: The central bank now sees 4.2% economic growth in 2021 and 3.2% in 2022, up from 4% and 3% in September, and an unemployment rate of 5% in 2021 and 4.2% in 2022, down from 5.5% and 4.6% previously. In 2023, the jobless rate may drop to 3.7%, within a hair of the half-century low set before the pandemic, though inflation might have a hard time cracking 2% in the coming years.

Put together, it was hard to make the case that long-term Treasuries needed to be contained. The benchmark 10-year yield hasn't crossed 1% since March and fluctuated around 0.92% after the Fed's decision. The yield curve from five to 30 years is near the steepest since late 2016, but that's healthy during an economic recovery. It's hardly derailed the steady march lower in 30-year U.S. mortgage rates, now at 2.71%, the lowest in at least a half-century, according to Freddie Mac data, which Powell credited when declaring the housing market had fully recovered from the downturn.

"In the near term, the help that people need isn't just from low interest rates that stimulate demand over time and work with long and variable lags," Powell said. "It's really support."

Clearly, the Fed understood that it didn't need to depress interest rates even further. In fact, given how much financial conditions have eased throughout the year — Goldman Sachs Group Inc.'s gauge is close to a record — there's a strong argument to be made that simply by leaving monetary policy unchanged in the face of record-high stock prices and wide-open capital markets, the central bank is passively taking an even more accommodative position.

"Financial conditions are highly accommodative — we monitor a range of financial condition indexes, there are many of them, and they'll all pretty much tell you that," Powell said. "The parts of the economy that are weak are the service-sector businesses that involve close contact. Those are not being held back by financial conditions but rather by the spread of the virus."

That was Powell's way of saying that fiscal policy needs to do the heavy lifting for the remainder of the pandemic. But just to leave no doubt, he later added that "the case for fiscal policy right now is very, very strong, and I think that's widely understood." As it stands, congressional leaders are rushing to finalize a coronavirus relief package by the end of the week that's expected to be worth less than $900 billion.

The Fed may yet have to take additional measures to prop up the U.S. economy. There could come a time when long-term yields rise to a level that the central bank sees as detrimental to a full recovery. But it’s not when 10-year Treasuries are at less than 1%. Powell isn’t going to get caught pushing on a string.

1. Fed officials have said they won’t raise the fed funds rate “until labor market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.”

Bloomberg Opinion

By Brian Chappatta

December 16, 2020, 1:15 PM PST

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

California Health Facilities Financing Authority's $500 million Housing Bond Wins Deal of the Year.

This was the inaugural issuance under the “No Place Like Home” program, the municipal market’s first large bonding program created to invest in homeless housing infrastructure and secured directly by taxes on high-income residents. The legislation gives the state $2 billion in bond authority backed by revenues from a 1% tax on personal income over $1 million approved by voters in 2004 to fund programs for mentally ill people. The bond proceeds can be used by cities and counties to develop permanent supportive housing.

“This year, our editorial board has selected a deal that truly meets all of our criteria,” said Mike Scarchilli, Editor in Chief of The Bond Buyer at the Dec. 16 virtual event. “It’s a complex deal that required creative solution making to pull off. It introduced a new, innovative credit and a replicable financing model. It attracted broad interest domestically and internationally. And though it wasn’t brought to market in response to the pandemic, the significant social problem it addresses has been exacerbated since this deal’s pricing.”

The Bond Buyer’s editorial board considered a range of factors when judging entries, including: creativity, the ability to pull a complex transaction together under challenging conditions, the ability to serve as a model for other financings, and the public purpose for which a deal?s proceeds were used.

CHFFA, a treasurer’s conduit, issued the taxable revenue bonds. Bookrunners Raymond James and Citi led the banking syndicate that priced the deal. Montague De Rose & Associates was the financial adviser. Orrick was bond counsel.

The program had to overcome a legal challenge that suggested the revenue stream wasn’t intended to fund housing, but rather other programs to help people who are suffering from mental illness. The state won the legal battle, validated the bond program and priced $500 million in taxable senior revenue bonds Nov. 19, 2019.

The program combines a long-established tax and a novel service contract mechanism to create a strong, high-grade credit.

The bonds were rated Aa3/AA/AA-minus due to the strength of the security structure and data showing the breadth and depth of the subject tax base in California, which had grown 170% from 55,600 taxpayers in 2009 to 149,000 in 2018.

The virtual ceremony also included the presentation of the Freda Johnson Awards for Trailblazing Women in Public Finance. This year's honorees were California Treasurer Fiona Ma and Suzanne Mayes of Cozen O'Connor.

The other Deal of the Year finalists were:

Midwest Region

The Buckeye Tobacco Settlement Financing Authority's $5.53 billion offering of tobacco settlement asset-backed refunding bonds is the winner in the Midwest region. Not only the largest deal of 2020 but arguably also the most complex, the refinancing avoided an expected near-term default, and the $3.8 billion 2055 maturity is among the most actively traded bonds in the high-yield market.

Southwest Region

The Cities of Dallas and Fort Worth and DFW International Airport's $2.045 billion sale of joint revenue refunding bonds is the winner in the Southwest. In coming to market with three separate refinancings in a 16-day period, DFW became the first major airport to issue bonds during the COVID-19 pandemic, opening the market for other major airports.

Northeast Region

In the Northeast, the winner is the Power Authority of the State of New York's $1.23 billion issuance of tax-exempt and taxable revenue bonds. The deal included $791.6 million of green bonds, the authority's first such issuance, representing the largest public power green bond transaction of all time.

Southeast Region

The winner in the Southeast region is the city of Tampa, Florida's $362.8 million issuance of water and wastewater systems revenue and refunding revenue bonds. At the time of the sale, it was the largest bond sale in Florida completed since the start of the pandemic, and was the year's largest Southeast water and wastewater financing by par amount.

Health Care Financing

The Health Care winner is the $1.16 billion Bon Secours Mercy Health financing, which helped pave the way for the reopening of the capital markets for not-for-profit health systems amid the pandemic. Other issuers involved in the deal included Allen County, Ohio, the South Carolina Jobs-Economic Development Authority, and the Virginia Small Business Financing Authority.

ESG/Green Financing

The Ford Foundation's $1 billion issuance of taxable social bonds is the winner in the ESG/Green financing category. The transaction represented the first-ever social bond offering by a United States nonprofit foundation in the taxable corporate bond market and led the way for numerous other nonprofit foundations to follow suit.

Public-Private Partnership Financing

The P3 winner is the $236.8 million Arizona Industrial Development Authority financing for Nebraska's Lincoln South Beltway project. The first-of-its-kind transportation project utilizes an innovative contractor-led build finance structure and delivered the largest single-contract project in the history of conduit issuer Nebraska Department of Transportation.

Small Issuer Financing

The Small Issuer honoree is the recently formed Idawy Solid Waste District, a union of three Idaho counties and one in Wyoming, for its $22.36 million issuance of tax-exempt and taxable revenue bonds. This is the first financing of this type in Idaho and is the first time a county from another state has joined with Idaho counties to pursue a joint project.

Innovative Financing

The Connecticut Green Bank's $16.8 million issuance of "Green Liberty Bonds" is this year's Innovative Financing winner. Modeled after the Series-E War Bonds of the 1940s, this new sub-category of green bonds is sold in maximum denominations of $1,000, making them accessible to everyday citizens and retail investors.

BY SOURCEMEDIA | MUNICIPAL | 12/16/20 06:54 PM EST

Fitch Ratings Updates Criteria for U.S. Public Finance Prerefunded Bonds.

Fitch Ratings-New York/Chicago-14 December 2020: Fitch Ratings has published an updated criteria report titled "U.S Public Finance Prerefunded Bonds Rating Criteria." The report updates the prior report published on Nov. 20, 2018.

No changes to Fitch's underlying methodology were made, and the key elements of Fitch's prerefunded bonds rating criteria remain consistent with those of its prior criteria report.

The full report is available at www.fitchratings.com.

Contact
Joseph Staffa
Senior Director
+1-212-908-0829
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Janet Rosen
Analytical Consultant
+1 312-368-3172

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: US State Revolving Fund and Municipal Finance Pool Sector Performance Remains Strong

Fitch Ratings-New York-15 December 2020: Twenty-nine of the 33 programs included in Fitch's annual U.S. Public Finance State Revolving Fund and Municipal Finance Pool peer review are rated 'AAA', reflecting the sector's strong performance. The remaining four programs included in the report are rated 'AA' and consist of one health and higher education, two transportation programs and one pool program receiving Water Infrastructure Finance and Innovation Act (WIFIA) financing.

"The high ratings are driven by the sound credit quality of the program pool participants, the financial strength of the program structures or a combination of those two factors," said Tim Morilla, Director, U.S. Public Finance.

The overall median PASR for the sector in 2020 was 2.1x, up slightly from 2.0x in 2018 and 2019, as well as from the seven-year historical low of 1.7x in 2013. The high PASR levels reflect the robust financial strength of the pooled programs covered by Fitch, and demonstrates ample resources to cover outstanding aggregate debt service.
The PASR, an asset-to-liability ratio, is calculated by dividing the amount of aggregate pledged assets, including scheduled obligor repayments, reserve funds and account earnings, by aggregate outstanding debt service.

For more information, the full report "State Revolving Fund and Municipal Finance Pool – 2020 Peer Review" is available at www.fitchratings.com or by clicking on the link above.

Contact:

Tim Morilla
Director
+1-512-813-5702
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330
Austin, TX 78746

Major Parkhurst
Director
+1-512-215-3724

Julie Garcia Seebach
Director
+1-512-215-3743

Doug Scott
Managing Director
+1-512-215-3725

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch Ratings Updates Completion Risk Criteria.

Fitch Ratings-New York-16 December 2020: Fitch Ratings has published an updated version of its "Completion Risk Criteria." It updates Fitch's criteria of the same title published on March 24, 2020.

The key elements of Fitch's "Completion Risk Criteria" remain consistent with those of its prior criteria report. The primary changes improve the details on the security features and clarify the analytical approach during the operational ramp-up phase.

The changes to the criteria described above are not expected to result in any changes to outstanding ratings.

Contact:

Michella Michels
Director
+55 11 4504 2601

Fitch Ratings Brasil Ltda.
Alameda Santos, n 700 – 7 andar Edificio Trianon Corporate Cerqueira Cesar
Sao Paulo – SP 01.418-100

Christiane Kuti
Director
+44 (0) 20 3530 1396

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Governments.

Fitch Ratings-New York-16 December 2020: Fitch Ratings has updated the assumptions that underpin its scenario analysis to reflect the company's latest view of the United States' path to recovery from the coronavirus pandemic. Informed by Fitch's recently-published "Global Economic Outlook – December 2020" and "Fitch Ratings Coronavirus Scenarios: Baselines and Downside Cases – Update," the revised baseline scenario reflect somewhat stronger economic activity to date than anticipated, a weak start to 2021 and an anticipated pick-up later in the year, as a safe and effective vaccine becomes widely available. Scenario analysis informs Fitch's assessment of state and local governments' financial resilience.

Revised baseline GDP assumptions for the FAST States & Locals – Fitch Analytical Stress Test Model (FAST) model are for a 3.5% decline in year one, reflecting actual performance in 2020 to date, followed by growth of 4.5% and 3.5% in years two and three, respectively. In the new baseline scenario, real GDP recovers to 4Q19 levels in the 3Q21. Inflation assumptions remain zero in year one and 2% in years two and three. Even as fiscal 2020 actual financial results for issuers become available (fiscal years ended June 30), Fitch will continue to utilize the year one revenue decline estimate in its analysis as the full revenue impact from the pandemic-fueled economic dislocation continues to take shape. In addition, revenues for most issuers were enhanced by direct and indirect federal stimulus and generally good performance in the first three quarters of the fiscal year. While an incremental $1 trillion in federal stimulus is assumed in the economic outlook for the U.S., Fitch's ratings do not incorporate an expectation for additional federal stimulus aid directly to states and local governments.

In addition to the baseline scenario, Fitch has updated its more severe downside scenario, as described in the updated company-wide common scenarios report noted above. This scenario anticipates repeated 'circuit-breaker' lockdown measures, unrelenting pressure on health systems, extensive voluntary social distancing through 2021 and a delay in the rollout of vaccines. The interpretation of the downside scenario for state and local governments was developed in consultation with Fitch's chief economist. It incorporates GDP declines of 3.9% in year one and 1.6% in year two, followed by growth of 3.8% in year three, and a delay in recovery to 2019 GDP levels until 2023.

U.S. Public Finance Tax-Supported Rating Criteria are forward-looking and designed to communicate state and local governments' ability to maintain financial resilience through an economic cycle at a level consistent with their typically very high rating levels. The economic crisis caused by the coronavirus pandemic and related containment efforts by government officials has led to a far more profound downturn than the standard moderate recessionary cycle envisioned in the criteria. The criteria allow for a temporary modification of the scenario, including key input assumptions, in a period of economic decline. To reflect the current unprecedented stress, Fitch began adjusting its scenario analysis model — the FAST — in April. Prior to the current downturn, the standard GDP assumptions for the scenario were down 1% in year one, followed by growth of 0.5% and 2.0% for years two and three respectively, with CPI assumed to be 2% per year.

FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Hence, actual revenue declines will vary from FAST results. FAST does provide a relative sense of the risk exposure of a particular entity compared with others.

Contact:

Amy Laskey
Managing Director
+1-212-908-0568
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

Eric Kim
Senior Director
+1-212-908-0241

Michael Rinaldi
Senior Director
+1-212-908-0833

Arlene Bohner
Managing Director

+1-212-908-0554

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: Vaccine Mitigates Downside for US Public Finance; Risks Remain

Fitch Ratings-New York/Chicago-17 December 2020: Widespread availability of a coronavirus vaccine would help mitigate downside risk to US public finance (USPF) performance in the second half of the year, Fitch Ratings says. Extraordinary levels of federal economic stimulus have supported USPF credit quality throughout the pandemic, and vaccinations lessen the risk that support will end before business and consumer confidence leads to a sustained recovery. However, significant execution risks remain. Delays in vaccine availability or low inoculation rates would result in significantly weaker growth in 2021 and greater budget stress on credits.

We expect stagnant growth in 1Q21 with a surge in virus cases and hospitalization rates, the expiration of pandemic unemployment assistance at the end of 2020, and the initial limited vaccine distribution. Healthcare, higher education and state and local government credits will continue to see reduced revenues and increased expenses in 2021 and may rely on cost cutting, debt, and draws on liquidity and reserves. Renewed federal stimulus would help support the economy, but we do not assume additional direct aid in our USPF ratings.

Fitch’s expectation for US GDP growth in 2021 has been revised upward by 50bps to 4.5% based on the large-scale dissemination of a vaccine, which is expected to bolster economic recovery in 2H21 with the easing of social distancing and shutdowns. Pfizer/BioNTech vaccine distribution began Monday and Moderna’s vaccine is expected to be approved by the US Food and Drug Administration as early as Friday, with the Centers for Disease Control and Prevention recommending that health care workers and residents of long-term care facilities be first to receive vaccinations.

Not-for-profit hospitals and life plan communities (LPCs) will benefit from vaccine prioritization for its staff and, in the case of LPCs, residents. By reducing coronavirus hospitalization rates, inoculation will allow a return of elective procedures to pre-pandemic levels toward the end of 2021. Vaccination is expected to help bolster confidence in accessing health services, improving margins by driving volume and revenue increases, while alleviating labor cost pressures.

Widely available vaccines would help higher education student-driven revenues recover in fall 2021 and stabilize conditions for those schools that rely on non-recurring stimulus or expense cutting. As travel restrictions ease, we may see some recovery in international student interest. For those institutions that already exhibited weaker demand characteristics, enrollment may not return to previous levels. The coronavirus’ lingering effects on revenues will require ongoing matching expense reductions, including cuts to staff, supplies and capital, which could increase in magnitude if net revenues remain pressured into FY 2022.

State and local governments should be able to lift lockdown restrictions as more people are vaccinated, boosting economic activity. The positive impact on sales and income tax revenues may not be felt until the next fiscal year for some credits, however, and in the meantime, a slow economic and jobs recovery will continue to squeeze budgets due to the lagged effect on finances.

The provision and administration of the vaccine may place logistical and financial burdens on state and local governments, adding to near-term pressures. Increased remote working and e-commerce, pre-pandemic trends that were accelerated will persist, affecting tax revenues long after the pandemic is contained. States and metro areas with large exposures to leisure and hospitality will see revenue erosion as a full recovery of this sector is unlikely in 2021, even with vaccinations.

Affordable housing and multifamily mortgage delinquency levels are currently low but may increase, particularly in areas with sustained high unemployment and slower economic recovery. In sectors that the coronavirus did not materially effect, namely public power and water and sewer, the vaccine should have limited positive upside.

Contact:

Arlene Bohner
Managing Director, Head of US Public Finance
+1 212 908-0554
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Amy Laskey
Managing Director, US Public Finance
+1 212 908-0568

Eric Kim
Senior Director, US Public Finance
+1 212 908-0241

Emily Wadhwani
Director, US Public Finance
+1 312 368-3347
Fitch Ratings, Inc.
One North Wacker Drive
Chicago, IL 60606

Kevin Holloran
Senior Director, US Public Finance
+1 512 813-5700
Fitch Ratings, Inc.
111 Congress Avenue
Austin, TX 78701

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

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

Fitch Ratings.

[Fitch: Employment Growth Slowing for U.S. States]

Fitch Ratings-New York-17 December 2020: Employment numbers improved slightly for U.S. states in October, though Fitch Ratings' latest U.S. States Labor Markets Tracker says the pace continues to slow and employment will likely weaken over the next few months given the record number of coronavirus cases, hospitalizations and additional shutdowns.

"Most U.S. states continue to see sizeable employment rebounds with the median jobs recovery at 58% at the end of October, up from 55% in September" said Senior Director Olu Sonola. While the median official unemployment rate for states fell to 6.1% in October from 6.7% the median Fitch-adjusted unemployment rate for states, adding in labor force exits, fell more significantly to 8.1% in October from 9.3% in September. States with a larger percentage of those who dropped out of the labor force may suffer greater volatility in their official unemployment rates going forward.

Drilling down into state numbers, Fitch's adjusted unemployment rate actually weakened for Massachusetts, New Mexico and Connecticut even though the official unemployment rate improved for each state in October, which Sonola says points to deeper labor market challenges for these states.

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

Contact:

Olu Sonola, CFA
Senior Director
+1 212 908 0583
Fitch Ratings, Inc.
300 W. 57th St.
New York, NY 10019

Arthur Tildesley, CFA
Associate Director
+1 646 582 4749

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

[S&P: U.S. Charter School Medians In 2019 Were Stable Pre-COVID-19, But Disparity Grows Between Higher And Lower Rated Schools]

Table of Contents

The key median indicators for U.S. charter schools were generally stable in fiscal 2019. Overall enrollment, demand, and financial profiles for charter schools remained similar to prior years, although the fiscal 2019 metrics were recorded before the unprecedented disruption that the COVID-19 pandemic has caused the sector. We expect to see the effects of operational and financial challenges related to the pandemic reflected beginning with the fiscal 2020 median credit metrics, with more pronounced changes likely in fiscal 2021. For charter schools already facing operational and financial challenges before the pandemic, we believe COVID-19 has exacerbated these pressures. Due to the duration of COVID-19 and the gradual, uneven economic recovery, we believe charter schools face heightened risk of state or local funding cuts due to the COVID-19 pandemic. Additionally, we believe there is potential for enrollment fluctuations, given the uncertainty surrounding school re-opening plans.

We are closely monitoring fiscal 2021 state budgets for potential funding pressure. We recognize the possibility of mid-year cuts, and even if fiscal 2021 funding holds in many of the key states in which our rated charter schools operate, there could be repercussions for fiscal 2022 and beyond. In our view, the ability of schools to react proactively and manage their expenses is key. With certain states indicating greater budget pressures than others, with end-of-year cuts to operating appropriations as well as state hold-backs and deferrals, many schools have reported offsetting operating pressure by cutting discretionary spending, enacting salary freezes, and pausing or re-evaluating capital projects. In addition to the receipt of federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding that has helped offset increased COVID-19 related expenses. Some schools also qualified to receive loans through the Paycheck Protection Program (PPP) under the CARES Act, which in our view provides these schools with additional liquidity flexibility in the near term. We believe schools with stronger enrollment trends and financial cushion are likely to fare better, while lower-rated schools in pressured states will have less flexibility to absorb steep cuts. For more information see “How COVID-19 And The Recession Could Affect Credit Quality For U.S. K-14 Schools,” published Sept. 3, 2020, on RatingsDirect.

Continue reading.

S&P U.S. Not-For-Profit Health Care Rating Actions, November 2020.

S&P Global Ratings’ U.S. not-for-profit health care rating actions in November were mixed with two downgrades and two upgrades. The November upgrades were due to a lower rated issuer completing a strategic combination with a higher rated issuer and because of the corrected application of our “Assigning Issue Credit Ratings Of Operating Entities” criteria, resulting in a higher rating on Circleport Conference Center, a subsidiary of St. Elizabeth Medical Center, Ky.

Outlook revisions were positive, with two favorable (negative to stable) revisions unaccompanied by a rating change. In November, we maintained ratings without revising the outlooks on 18 health care providers.

The table below summarizes S&P Global Ratings’ monthly bond rating actions for U.S. not-for-profit health care providers in November. 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. Currently, this also includes an assessment of COVID-19, economic pressures, and market volatility.

Continue reading.

15 Dec, 2020

Municipal Volumes Cut in Half from October to November.

Read the Press Release.

DECEMBER 15TH, 2020

Moody's Talks - Outlook Connections Podcast Series

Strong rebound would boost US municipalities, not-for-profit hospitals and colleges

Kendra Smith, Tim Blake and Leonard Jones of the Public Finance team discuss the prospects in 2021 for US states, local governments, universities and not-for-profit hospitals.

A strong economic rebound accompanied by a successful coronavirus vaccine rollout would boost tax revenues, while encouraging students to return to campus and allowing hospitals to carry out more profitable elective surgeries.

An uneven recovery may force some states and local governments to cut spending further, particularly those dependent on tourism and energy.

Listen to the Podcast.

Migration to Low Tax States and the Muni Market.

Jamie Iselin, Neuberger Berman head of municipal fixed income, talks about the implications of people moving from high tax to low tax states. He appears on “Bloomberg Markets.” This is from Dec. 8.

Watch.

Bloomberg Markets

December 17th, 2020

What Investors Should Expect from 2021’s Municipal Bond Market.

Head of BlackRock’s municipal bonds group, Peter Hayes joined Yahoo Finance Live to break down the municipal bond outlook for 2021.

Video Transcript

ADAM SHAPIRO: We invite into the stream Peter Hayes. He is the head of BlackRock's municipal bonds group. He is a frequent guest here at Yahoo Finance. It's good to have you here, Peter.

PETER HAYES: Thanks for having me, Adam. Nice to be back.

ADAM SHAPIRO: I want to ask you about something that, in a recent note, you said to your clients, which is– this has to do with the Fed, the Fed started their meeting today. And you said that we do not believe the conclusion of the Muni Liquidity Facility at year end will have a meaningful impact on the overall market. Why not?

PETER HAYES: Well, I think, you know, it's interesting, a couple things. One is I heard this segment a couple sessions ago talking about state and local government and what would happen with the stimulus. The only two borrowers really have tapped that particular facility. So there hasn't been a lot of demand for it.

What has proven resilient, I think, is the primary new issue market with municipals themselves. We've seen tremendous issuance this year. But even lower quality issuers, those impacted by the virus, have been able to access the market, sometimes at higher borrowing costs. But I think the market is fully open for all those issuers.

So it may not have a very big impact if the MLF does expire at the end of the year, at least that's our thinking. If we get a second shutdown and we begin to see a big economic drag perhaps in the first quarter, I think there's always a possibility that that liquidity facility could come back, be bought back. But right now, we don't view it as having a big impact on the market should it expire at the end of this month.

SEANA SMITH: And Peter, looking back over the last couple of months, I guess the question is how significantly has the Fed's Muni Facility– or has it significantly changed the dynamics of the market at all? I know you're saying going forward it might not make that big of a difference, but looking back, though, how critical has it been?

PETER HAYES: You know, that's a good question, and it's a little bit of a head-scratcher because if you go back into March and April when the market just felt like there was no bottom in sight, and where would we see the bottom, what would create a bottom, I think it was some of these facilities that did, whether it be the MLF which was created, some of the money market facilities helped overall liquidity in the market, et cetera. So they clearly have had an impact because the market has had an enormous bounce back.

When you think about the round trip of the index, which was up 3.5%, down 8 and change. So that's at a negative 11% move, which is fairly big for this particular market. And then you look at where we are now, which is 5%. So it's just an enormous amount of volatility. But it's been a tailwind. And I think a lot of the tailwind has come from some of these programs like the MLF.

I think that it's been psychological as opposed to really having an actual impact. Because as I mentioned, only two borrowers have really accessed that facility thus far.

ADAM SHAPIRO: So Peter, you also point out that the S&P Municipal Bond Index grew in November, what, 1.27%, but there's been part of the strong performance is because there is a lack of Muni issuance. Why? Municipalities and states need money right now. New Jersey came to market successfully, why haven't the others?

PETER HAYES: I think it's interesting. So that's– we're going to see right now about $450 billion worth of issuance, which is a pretty big number. But the breakdown of that is a really important element, I think, for your listeners. There's only been a little over 300 billion created in traditional tax exempt issuance. The rest has been in a taxable market.

That appeals to different types of investors. And part of the reason for that is simply advance refunding elimination from the 2017 Tax Act, as well as no restrictions on the use of proceeds that exists in the tax exempt market. You'd think they'd be borrowing more, and we do think they will borrow more in 2021. I think it's been a little bit of a surprise that the market reopened so quickly.

I think there's been an aversion, generally, to debt, but I think it's just– today, we saw the state of Florida, the legislature approve one of the biggest borrowing programs we've ever seen. So I think there'll be more issuance ahead. And then, again, in this segment just a few ahead of us, the infrastructure was mentioned, which everybody wants to do infrastructure. No one can really agree on how to pay for it.

Perhaps we'll see that in 2021 as well and that will add to issuance. But clearly, issuance is underwhelmed. It's been a huge tailwind. In fact, we view this really as a technical rally, very good demand, not a lot of bonds around. And that's been a big driver of the positive performance we've seen, even though the credit fundamentals still are fairly weak given the economy hasn't fully recovered.

SEANA SMITH: So Peter, then, going off of that and taking a look at the past performance, I know the longer term in the lower credit quality assets have been the stronger performers, but what's your recommendation looking out 6 to 12 months? How should investors be positioned at this point?

PETER HAYES: A lot of that's going to depend. And I think we all agree that there will be long-term behavioral changes that will exist from this pandemic, even long after the economy stabilizes and the population is fully, or whatever percentage fully means, vaccinated. But, you know, what sectors will they impact?

So things like small colleges, will it be cheaper for someone to get an education by doing it virtually as opposed to being on campus? That likely is going to be detrimental to small colleges and student housing bonds. Senior living facilities have been particularly hard hit in the pandemic. You know, I think the long-term prognosis for those is not quite good as well.

So I think there's a lot of things that still have to play out. But there are areas, such as airport bonds, for instance, which had gotten beat up initially, I think there's a lot of pent up demand in the system for things like travel, et cetera, that likely will bounce back once we get to a better state in terms of vaccination and the– I guess the positivity rate declining to at least something closer to 0. So state and local governments, again, I think are going to benefit from the next leg up in the economy.

The housing market's been a big boost to the overall economy, again, state and local governments. So, you know, that tells us we have an up in quality bias over the next 6 to 12 months. Some of those other sectors are on the lower quality part of the spectrum.

ADAM SHAPIRO: Peter, we look forward to following up with you on all of this in the first quarter of next year. Thank you for joining us. Peter Hayes is head of municipal bonds group at BlackRock. All the best to you and your team.

PETER HAYES: Thank you for having me.

Yahoo Finance

December 15, 2020

[2020 Takeaway For Muni Market Is Resilience: Kazatsky (Radio)]

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence: muni market resilience and expense crunches. Hosted by Paul Sweeney and Vonnie Quinn.

Listen to audio.

Bloomberg Radio

December 18, 2020

S&P U.S. Public Finance 2020 Year In Review: One Like No Other

Key Takeaways

- ***The COVID-19 pandemic and sudden-stop recession contributed to unprecedented rating volatility in 2020.*** The record economic expansion ended abruptly in March, replaced with a sharp decline in GDP, surging unemployment, and reduced consumer demand. This has created major revenue and spending challenges across our rated universe. After 10 years of upgrades outpacing downgrades, that shifted abruptly in 2020. The majority of rating actions have been negative outlooks to date (80%).
- ***The challenges associated with the pandemic have been actively managed.*** Most public finance entities steadily improved their financial reserves during the record economic recovery that preceded the pandemic and this provides some financial flexibility to react to budget shortfalls or other unforeseen circumstances in a timely manner. Most have proactively managed their budgets which has lessened the credit pressure.
- ***Federal fiscal and monetary policy provided significant credit support.*** The actions of the federal government were swift and supportive, which bolstered the economy, mitigated some budget pressure and stabilized the municipal market–all of which helped meet the challenges of 2020. The magnitude and duration of the pandemic are testing whether it was enough to bridge to normalized economic and health conditions.
- ***The pandemic and its aftermath will continue to dominate credit conditions in 2021.*** Despite a vaccine in sight, the virus curve is spiking and there is likely to be additional economic damage ahead in the U.S. We expect the aftershocks from 2020 will be reverberate for many years in U.S. public finance and will continue to be felt unevenly by sector and state.

Continue reading.

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

Read the list.

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

View the history.

Fitch: Coronavirus Fallout to Worsen for U.S. Higher Education in 2021

Fitch Ratings-Chicago-08 December 2020: Struggles brought on by the coronavirus pandemic will intensify next year for the U.S. higher education sector, according to Fitch Ratings in its 2021 outlook report for the sector.

The pandemic has taken a heavy toll on fall 2020 enrollment and eroded student fee and auxiliary system revenues that stimulus funds have only partially offset. 'Rising discount rates across the sector continue to pose increasing pressures on net tuition revenue, particularly in a pressured enrollment and unfavorable demographic environment,' said Director Emily Wadhwani.

Universities will continue to grapple with enrollment volatility, pressure on key sources of operating revenue including student fees, auxiliaries, and state support, with renewed student focus on access and affordability. 'More highly selective and flagship research universities will weather these challenges better due to their strong demand profiles, greater revenue diversity and typically larger financial resources,' said Director Emily Wadhwani.

Downgrades and negative Outlooks will likely outweigh upgrades and positive Outlooks in 2021. That said, a few bright spots exist, according to Wadhwani. Student demand for a return to the physical classroom appears strong. Market recovery of most endowment portfolios to date in calendar 2020 has also helped ease some pressure. And while a divided Congress may create obstacles, it is likely some key tenets of President-Elect Biden's platform regarding Deferred Action for Childhood Arrivals (DACA) students and other student debt relief policies may proceed in some form.

'Fitch Ratings 2021 Outlook: U.S. Public Finance Colleges and Universities' is available at 'www.fitchratings.com'.

Contact:

Emily Wadhwani
Director
+1-312 368-3347
Fitch Ratings, Inc.
70 W. Madison Street
Chicago, IL 60602

Susan Carlson
Director
+1-312 368-2092

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: Strong Bal. Sheets, Fed Subsidies May Cushion Housing in 2021

Fitch Ratings-New York/Chicago-08 December 2020: Fitch Ratings views the tax-exempt housing sector as having an evolving Outlook in 2021. The sector was financially well-positioned in 2020 and housing finance agencies (HFAs) are expected to adequately navigate in an environment of rising single and multifamily delinquencies and loan forbearances. HFA equity ratios have steadily improved yoy with a 23% increase from 2015-2019. Fitch does not expect to see the same level of increases (yoy average of 5%) in 2021, however the challenges going into 2021 do not rise to wide spread financial pressure given the strength of HFA balance sheets. Increases in single-family and multifamily housing delinquency rates in 2020 have been mitigated by stimulus and federal programs that we anticipate will persist in 2021 given the essential need for affordable housing.

The sector’s ratings are largely unchanged however, and rating Outlooks changes were more prevalent in 2020 due to the revision of the Outlook to Negative for loan programs with a direct link to the United States’ Issuer Default Rating, which Fitch revised to ‘AAA/Negative’ in July 2020. Aside from prudent management; federal stimulus payments and expanded unemployment benefits have supported the sectors performance so far. Given the lack of supply and greater demand, it remains uncertain how much housing supply will come to the market in 2021. While affordable housing providers operate throughout the nation, rural vs. urban dwelling is not a major concern for the sector, aside from overvaluation of home prices.

The evolving Outlook reflects certain factors that remain to be seen and is contingent upon how key stakeholders, including investors, respond to the essential needs of the sector. Given these factors, Fitch expects to see an evolution of the sector throughout 2021. However, Fitch does not anticipate the sector will experience a significant negative impact based on how these factors evolve.

Contact

Mikiyon Alexander
Senior Director
+1-646-582-4796
Fitch Ratings, Inc.
300 W 57th Street
New York, NY 10019

Kasia Reed
Director
+1-646-582-4864

Teresa Galicia
Associate Director
+1 312 368 2083

Jeurys Grullon
Associate Director
+1 646 582 3605

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

S&P: The Opioid Crisis Is A Credit Risk For U.S. Local Governments, Especially After COVID-19

Key Takeaways

- Prescription opioids, illicit opioids such as heroin, and synthetic opioids such as fentanyl, have contributed to the sharp spike in overdoses that have led to a quadrupling of overdose deaths since 2009.
- The opioid epidemic continues to demand spending from local governments that may be struggling to maintain structural budgetary balance amid the pressures resulting from COVID-19.
- Dealing with the opioid crisis can create local government budgetary pressure at the same time it weakens economic metrics.
- We have assigned negative outlooks to municipal entities facing budget stability challenges due in large part to opioid cost drivers, and we expect opioid cost pressures to slow economic recovery post-recession.

Continue reading.

S&P Medicaid Diagnosis: U.S. States' Growing Caseloads Come With Rising Costs

Key Takeaways

- Medicaid is a unique driver of state expenditures during economic downturns, given states' limited remedies to counter rising costs of the co-funded federal-state program, which challenges their ability to sustain balanced-budget requirements.
- Federal spending has stepped in to fill the state Medicaid spending gap, including $33 billion through June 30, 2020 and $49 billion across the entire federal fiscal year 2020. States are estimated to have spent $10.2 billion from state-only resources, or 4.4%, above their fiscal 2019 levels.
- Medicaid enrollment surged between February and July. As spending and utilization catch up they will consume a greater share of state budgets.
- Slow economic growth and a premature federal fiscal austerity could compound Medicaid pressures and cloud state budget forecasts.

Continue reading.

Fitch: U.S. NFP Hospitals Brace for a Tough 2021

Fitch Ratings-Austin-09 December 2020: The latest surge in COVID-19 cases and hospitalizations is positioning U.S. not-for-profit hospitals for a difficult 2021, according to Fitch Ratings in its 2021 outlook report.

The healthcare sector has responded extremely well to past crises, though the scale of the coronavirus pandemic and nationwide shutdown of elective procedures was unprecedented. Coming off a year of weak margins in 2020, Fitch expects more of the same next year. Taking that into account, Fitch has revised its Sector Outlook to Stable from Negative for NFP hospitals in 2021.

Though COVID-19 hospitalization rates may limit elective procedures, Senior Director Kevin Holloran says that a nationwide shutdown is not likely this time. "Elective procedures, even at a reduced clip, should not hit hospitals as hard financially as the nationwide shutdown that cut top line revenues by around 40% in Spring of 2020," said Holloran. Hospitals are also better prepared to handle another wave of COVID-19 infections. "It's a case of 'been there, done that' in a sense with hospitals treating COVID-19 patients more efficiently, which is leading to shorter hospital stays," said Holloran.

That said, hospitals will face continued stress and strain, particularly in the first half of 2021, until a viable vaccine is widely available and utilized. Hospitals will also be contending with an increase in operating expenses in 2021. "Providers will need to secure a mini-stockpile of ventilators, masks, gowns, drugs and certain types of beds, though adequate staffing will be the most critical component," said Holloran.

Downgrades are once again expected to exceed upgrades with affirmations to remain the predominant rating action for hospitals in 2021. However, Fitch may revise the Rating Outlook of some hospitals to Negative concurrently with some rating affirmations.

'Fitch Ratings 2021 Outlook: U.S. Not-For-Profit Hospitals and Health Systems' is available at 'www.fitchratings.com'.

Contact:

Kevin Holloran
Senior Director
+1-512-813-5700
Fitch Ratings, Inc.
111 Congress Avenue Suite 2010
Austin, TX 78701

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: Stable Outlook for U.S. NFP Life Plan Communities in 2021

Fitch Ratings-New York-09 December 2020: Fitch Ratings expects the general operating environment for not-for-profit life plan communities (LPCs) to remain stable in 2021. "While the coronavirus pandemic has created uncertainty in the sector, the key drivers of fundamental credit quality that have benefited the sector in recent years should remain in place," said Margaret Johnson, Director and Sector Lead for Senior Living. "We expect continued favorable demographic trends, healthy residential real estate markets and good access to the capital markets."

Operationally, the coronavirus pandemic could continue to create cost pressures, and capital investments will likely remain heavy as LPCs adjust their amenities and services to meet new market demands. Fitch also expects a continuation, if not an acceleration, of the increased trend in mergers and acquisition and system consolidation activity. The underlying forces driving this need to join with a larger partner, including competitive and cost pressures, are likely to remain present in the sector over the next few years.

The coronavirus pandemic has also accelerated the need for LPCs to utilize digital tools such as websites and social media as their primary marketing strategy since more traditional forms of marketing, especially onsite and offsite events and in-person tours are currently unavailable. As the use of digital marketing tools rises, a competitive gap could develop between LPCs that are sophisticated in their use and those that are less effective or have not made investments in a digital strategy.

'Fitch Ratings 2021 Outlook: U.S. Not-For-Profit Life Plan Communities' is available at 'www.fitchratings.com'.

Contact:

Margaret Johnson, CFA
Director
+1 212 908 0545
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Gary Sokolow
Director
+1 212 908 9186

Ryan Pami, CFA
Director
+1 212 908 0803

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: U.S. Water & Sewer Utilities Stable in 2021

Fitch Ratings-Austin-09 December 2020: U.S. water and sewer utilities remain favorably positioned heading into next year despite the challenges posed by the macro environment, according to Fitch Ratings in its 2021 outlook report.

"With expectations of lower revenue growth than recent years, utilities are working to limit cost escalation and manage through capital spending needs," said Managing Director Doug Scott. "Some increase in sector leverage is expected, but by and large balance sheets are sufficiently robust to absorb business disruptions arising from the pandemic."

Local government credit pressures arising from the pandemic have the potential to spill over to related utility profiles, although Fitch expects credit impact across the sector will be relatively limited. Utilities may be tapped for certain financial support for their host government, or credit deterioration of the host government may directly affect a utility's own rating in certain circumstances.

The water and sewer industry will be paying close attention to regulatory developments in 2021. In particular, a rule related to lead and copper is expected to be finalized and has the potential to increase annual costs across the sector by over $342 million annually. Other regulations are also being considered for additional contaminants that could add significant costs for the sector over time.

'Fitch Ratings 2021 Outlook: U.S. Water and Sewer Sector' is available at 'www.fitchratings.com'.

Contact:

Douglas Scott
Managing Director
+1-512-215-3725
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: Operating and Financial Resilience Key for U.S. Public Power in 2021

Fitch Ratings-New York-09 December 2020: U.S. public power utilities are well positioned financially headed into next year, as lower expenses have helped preserve margins and liquidity in the wake of pandemic-driven declines in electric demand and revenue, according to Fitch Ratings. However, Fitch's 2021 outlook report points to some concerns related to the lingering effects of the coronavirus pandemic and economic contraction, as well as more aggressive climate issues.

The rating outlook for the public power sector is stable. 'The operational and financial resilience exhibited by the public power sector through 2020, together with improving operating fundamentals, support Fitch's stable outlook,' said Managing Director Dennis Pidherny.

Electric demand is expected to stabilize in 2021 as the U.S. economy recovers from recession and achieves pre-pandemic gross domestic product levels. A continuance of low, stable energy prices and interest rates should also help preserve operating margins and affordability. These factors are to expected ease upward pressure on electric rates, support strong cash flow and moderate leverage throughout the sector.

Uncertainty surrounding the lingering effects of the pandemic and the potential for more aggressive environmental mandates, however, could disrupt longer term performance. Greater support from public power systems may be required by local governments facing pandemic-related fiscal challenges, particularly those facing severe declines in tax revenue.

Additionally, an increased focus on carbon emissions reduction by federal leadership is expected to develop under President-elect Biden, and could lead to more aggressive environmental policies with an evenly divided Senate. While many states continue to forge their own paths to address climate issues, the implementation of a national renewable standard could pressure operating costs, as well as the affordability metrics, at public power systems located in states with no standards or targets, or that have exemptions in place.

'Fitch Ratings 2021 Outlook: U.S. Public Power and Electric Cooperatives' is available at 'www.fitchratings.com'.

Contact:

Dennis Pidherny
Managing Director
+1-212-908-0738
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

[The Emergency Funding Ideas That Could Help Keep Transit Alive.]

As U.S. agencies push Congress for aid, transit advocates are exploring other ways to scrape together funds, from online delivery fees to gas tax hikes.

As transit operators in major U.S. cities plan drastic service cuts to address pandemic budget holes, leaders and advocates are advancing ideas to scrape together new funds, whether or not fresh federal aid arrives.

One proposal to support the New York City Metropolitan Transportation Authority, which faces a $16.2 billion deficit by 2024, is a bill by state assemblyman Robert Carroll to charge a flat $3 fee for every online purchase delivered in New York City, starting Jan. 1. In an op-ed for the New York Daily News, Carroll estimates that his bill would raise more than $1 billion annually for the MTA from the 1.8 million packages delivered in the city every day.

A related idea appears in the state budget plan passed by the Massachusetts Senate in November — a 7% fee on single-occupancy ride-hailing trips, and a 3% fee for shared trips, up from a 20-cent flat fee. A calculator from the Metropolitan Area Planning Council estimates that the new fees would generate about $72 million annually. Some of that could fund the Massachusetts Bay Transportation Authority, which operates Boston's "T" and faces a budget shortfall as high as $600 million next year.

Continue reading.

Bloomberg CityLab

By Laura Bliss

December 11, 2020, 4:00 AM PST

Wisconsin Public Finance Authority – More Scandal.

In our October issue we featured this Wisconsin bond issuing authority for its assuming authority to approve municipal bond issues for projects in a dozen other states. We addressed this as being an infringement on the sovereignty of other states and questioned the motivation for such action and the ethics of doing so. Note that our attention to this situation was not by accident, but rather, by the fact that a number of these bond issues had defaulted. This was also not the first time we raised the integrity issue about this authority.

In our August 2018 issue, we wrote a front page feature article about a $10.8 million bond issue approved in November 2017 by this Wisconsin authority for a Nevada corporation domiciled in Texas and underwritten by a regional Texas brokerage firm. The company involved called Integrity Aviation Finance was in the jet engine leasing business with an 8 engine inventory. It used $2.5 million of the bond proceeds to pull all of its equity out of the company. Equity which was based on unaudited financial statements. Our attention was drawn to the bonds in 2018 because the trustee was seeking to declare the bonds in default because the company refused to supply audited financial statements. Bondholders ignored the trustee request since the bonds had an 8% coupon and were current on the interest payments. Despite this, bonds started being sold and dropped in price to the mid 30s, unique pricing for a bond that was current on its interest payments and only offense was a failure to file audited financials.

As we warned in 2018, expect to read more about this issue. Things quickly went from bad to worse. Several engines were leased to a Miami leasing firm which has since declared bankruptcy. Now the trustee is scrambling around to assure the engines don't become part of the bankruptcy estate. Also, two engines are held by the Ethiopian airline pending payment for repair work. Added to this is that payments to the trustee were $256,000 in arrears. Any future normal debt service of any sort for these bonds is unlikely.

Bondholders have finally decided to pay attention and have authorized the trustee to accelerate the bonds. This will probably generate a bankruptcy filing by Integrity. Meanwhile, bonds have been trading in October at prices from 4 to 18. I suspect that 4 is a more likely number for eventual recovery.

While the Wisconsin authority cannot be directly blamed for the above events, poor due diligence at the authority level is clearly evident. The principals of Integrity did not have particularly glowing resumes and proved to have little integrity. The Nevada domicile is questionable. The approval without audited financials is negligent. The bond indenture provisions and use of proceeds restrictions were not clear or definitive. At some point it may become clear to the bond market that Wisconsin authorized bonds need to be more closely scrutinized or just avoided, especially when they carry an above market interest rate. We also believe that the states whose bond issuing authority is being undermined should jointly complain to more responsible individuals in Wisconsin to remove this taint to its standing in the municipal bond market. And in case you think this is a one-off incident, read about the Wisconsin authorized bond for the Nevada Goodwill Industries bankruptcy or the Maryland Proton cancer center.

We note that the authority has moved to now calling itself the "Public Finance Authority" without any mention of Wisconsin. This appears to be either an intentional misleading of bond buyers or an overt attempt to expand their mandate without having to explain away inquiries about defaulted issues. In a recent prospectus the following language explains where the Authority gets its power. " The Authority was established by local government, primarily for local governments, for the public purpose of providing local governments a means to efficiently and reliably finance projects that benefit local governments, and nonprofit organizations and other eligible private borrowers in the State of Wisconsin and throughout the country." In short, 4 Wisconsin counties and one city have given themselves the power to authorize municipal bond issues anywhere in the USA. What hutzpah!

Forbes

Richard Lehmann

Dec 10, 2020

[Rent-A-Muni Issuer Scored Market Access for Bond Now at 11 Cents.]

- **The PFA in Wisconsin has issued debt for businesses nationwide**
- **After jet-engine leasing deal, company owner accused of fraud**

Long before federal regulators would accuse him of fraud for running a Ponzi-like scheme, Victor Farias decided to raise some cash in the municipal bond market.

Farias, 47, couldn't tap the market without help. His startup jet-engine-leasing business based in the San Antonio, Texas suburbs wasn't exactly the kind of venture normally financed in the safe and stodgy world of state and local government debt. But there was an agency that could do it for him: the Public Finance Authority of Madison, Wisconsin. The PFA was set up a decade ago with the sole purpose of renting out its power to issue municipal debt to businesses all over the country — from real-estate developers and colleges to nursing homes.

It was June 2015 when Farias's business moved to borrow through the PFA, submitting a five-page application that mostly provided contact information. The PFA didn't review Integrity Aviation's financial statements, revenue projections or demand a feasibility study, according to a bond offering statement. Farias, a former bond salesman, had almost zero experience in the aviation business, bond offering documents would later show. A month later, the PFA approved his proposal, and his business issued about $11 million of taxable debt, broken into $5,000 lots, small enough for mom-and-pop investors to buy them.

Today, Integrity Aviation is in shambles. Bondholders have accused Farias of siphoning about $275,000, and a company that leased five of its engines filed for bankruptcy. And the muni bonds are trading for just 10.5 cents on the dollar in secondary markets, a price that indicates traders believe Integrity won't be able to repay the debt when due next year.

Such market blowups are becoming a familiar tale for investors who have flocked to riskier debt in search of increasingly elusive yields. The economic fallout from the pandemic has exposed the risks from bonds that, like Integrity's, are backed only by a project's revenue.

This has pushed up the number of defaults even in the municipal-bond market, a haven marketed overwhelmingly toward Americans seeking safe and steady returns. There have been 70 so far this year, the most since 2012, according to Municipal Market Analytics.

No issuer has had more of those than than the PFA. Twelve entities that borrowed through the agency have defaulted, according to data compiled by Bloomberg, 10 of them tied to a nursing home chain in the U.S. Southeast. In all, about $180 million in defaulted PFA debt represents 9% of payment defaults by dollar value this year, the fourth-highest by issuer, according to data compiled by Bloomberg.

Farias's saga also puts a spotlight on the practices of local government agencies that generate fees by selling bonds that they aren't on the hook to pay back. Such conduits — and PFA is the most active of those that sell bonds for corporations nationwide — allow borrowers and local governments to avoid the more burdensome federal regulations imposed on those who issue debt in the corporate bond market.

Since 2010, PFA has issued more than $11 billion of bonds for projects in 44 states that qualify because they're deemed to promote social good or economic growth. The agency, which has no staff, generated nearly $30 million in fees between 2014 and 2019, almost all of it for the financial advisory firm that effectively runs it, Walnut Creek, California-based GPM Municipal Advisors, LLC.

"These deals get done because the PFA sells itself, saying you pay our fee and you could use us as an issuer," said Tom Metzold, former co-head of municipal investments at Eaton Vance Corp. who now serves as an expert witness in municipal bond securities cases.

Wisconsin law doesn't require the PFA to perform due diligence on proposed projects, but the agency reserves the right to require an independent study, according to its policies.

In a statement, the PFA said its bond deals finance projects that create jobs, build affordable housing and improve communities, all with no risk to taxpayers. It said it relies on the underwriters and lawyers engaged in the proposed projects to evaluate their financial viability. The fees it generated in 2019 amounted to 21 cents per $100 of bonds issued, the agency said.

"The underwriters, underwriters' counsel, tax counsel, bond counsel, bond purchasers' counsel, and other professionals with whom PFA works on each transaction conduct significant due diligence to determine if a particular transaction is credit-worthy — i.e., the bonds backed solely by the revenues generated on a transaction are highly likely to be repaid," PFA said.

"To the extent there are questions surrounding any specific project," it said, the professionals "involved with the project are in the best position to provide information." PFA's bond issues are subject to rules set by the Municipal Securities Rulemaking Board, the market's self regulatory organization, the agency said.

Mike LaPierre, the general manager of GPM, the advisory firm that works for the PFA, didn't return phone calls and emails seeking further comment. Farias didn't respond to emails and a letter sent to the home address where he was served a court summons in August.

While some conduit issuers perform their own underwriting and due diligence for projects to see if they're viable, others avoid it. A passive approach permits issuers to disclaim future responsibility for the project's performance, according to a 2017 pamphlet by Orrick, Herrington & Sutcliffe LLP, which helped local government officials in Wisconsin draft the legislation that created the PFA. That approach, which requires less work and staff time, also generates more fees. A spokesperson for Orrick declined to comment.

Two years before Farias turned to the PFA to issue muni-bonds, he began funding his business by selling promissory notes to individual investors in the San Antonio area, many of them retired police officers and other emergency workers, according to a U.S. Securities and Exchange Commission complaint.

Of the $14 million he raised, the SEC said he diverted more than $11.6 million from the company —

$6.5 million to pay investors Ponzi-like returns, $2.7 million to invest in a friend's convenience store, $1.6 million into his own bank account and another $800,000 on travel, jewelry, golf and country club expenses. Integrity never purchased jet engines with the money raised from the promissory notes, said the SEC, which sued Farias in July for fraud.

Farias has asked a federal judge in San Antonio for more time to respond to the SEC's complaint and is currently in talks aimed at settling the case, according to a Nov. 4 filing by the SEC. Farias is representing himself in the case.

When Farias pitched the muni-bond deal in 2015, a PFA board made up largely of Wisconsin mayors and county officials approved the application after reviewing a roughly two-page summary from board advisory firm GPM.

According to GPM's report, "affiliates and principals" of Integrity had substantial experience in the manufacturing, overhaul, repair and leasing of aviation assets. The bonds, GPM said, would be guaranteed by a company called Turbine Engine Center Inc., which operated a 70,000 square-foot engine repair station in Miami.

By the time the bonds were marketed to investors, however, prospective buyers were given a somewhat different picture.

According to an offering memorandum, Farias's Integrity Aviation would guarantee the bonds, not Turbine Engine Center. Farias's extensive experience in the business was limited to the purchase and leasing of one engine. Three other employees — two of whom were former securities brokers — had no experience in the industry, the documents show.

Integrity used proceeds of the PFA bond offering to buy at least four engines from a company registered to Matthew Marsenison. Marsenison also served as Turbine Engine Center's chief executive officer and was characterized as a member of Integrity's management team in a document sent to promissory note investors.

Neither Marsenison nor Turbine Engine Center have been accused of any wrongdoing. Marsenison, who no longer owns the company, didn't respond to a letter sent to his address.

Farias also formed a company with the banker who led the deal, Patrick Dertien of National Alliance Securities LLC, three months after the bonds were sold, according to public records. Dertien was fired in September 2018 for unauthorized and undisclosed outside business activities and for failing to respond to inquiries from regulators, according to broker registration records.

The broker records didn't specify the outside business.

Dertien didn't return calls seeking comment. National Alliance received $800,000 to underwrite the bonds, almost 5 times the average for high-yield muni issues in 2015, data compiled by Bloomberg show.

Fred Bush, National Alliance's chief financial officer, didn't respond to calls and emails seeking comment. Alysse Hollis, who previously worked at Cincinnati law firm Jones Walker and served as both bond counsel and underwriters' counsel on the bond issue, didn't return calls seeking comment.

Farias leased five engines to Odyssey Engines LLC, the parent of Turbine Engine Center. Odyssey filed for bankruptcy in June, allowing it to stay lawsuits from two banks that said the company defaulted on more than $60 million in loans.

In a 2019 lawsuit, Integrity alleged Odyssey hadn't made lease payments and refused to return the engines — two of which were in storage in Ethiopia. Another, the suit alleged, was in pieces in one of Odyssey's facilities.

Odyssey's chief executive officer, David Alan Boyer didn't respond to emails seeking comment. No one answered the phone at Odyssey Engines. In a response to the lawsuit, Odyssey denied Integrity's allegations and said the case should be dismissed because it concerns transactions in Florida that were beyond the Texas court's jurisdiction.

As for the buyers of Integrity's muni bonds, those acting on their behalf filed a secured claim in Odyssey's bankruptcy case for $6.8 million and have also sued to recover $275,000 that Farias allegedly stole from the bond account.

In the five years since the debt was issued, Integrity has never filed audited financial statements, a reflection of the loose disclosure regulations in the muni market. But Integrity did say in a regulatory filing in Feb. 2018 that it generated $1.25 million in revenue in 2017, $2.3 million less than was projected to investors in bond marketing documents.

In April 2018, bondholders including Barnett & Company Inc., a Chattanooga, Tennessee-based wealth management firm, hired National Alliance to examine Integrity's books.

Rob Halder, head of research and special situations at National Alliance, was granted "view only" access to an Integrity bank account set up to receive lease payments and quickly saw there was no money, according to a lawsuit filed on behalf of bondholders that accused Farias of siphoning between $25,000 and $35,000 a month from the business between April and December 2018. Halder didn't return phone calls seeking comment. Christopher Hopkins, a vice president at Barnett & Company who represented bondholders, declined to comment.

In an Oct. 2018 email, Halder asked Farias where the money was, according to the bondholders' lawsuit.

"Now that we have confirmed that all the monies have been moved out of the revenue account despite direction otherwise, can you tell me where the money has been transferred to? When will it be returned?"

Farias never responded, according to the lawsuit.

Bloomberg Markets

By Martin Z Braun

December 8, 2020, 5:00 AM PST

— With assistance by Laurel Brubaker Calkins, and Danielle Moran

---

Nashville Stadium Bond Deal Tests Future of Spectator Sports.

- **Local agency selling $225 million of bonds for soccer stadium**
- **10-year debt early offer at 130 basis points over Treasuries**

America's country-music capital is making a bet on the world's most popular sport.

A Nashville, Tennessee agency is selling $225 million of bonds to finance the construction of a 30,000-seat Major League Soccer stadium in Music City, anticipating it could be a boon once spectator sports emerge from the pandemic. Local officials have faith that it will: the Metropolitan Government of Nashville and Davidson County agreed to step in if revenue from the stadium isn't enough to cover the debt payments, insulating bondholders from risk.

The project marks the latest twist in what has been a long-running stadium-building arms race among cities seeking to lure professional sports teams or prevent them from moving away. It will represent a test of whether Americans will embrace soccer, a sport that dominates much of the world but lags football, baseball, and basketball in the U.S.

Eric Kazatsky, municipal-bond strategist for Bloomberg Intelligence, said soccer has proven popular in cities such as Philadelphia and he speculated that the Nashville opening in 2022 may benefit from pent-up desire to return to mass gatherings after the pandemic ends.

"I think that people might be surprised at the attendance that they'll get," he said.

Citigroup is offering the taxable bonds to investors at a top spread of 185 basis points over Treasuries, according to a preliminary pricing wire seen by Bloomberg. Ten-year debt is offered with a 130 basis-point spread.

The pricing is "definitely wide" compared to yields on similar rated securities, said Gabriel Diederich, a portfolio manager at Robert W. Baird & Co. "That's often the case for appropriation bonds for non-essential projects."

The MLS, the men's professional soccer league for the U.S. and Canada, has been expanding its footprint. Since 1999, 20 stadiums have been built or renovated for MLS teams and at least seven more will debut in the coming years, according to league spokesman Dan Courtemanche.

"These soccer stadiums provide a terrific environment for fans of MLS clubs and are an important component of the overall growth of the league," he said in an email. Some of them are privately financed and others feature a mix of public and private funding.

Nashville was awarded an MLS team in 2017 in an effort spearhead by John Ingram, the team's majority owner. But getting the planned stadium off the ground has been mired in controversies, including a dispute this year between the team and Nashville Mayor John Cooper over changes to the terms of the deal. In February, they said the team would cover the full cost of the construction of the stadium through a cash investment, lease payments, and revenues generated at the stadium, something Cooper said would be a good deal for taxpayers.

The Metropolitan Government of Nashville and Davidson County, however, agreed to backstop the bonds, allowing them to get an investment-grade rating that will reduce the costs of financing. The city-county is pledging non-tax revenues like licenses and fees if the other revenue sources backing the debt, such as the $1.75 ticket tax during the initial years of the project, aren't enough to cover debt-service costs.

Nashville isn't the first city to extend such support. Bridgeview, Illinois, lent its backing to bonds issued for a stadium for the MLS' Chicago Fire Football Club, only to see its own credit rating slashed into junk when the venture fell short of expectations.

The sport has since made inroads, helped by the strength of the U.S. Women's National Team. Nielsen found in a 2019 report that 47% of adults in the U.S. were interested in the MLS, which is up from 37% in 2012.

The Nashville Soccer Club, which is sharing a stadium with the Tennessee Titans football team, played its first home game in February right before the pandemic shuttered activity in the U.S. It attracted more than 59,000 people, marking “the largest crowd for a soccer match ever in the state of Tennessee,” according to the club.

Ian Ayre, the chief executive officer of the team, said it “had a very successful year considering everything we have all endured.”

“Our fan base continues to grow significantly and the excitement for our club is palpable throughout the city and region,” he said. “Our new home stadium is a key part of our growth.”

Monica Fawknotson, executive director of the Metropolitan Sports Authority, the agency that’s selling the bonds, said in an email that the stadium will be an economic development opportunity for the city. She said interest in soccer is rising in the region.

“Soccer fans tell us they can’t wait for opening day,” she said in an email.

But the pandemic has cast uncertainty over the future of spectator sports. Anthony Fauci, the U.S. government’s top infectious-disease specialist, told Yahoo! Sports that full stadiums are unlikely until at least the summer of next year.

Nashville’s bond-offering documents note the risk that Covid-19 may change attitudes toward attending large gatherings.

“The great unknown is how the public will respond after the pandemic, especially in regards to sports that are not ingrained in the American psyche,” said Michael Leeds, a sports economist at Temple University.

Bloomberg Markets

By Amanda Albright and Danielle Moran

December 7, 2020, 7:00 AM PST Updated on December 7, 2020, 10:00 AM PST

How To Avoid Stepping Into Hazardous Municipal Bond Issues Caused By Covid-19.

In August I wrote a Forbes column titled, The Lunacy of Using City Streets To Collateralize New Municipal Bond Deals. I received quite a lot of feedback confirming the stupidity of these bonds. I cited two California cities—Torrance and West Covina. Both issued taxable Pension Obligation Bonds (POBs) to plug their unfunded pension liabilities. The bonds were collateralized by the city’s streets. I still can’t determine how these streets could produce any revenue to make interest payments and maturity redemptions if the city’s finances go south.

Fast forward to the present. The city of West Covina, California that issued $204 million of such bonds recently received an audit report from the state of California pointing out significant “deteriorating financial risks that threatens its fiscal stability.” In other words, the city is in financial trouble.

The West Covina bonds were rated A+ by Standard & Poor’s just five months ago. What changed?

Nothing significant as far as I can tell. The rating was simply inaccurate. It is clear S&P failed in their financial diligence. Also, be aware of who pays the rating agencies for their evaluation—the bond issuers themselves.

Look at the ratings of the bonds you own as they appear on your monthly brokerage statement. Find out when the rating agency last looked at the issuer. Many small- to medium-sized municipal bond deals are rated as of the issue date and never again until the municipality issues new bonds. Don't think that AA rated municipal bond you purchased five years ago still has the same credit metrics to warrant that rating today.

You can chose to look at the issuer's financials yourself. Determine if revenues exceed expenses annually. How much cash do they have on hand? Is it enough to cover any shortfall in revenues until maturity? Find out if the rating agency has recently updated their report on the issuer. These can quickly tell you what has changed and why.

If you are investing in municipal bonds yourself, use EMMA as your go-to source for municipal bond financials.

The large general obligation issuers from fiscally responsible states like Virginia and Maryland or hospital revenue bonds like Cedars-Sinai in Los Angeles and Kaiser Permanente, all have readily available current financials.

If your municipal bonds made it out of the pandemic unscathed, then congratulate yourself. If several of your municipal bond positions were downgraded, you just might want to find out why. Maybe whatever happened is survivable but maybe it's time to get out while you still can.

Stay as far away from hinky deals like Torrance and West Covina as possible. Wrap your arms around your municipal bond holdings—it may save you heartache down the road.

Forbes

by Marilyn Cohen

Dec 10, 2020

Municipal Funds-Of-Funds Are Not A Slam Dunk.

Summary

- With hundreds of open-end and closed-end funds in the tax-exempt sector figuring out the best allocation is a daunting task.
- Funds-of-funds, or funds that hold other municipal funds, are attractive in providing a way to quickly gain exposure to a basket of funds and eliminate an element of bad luck.
- Overall, however, the performance of municipal FOFs has been underwhelming nearly across the board, though for different reasons, depending on the FOF.
- XMPT does provide some advantages such as a low fee, broad exposure to the tax-exempt CEF sector, a tilt away from high-premium CEFs at the cost of mild long-term underperformance.

Continue reading.

Seeking Alpha

Dec. 8, 2020

[Wall Street Muni Underwriters Poised for Record Year in 2020.]

- **Pace of new muni-bond sales poised to surpass 2016 peak**
- **Refinancing wave a boon for BofA, Citigroup, JPMorgan**

Wall Street's muni-bond underwriters are having a banner year.

Driven by waves of refinancing, state and local governments have already sold $424 billion of bonds this year, leaving the pace poised to easily exceed the previous peak of about $426 billion in 2016, according to data compiled by Bloomberg.

This surge reflects the steep drop in interest rates this year and shows how steady the $3.9 trillion municipal market has held up despite the pandemic-triggered recession, which dealt a financial hit to governments, airports and public transportation operators. While debt sales dried up after the virus' first wave triggered a mass exodus from state and local government bonds, that proved short-lived as prices rallied back from a record-setting drop in March as the Federal Reserve promised to step in and lend if needed.

"It is a testament to the resiliency of the market," said Eric Kazatsky, a Bloomberg Intelligence municipal strategist. "Issuers still need to sell bonds to keep the lights on in their towns and cities. That still needs to get done whether the virus has impacted tax collections or not."

The debt-selling spree has been a boon for big banks including Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co., which together underwrote more than one third of this year's municipal-bond issues.

With interest rates so low, over $130 billion of the borrowing was done through taxable bonds, roughly twice as much as was sold in 2019, allowing governments to avoid federal restrictions that come with traditional tax-exempt bonds. That helped ease the pressure on the market by expanding the base of buyers to those who don't typically buy tax-exempt securities, like investors overseas who are seeing near zero or negative yields in their home countries.

Citigroup Inc. municipal-bond analyst Vikram Rai anticipates that issuance will continue to be high next year as governments contend with the financial fallout of the coronavirus shutdowns. State and local governments are projected to face large budget shortfalls, and so far there has been no new aid to emerge from Congress since March.

There will be borrowing to paper over some of those deficits as a result, Rai said. At the same time, interest rates are expected to remain favorable for issuers, and the U.S. continues to have massive infrastructure needs.

"If you see what's happening over the last 10 years, the municipal supply has been on an upward trend," Rai said. "We're expecting that next year supply will be even more."

Bloomberg Markets

By Fola Akinnibi and Danielle Moran

December 1, 2020, 10:55 AM PST

Wall Street Diverges on Muni Sales as Citi Sees $550 Billion.

- **Supply forecasts range from $375 billion to $550 billion**
- **States and local government budgets pressured by pandemic**

Wall Street banks don't have a consensus on how much municipal bond business they'll have next year.

Strategists that cover the $3.9 trillion state and local government debt market have 2021 supply forecasts that range from $375 billion to $550 billion. Low borrowing rates and issuance to bolster pandemic-induced deficits will lead to a record year of sales, according to some firms, while others believe that states and cities whose budgets were hammered by the coronavirus pandemic will refrain from selling bonds for new projects. State and local governments have sold $421 billion of long-term bonds so far this year.

Citigroup Inc. analysts led by Vikram Rai had the highest forecast, projecting governments will sell $ 550 billion in municipal bonds next year. "We are convinced of extremely robust municipal supply next year," the group wrote in a Nov. 2 note. "Municipal issuance will be utilized by public agencies and state and local governments to rebuild their respective budgets and economies (and infrastructure) as the nation recovers from the pandemic."

Tom Kozlik, head of municipal strategy and credit at Hilltop Securities, said he expects issuance to fall to about $375 billion next year, the smallest among the nine firms which provided forecasts. He said many deals were pulled ahead into this year and that governments will issue less for infrastructure projects because of revenue uncertainty and balance sheet concerns.

"State and local governments and other municipal bond issuers are likely going to approach 2021 cautiously," Kozlik wrote in a note dated Nov. 19. "We think there is still a significant amount of uncertainty about what revenues could look like for the rest of FY21 and for the beginning of FY22."

The range in forecasts illustrates the uncertainty that grips the state and local government debt market amid political debates over additional stimulus aid and the longevity of the coronavirus pandemic.

"It's a mixed bag at the state and local level which makes it hard to make a macro prediction," said Natalie Cohen, president at National Municipal Research Inc., a consulting firm. While some local governments are contracting and may be cautious of taking on new debt, others are seeing a population surge and will need to sell bonds to finance infrastructure, she said. "You can't just look at one side of the contraction and not look at the growth that is going on in a lot of communities," Cohen said in an interview.

The market would need about $440 billion of supply to meet current demand, according to Bloomberg Intelligence analyst Eric Kazatsky. His outlook is based on the latest muni-fund flows and bondholder reinvestment data.

Bankers have already seen a surge of sales this fall as governments rushed to market in October, selling a record $71 billion worth of debt as they sought to get in the market ahead of any election-related volatility.

Nearly a third of the $421 billion of long-term muni sales so far this year were subject to federal income taxes, a 130% increase from the same period last year. Rates held near record lows for much of 2020, allowing governments to realize savings by refinancing outstanding debt with taxable securities.

Analysts at UBS said that taxable munis are likely to maintain a "meaningful market share" in the coming year as issuers are "likely to continue to take advantage of refinancing opportunities through the taxable muni market."

Key Insights

- State and local financial conditions in 2021 are likely to be closer to those seen in the second half of this year compared to 2019 leading to a "similar performance in the primary market calendar," wrote Matt Fabian and Lisa Washburn at Municipal Market Analytics in a research note published Nov. 16. They forecast about $500 billion in total sales with about 30% taxable.
- Bank of America's Yingchen Li and Ian Rogow expect sales to reach $470 billion next year, $170 billion of which will be federally taxable. Even with the expected uptick in sales, they said market demand will outweigh supply. The group expects overall municipal returns to be 3.5% in 2021.
- Morgan Stanley strategists project $520 billion in gross-supply in 2021, driven by taxable advanced refundings that will shift net issuance from the tax-exempt market, the team led by Michael Zezas wrote in a note. "We expect the impact of supply to be muted relative to macro drivers," the group wrote, saying the supply uptick is unlikely to pressure performance.
- Analysts at Oppenheimer and Barclays both forecast a range of $420 billion to $440 billion in total sales. Supply will be lower than 2020 as municipalities "will likely be cautious about funding new projects in an uncertain economic environment, as well as issuers' having pulled deals forward into this year," Barclays analysts led by Mayur Patel wrote in a Nov. 10 research note.
- UBS analysts led by Thomas McLoughlin said that new issuance is expected to move lower as issuers are cautious about financing new projects in an uncertain economic environment. Bond ballot proposals were "relatively light" in November, which could depress future issuance, he said. The outlook could increase by a "meaningful amount" if Congress approves an infrastructure bill in the first half of 2021.
- RBC estimates total sales to reach $425 billion next year, below the firm's 2020 projection, according to a research note by Christopher Mauro, the bank's municipal desk analyst. "We anticipate that refunding activity will decline next year because we estimate that the pool of eligible refunding candidates in 2021 will be smaller than it was this year," he wrote. Still, taxable advanced refundings will continue at a "brisk pace."

Bloomberg Markets

By Danielle Moran

November 24, 2020, 10:56 AM PST Updated on November 24, 2020, 12:51 PM PST

— With assistance by Amanda Albright

PFN Releases Advance Refunding Myth Buster: NABL

The Public Finance Network, a coalition of bipartisan organizations, has released a new report, the Advance Refunding Myth Buster, an FAQ on advance refunding municipal bonds.

Among other things, the document says the following: *"All segments of the municipal bond market in rural and urban areas, including but not limited to: school districts, nonprofits, hospitals, higher education, transportation authorities, water and electric systems, airports and other core infrastructure providers used advance refunding as a tool to reduce interest costs. Despite the limitation to only advance refund bonds one time on a tax-exempt basis, state and local governments have generated hundreds of billions of dollars of interest cost savings over time. The savings derived from the advance refunding structure have directly funded infrastructure and governmental activities by reducing the interest payments state and local government issuers make to bond owners."*

If you are having conversations with members of Congress or their staff over the holiday season, we would encourage you to discuss the merits of reinstating this very important tool as a component of any future infrastructure package when Congress convenes in 2021.

NSAA Requests Single Audit Extension.

NSAA recently sent a letter to the U.S. Office of Management and Budget requesting extension on single audits for fiscal year 2020.

PRAC Releases Agile Toolkit.

The Pandemic Response Accountability Committee has released a toolkit established to help agency management and other key stakeholders increase transparency around emergent concerns, such as the disbursement of federal funds.

Agile products highlight issues requiring immediate action for oversight officials or Congressional stakeholders and others who have requested reviews of high risk areas. The toolkit is designed to aid federal Offices of Inspectors General (OIGs), state, and local agencies that conduct quick reviews as part of their duties to provide expeditious oversight of federal funds.

The guidelines in the toolkit pertain to reviews related not only to the effects of COVID-19 on federal operations (e.g., Coronavirus Aid, Relief, and Economic Security Act expenditures), but also to reviews of other emergent or ongoing challenges external to COVID-19, such as threats to health, safety, and the environment.

Learn more about the toolkit.

In Blue States and Red, Pandemic Upends Public Services and Jobs.

As a standoff over federal aid persists, state and local governments are making deep budget cuts. "Everything's going to slow down," one official said.

The coronavirus pandemic has inflicted an economic battering on state and local governments, shrinking tax receipts by hundreds of billions of dollars. Now devastating budget cuts loom, threatening to cripple public services and pare work forces far beyond the 1.3 million jobs lost in eight months.

Governors, mayors and county executives have pleaded for federal aid before the end of the year. Congressional Republicans have scorned such assistance, with the Senate majority leader, Mitch McConnell of Kentucky, calling it a "blue-state bailout."

But it turns out this budget crisis is colorblind. Six of the seven states that are expected to suffer the biggest revenue declines over the next two years are red — states led by Republican governors and won by President Trump this year, according to a report from Moody's Analytics.

Continue reading.

The New York Times

By Patricia Cohen

Dec. 4, 2020

[Nobody Is Going to Conventions. Convention Centers Are Growing Anyway.]

The pandemic is intensifying the competition among cities, which are rushing to build bigger, more alluring event spaces.

After 20 years of trying, Indianapolis finally landed the American Dental Association convention. Last December, the group agreed to gather there in 2026, promising Indianapolis tens of thousands of visitors and tens of millions of dollars for the local economy.

But there's a catch: The dentists can back out if the convention center complex does not complete a $550 million expansion: 143,500 square feet of new event and ballroom space as well as two privately financed hotels.

That helps explain why, in the depths of a pandemic that has left many convention centers empty or repurposed into field hospitals or homeless shelters, a 25-member board in Indianapolis voted unanimously in September to add up to $155 million to the public debt.

"We see convention tourism racing back in 2023," said Chris Gahl, senior vice president of Visit Indy, the nonprofit that markets the Indiana Convention Center and attractions like the Indianapolis Motor Speedway. "When the green flag drops, we're going to be on the competitive edge."

For decades, cities large and small have turned to gleaming convention centers and cavernous expo halls to revitalize downtown neighborhoods and perk up local economies. The pitch sounds like a win-win: Conventioneers — often traveling on the company dime — will fill hotels, pack restaurants and spend in stores. And the debt taken out to finance construction can be repaid with taxes targeted at the travelers, so locals don't have to foot the bill.

Normally, there are more than a quarter-million conventions and trade shows in the United States each year, ranging from the huge CES technology trade show in Las Vegas to smaller expos for janitorial supplies or antique-toy enthusiasts. In 2016, those events drew 84.7 million people, who spent a total of $110.4 billion, according to the latest survey by the Events Industry Council. The economic impact of these events can vary widely, however, depending on their size and whether they draw big-spending international visitors.

To keep its slate of shows — and steal others from rival cites — a convention center must frequently upgrade, expand or remodel. And the arms race keeps accelerating, even with most experts predicting that it could be at least two more years before attendance fully bounces back from the coronavirus pandemic.

“This is a perverse world, where market realities do not affect city decision-making,” said Heywood T. Sanders, a professor at the University of Texas at San Antonio who studies the use of convention centers as urban-renewal tools.

The financial wounds caused by the pandemic have been grievous. In Irving, Texas, the public finance authority behind a year-old convention-center hotel has already defaulted on $37 million of municipal bonds. In Seattle, one plan to finance an expansion failed to meet a legal requirement because hotel-tax revenues have dried up. And in Milwaukee, the pandemic threatened to throw the downtown Wisconsin Center into insolvency.

The convention center in Savannah, Ga., plans to double the size of its exhibition hall.Credit…Getty Images
But none of that has slowed a building spree meant to attract hordes of middle managers, car aficionados and coin collectors.

Georgia budgeted $70 million in July to help Savannah double its convention center’s exhibition hall. In Cleveland, officials are seeking $30 million to upgrade an underused health technology center and add it onto the Huntington Convention Center. And in Terre Haute, Ind., where the foundation for a $32 million convention center is half poured, the county Capital Improvement Board just began working on a plan for a $20 million hotel nearby.

If anything, fewer events have made the competition more intense: The Indianapolis center upgraded its cleaning and air filtration systems this year and poached six basketball tournaments and a candy trade show — the Snacks & Sweets Expo — away from Chicago, where conventions remain forbidden.

“It’s all about putting heads in beds,” said Marty Brooks, the chief executive of the Wisconsin Center, which borrowed $270 million this summer for work intended to meet the demands of the discerning conventioneer: open spaces, pop-up meeting rooms and panoramic windows. Without those improvements, Mr. Brooks said, Milwaukee would lose ground to cities like St. Louis, Nashville, Louisville and Indianapolis.

At the time, the Wisconsin Center was a few months from defaulting on $150 million in debt. But here, the economic destruction of the coronavirus actually helped. The Federal Reserve has cut already low interest rates to rock-bottom levels, so the center could not only stave off a default by refinancing but could borrow even more.

Low borrowing costs have been a lifeline for the Greater Columbus Convention Center in Ohio, which lost events like the North American Bridge Championships and “The Arnold” — the Arnold Fitness Expo, a trade show for bodybuilding equipment, workout clothing and vitamin supplements. The event, named for Arnold Schwarzenegger, is the center’s biggest of the year. With an associated bodybuilding competition, which went on this year but barred most spectators, the event normally draws 200,000 people and fills 18,000 hotel rooms.

In September, the center refinanced roughly $202 million of debt, including for a 28-story hotel tower now under construction and a 2014 overhaul that expanded the center's event space, upgraded its furnishings and added a glass atrium.

"We were trying to take advantage of lower interest rates," said Don Brown, the chief executive of the Franklin County Convention Facilities Authority, which owns the Columbus center. "Second, we were trying to deal with the impact of the pandemic on our primary revenue streams, which are hotel occupancy taxes."

Right now, the center is hosting events that don't produce much revenue: ad hoc traffic and eviction courts, along with a smattering of events like mock tailgate parties for Ohio State University home football games and a socially distanced screening of "The Rocky Horror Picture Show" on Halloween.

"We've also had yoga and exercise classes, and dance competitions," Mr. Brown said.

The loss of hotel-tax revenue has caused "a crisis" in Seattle, said Matt Griffin, a principal of the Pine Street Group, which is the developer of a $1.8 billion expansion underway at the Washington State Convention Center there. The center's borrowing capacity is limited, by law, to the value of recent hotel-tax revenues. That meant the last round of borrowing to complete the work couldn't go through.

"We need another $300 million of financing to finish this project, and if we don't have a plan by the end of the year, we're going to have to shut it down," Mr. Griffin said. The assistance could come from the county or the city, he said, but more likely the state government.

"There's various ways they could do it," he said. "It's not straightforward."

Even in the best of times, convention centers are loss leaders, said Mr. Sanders, the Texas professor. But the convention business has faced severe boom-bust cycles over the past two decades, with steep downturns after the terrorist attacks of 2001, the financial meltdown of 2008 and now the pandemic.

On Tuesday, the organizer of BookExpo, the country's largest publishing trade show, canceled the 2021 event and said it would rethink its format for the future, suggesting that it would include both " in-person and virtual offerings." In recent years, BookExpo was held at the Jacob K. Javits Convention Center in Manhattan.

If enough events go away, local taxpayers could end up paying back debt that centers took on to expand, Mr. Sanders said. "You've made a very large bet in an environment of enormous risk and uncertainty," he said. "And once you place it, you can't undo it."

And that drives cities to keep building. Consider the chain reaction caused when the National FFA Organization sought greener pastures.

The group, once known as the Future Farmers of America, is prized for the tens of thousands of conscientious teenagers it brings to town. After 1998, it spurned Kansas City, Mo., its host city for 70 years, despite offers of cash, a free building and other incentives. The FFA was growing fast, and Kansas City wasn't keeping up: Event space was tight, and local hotels sold out, forcing some teenagers to sleep 60 miles away in Topeka, Kan.

The group decamped to Louisville, Ky., where the fairgrounds were expansive. But soon the hotel crunch was even worse: Some attendees were booking rooms 90 miles away. That was when Indianapolis pounced, landing the 2006 convention with the promise of more hotel rooms and donations from local businesses to hold down registration fees.

But no sooner did Indianapolis bag the future farmers than it lost the Performance Racing Industry Trade Show, which took its business to Orlando, Fla. — where there was more space.

“This isn’t Chicken Little,” Fred Glass, then the president of Indianapolis’s Capital Improvement Board, said at the time. “The sky really is falling. We’re in danger of losing all of our large convention customers.”

So Indianapolis set to work on its fifth expansion since the center opened in 1972. When it was done in 2011, Performance Racing came back. But by 2017, another big client, Gen Con, was bursting at the seams. Up to 70,000 tabletop gaming enthusiasts descend on Indianapolis for four days of Dungeons and Dragons, Magic: The Gathering, cosplay and more.

“We take over the convention center itself, the vast majority of hotel ballrooms downtown, and we’ve been moving into the football stadium as well,” said David Hoppe, Gen Con’s chief executive.

He told Visit Indy that the gamers might have to leave, and asked what the city could do to make them stay.

Now, expansion No. 6 is coming — and, if all goes according to plan, so are all those dentists in 2026.

The New York Times

By Mary Williams Walsh

Dec. 2, 2020

A Framework for Analyzing Municipal Climate Risk.

Most ESG investors would agree that climate change risk is at or near the top of their list of sustainability issues. According to the US SIF Foundation’s biennial ESG “Trends Report” released Monday, climate change remains the top ESG issue for money managers, who incorporate climate change risk factors to $4.2 trillion in assets.

The long-term economic consequences of climate change span the financial, housing and infrastructure, agriculture, and geopolitical security sectors, to name a few. A 2018 report from the Intergovernmental Panel on Climate Change (IPCC) estimated that with just a 1.5°C warming of the planet, by the year 2100 economic losses globally would total $54 trillion – the combined total annual GDP of the U.S., European Union, and China.

As with most forms of extreme event risk, it is impossible to predict the exact timing, magnitude, and cost of the next catastrophe. Unlike black swan events, however, which are completely unexpected, climate risk is more of a “known unknown.” While no individual natural catastrophe can be directly attributed to climate change, increasing temperatures globally create conditions that are more conducive to a higher frequency or severity (or both) of a multitude of perils, including hurricanes, severe storms, floods, wildfires, and droughts.

Continue reading.

ETF Trends

By Nick Erickson & John Sama, Sage Advisory

NOVEMBER 19, 2020

State of Local Government Survey of U.S. Cities and Counties Reveals Trends Around COVID, Remote Work, and Digital Infrastructure Investments.

REDWOOD CITY, Calif., Nov. 25, 2020 /PRNewswire/ — Today OpenGov, the leader in modern cloud ERP software for our nation's cities, counties, and state agencies, launched the annual "State of Local Government Survey".

Questions cover a broad range of pandemic-era topics, from revenue impact to technology and training needs. The 501 respondents include 113 elected officials and administrators, 238 public finance leaders, and 149 public finance staff.

Results show how governments are making needed investments in the face of significant revenue impact. A third anticipate a 4-8% decrease in revenue and another third foresee an over 8% hit. In response, over 60% are using grants (e.g., CARES Act funding) or considering this approach to upgrade their technology and better serve their community and workforce.

Over half of respondents are modernizing processes and technology to enable remote work and virtual meetings. A third are also adopting cloud-based workflows in areas like permitting, licensing, code enforcement, and grant management to protect revenue streams and keep their local economies open for business. Despite all this activity, gaps persist between local government needs and initiatives.

Analysis of responses to the report's 44 questions show that while demand is strong for technology that enables access to data, process automation, and integrations to enable cross-functional collaboration, few are looking to close these gaps with investments in digital infrastructure. Additionally, the survey reveals significant training and recruitment gaps required to upskill and backfill key talent.

Based on feedback from local government leaders on the success of the survey, OpenGov plans to launch this report annually. The report can be downloaded here.

"OpenGov customers have taught me about the kinship among public servants in local government. Their work is critical to residents across the U.S., but also unique to their profession. We're humbled and honored to publish this report in hopes of fostering candid conversation and even greater strategic alignment within local governments about how best to navigate the challenges of our communities," says Matt Singer, OpenGov CMO.

Methodology: On behalf of OpenGov, independent polling and research firm Zogby Analytics conducted an online survey of 501 local government finance leaders across the US. Titles ranged from elected officials, administrators, and managers to finance directors, managers and accountants. Each answered 44 questions about their needs, as well as their government's initiatives and investments.

About OpenGov
OpenGov is the leader in modern cloud ERP software for our nation's cities, counties, and state agencies. On a mission to power more effective and accountable government, OpenGov serves more

than 1,000 agencies across the U.S. Built exclusively for the unique budgeting, financial management, and citizen services needs of the public sector, the OpenGov ERP Cloud makes organizations more collaborative, digitizes mission-critical processes, and enables best-in-class communication with stakeholders.

OpenGov

Nov 25, 2020

Muni Bonds Battered by Covid Rally With Market Eyeing Recovery.

- **Junk-bonds backed by airlines see month's biggest gains**
- **New Jersey deficit bonds jump after debt sale last week**

Some of the $3.7 billion of bonds New Jersey sold last week to plug the budget shortfalls caused by the economic slowdown have gained in secondary trading, driving the yields on 12-year securities to as little as 1.75%. Bonds issued by New York's Metropolitan Transportation Authority have been little changed despite the escalating cash squeeze caused by the drop in subway and bus ridership. Even junk debt backed by airlines has surged, delivering bigger gains this month than any other high-yield sector, according to Bloomberg Barclays indexes.

The shift has been driven by encouraging news around three Covid-19 vaccines and signs that states and local governments' tax collections haven't been hit as badly as anticipated, in part because of federal aid.

"The best news muni credit has heard in a long time is this vaccine news the last couple of weeks," said Thomas Graff, head of fixed-income for Brown Advisory, which oversees $4 billion of municipal debt and has bought bonds sold by the MTA and airports.

The shift in sentiment shows that investors are starting to focus more on the long term even with the virus currently raging and uncertainty about whether Congress will enact an economic stimulus bill before President-elect Joe Biden takes office on Jan. 20.

High-yield municipals, which finance everything from malls to senior living spaces, could be big winners from the vaccine. Bank of America Corp. strategists said in a report Friday that they're moving to a "market weight" on high-yield municipals, forecasting returns of 7% because of the more optimistic outlook.

Lind Capital Partners, which invests in high-yield debt, said in a note to clients that parts of the market, like higher education, had fallen more since March than was justified.

With the promising news about vaccines, junk-rated municipal bonds backed by airlines have rallied, driving an index of them to a gain of 3.28% this month, more than any other segment of the high-yield market. The yield on some Delta Air Lines Inc. muni debt due in 2045 has dropped to 3.5%, down from 4.55% when the debt was sold in September.

Burton Mulford, a portfolio manager at Eagle Asset Management, said his firm is buying bonds issued by large airports and large, multi-site hospital systems that were stung during the pandemic.

"There certainly is light at the end of the tunnel," he said.

Not all segments of the muni market will be completely out of the woods with a vaccine or an economic recovery. For state and local governments, the financial pain from Covid-19 may not be over yet given that tax collections tend to remain depressed well after recessions end.

UBS Global Wealth Management cautioned clients on being too exuberant about the vaccine, noting that they expect more credit-rating downgrades than upgrades in the muni market next year. And Morgan Stanley strategists said in a report last week that the firm is more cautious on local governments even if Congress delivers aid to cover their budget shortfalls.

Yet even after a credit-rating downgrade and as Covid-19 cases spike in the Garden State, New Jersey had little trouble borrowing. Its bonds priced at lower yields than initially marketed to investors, with those due in 2032 yielding 2.25%. It fell as low as 1.82% Monday.

Graff, the investor with Brown Advisory, said he's more cautious on financially-teetering local governments given it could take time to recover from the impact of public health shutdowns. There are also longer-term concerns facing the continuing-care retirement sector, which also raises funds in the muni market and has been hard hit by the virus.

But more broadly, he's upbeat and says more buyers in the market are, too.

"People are inching their way in," he said. "There's still a lot of hesitancy, but it's turning around."

Bloomberg Markets

By Amanda Albright

November 23, 2020, 10:38 AM PST

---

3 Reasons Why The Senate Race Matters For Municipal Bonds.

Summary

- With the odds against the Democrats winning both Senate seats in the Georgia runoff, the Biden administration will likely have to work with a Republican Senate majority to navigate various tax policy issues in the coming year.
- Infrastructure seems to be the one topic that a potentially divided government may be able to agree on.
- While Biden will likely not be able to enact the entirety of his tax plan with a divided Congress, he could use the power of the executive order to raise taxes in specific areas or to reinterpret regulations tied to the 2017 Tax Cuts & Jobs Act.

Continue reading.

Seeking Alpha

Dec. 4, 2020

Fitch: U.S. States' Path to Economic Recovery (Declining Fiscal Support, Slowing Employment Revival and Resurging Coronavirus Expected to Extend Road to Recovery)

Fitch Ratings-New York-03 December 2020: The slowing labor market recovery, significantly reduced pandemic-related state and federal government transfers, and a resurging wave of coronavirus infections and hospitalizations will slow the pace and challenge the durability of economic recovery of many U.S. states according to Fitch Ratings. Fitch anticipates the vast majority of states are well positioned to manage budget pressures at current rating levels.

The continued withdrawal of direct fiscal support to individuals may further slow state economic recovery in the coming quarters. 'The expiration of significant levels of pandemic-related government transfers has occurred while employment losses from the pandemic are still significant in many states and may take several years to return to pre-pandemic levels,' said Fitch Senior Director Olu Sonola.

Concerns around weakened economic activity and an employment recovery that continues to level off, has led most states to forecast revenues to underperform not only in fiscal year 2021, but also in fiscal year 2022. In response, states have already made budget adjustments, with more belt tightening likely. While revenue collections data indicate more positive results in recent months than initially anticipated, significant uncertainty remains.

Making matters worse are coronavirus cases and hospitalizations, which are surging again and appear to have a broader geographical scope than the spring and summer waves with all regions significantly affected. Governors across the country have announced new restrictions on activity in an effort to control the spread of the virus and protect healthcare system capacity.

'This will likely further slow the pace of labor market recovery in the fourth quarter and well into 2021, particularly if lockdowns are re-imposed by state governments,' said Sonola.

Read the Fitch Special Report.

Powell Questions Treasury Actions: Discussion of Stimulus Resurfaces

Following Treasury's announcement of the closure of serval emergency lending facilities at years end including the Municipal Liquidity Facility (MLF), Fed Chairman Jay Powell has continued to publically rebuke the action.

Yesterday, testifying alongside Treasury Secretary Mnuchin during a Senate Banking Committee hearing, Powell stated:

"The risk of overdoing it is less than the risk of underdoing it," he said. "People are always worried about doing too much, and you look back in hindsight and say, 'Well, we didn't do too much. We might've done a little more and a little sooner."

While Mnuchin defended his action stating that he was following the CARES Act guidelines, the two agreed that the economy needed further Congressional action to stave off another downturn, including Powell urging additional funding for state and local governments.

Congressional Leaders Discuss Stimulus

Following news of a bipartisan stimulus package emerging from a group of lawmakers over the Thanksgiving holiday, both House Speaker Nancy Pelosi and Senate Majority Leader Mitch McConnell expressed their desire to pass additional funding prior to year's end.

However, both parties are still miles away from an agreement and McConnell immediately shot down the prospects of passing the $900 billion compromise package.

The Senate remains focused on a narrowly tailored package, while the House is adamant that the package needs to be larger and include some funding for state and local governments.

It appears that Majority Leader McConnell plans to attach the narrow stimulus measures to the must-pass government funding measure in the coming days in an effort to force Speaker Pelosi to accept the package or accept blame for a government shutdown.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

December 2, 2020

States and Cities Plead for More Time to Spend Federal Covid Aid.

Local governments are using stimulus funds for safety-net needs like rental and food aid. With demand surging, they're scrambling to spend it before the deadline.

States and municipalities are calling for an extension of a year-end deadline to spend federal pandemic aid as demand surges for government assistance amid the worsening pandemic.

As part of the Cares Act in March, Congress sent $150 billion to states, large cities and counties for unbudgeted costs related to the pandemic. Those funds must be used for expenses incurred by Dec. 30, according to the Treasury Department. But state and local officials are lobbying for an extension to give government agencies and nonprofits that received the money more time to spend it, a step they say is crucial with the outlook for additional aid uncertain.

An extension would ease pressure on organizations like the Miami Valley Community Action Partnership, a Dayton, Ohio-based non-profit, which received 76 applications for assistance in a single morning this week. It's already paid out close to $6 million in rental aid in 2020, compared with $138,000 in 2019, and its 130-member staff is working nonstop to process claims and dole out the group's share of Ohio's federal stimulus aid in the next four weeks, said CEO Lisa Stempler.

"We're really terrified," Stempler said, adding that the Miami Valley partnership saw its budget more than double to $22 million this year thanks to the Cares Act. "We know we're going to be looking at an eviction crisis if this money is not extended. That's our biggest fear. Somebody sitting in our queue waiting for assistance and they get evicted before we can do anything to help them."

A coalition of attorneys general from 43 states, Washington, D.C. and five U.S. territories, sent a letter this week to congressional leaders urging an extension of the deadline to at least Dec. 31, 2021. Setting up standards and procedures to distribute the money takes time and the need for such aid has only grown, the attorneys said. When the deadline was set in March, the outlook for the pandemic looked much different than it does today, the attorneys argued.

“The pandemic will continue to challenge communities well beyond December 30, 2020 — a deadline that now seems unreasonable,” according to the letter dated Nov. 30 and signed by Democratic and Republican attorneys general across the country. The National Association of Attorneys General, which sent the letter, said it hadn’t yet received a response from congressional leadership.

The request comes as a bipartisan group of lawmakers from the House and Senate proposed a $908 billion package this week. State and local aid has been a major point of contention between Republicans and Democrats during the negotiations over Covid-19 relief.

A full accounting of how much of the state and local aid has been spent won’t be publicly available until January, according to a newly created U.S. Department of Treasury tracker. Despite the bill’s March passage, the U.S. Department of Treasury did not clarify guidelines on spending until late April, and smaller governments did not receive direct payments at all, leaving them waiting for pass-through allocations from states.

In Alaska, $1.04 billion of the total $1.25 billion the state received from the Cares Act has been distributed, but not all of those funds have been spent, according to Neil Steininger, director of the state’s Office of Management and Budget.

Grant programs like rental assistance, food assistance and others had to be created to give out some of the funds, and the smaller municipalities facing budget pressure couldn’t plan programs until the funds were received from the state, said Nils Andreassen, the executive director of the Alaska Municipal League.

“The pressure is on for sure,” Andreassen said. “Everybody would have liked to have more time. An extra six or 12 months would’ve lent itself to a more measured approach.”

In Iowa, about $325 million of the state’s $1.25 billion Cares Act allocation hasn’t been spent yet, though some of those funds have been allocated to agencies, according to a summary provided by Iowa Attorney General Tom Miller’s office. Another $75 million remains unallocated. Miller signed the letter requesting an extension. A spokesperson for Governor Kim Reynolds, who has called for more aid, said the funds will be spent by the deadline.

Like Iowa, municipalities that still have funds to use will find a way to spend the funds before the deadline, said Emily Swenson Brock, director of the federal liaison center at the Government Finance Officers Association.

The need for aid has not abated. The U.S. posted an all-time daily high in reported Covid-19 deaths of 2,836 on Wednesday, according to Johns Hopkins University. As cases climb, governors and mayors are enacting restrictions and economic shutdowns again. State and local governments’ finances face $480 billion to $620 billion in shortfalls through fiscal 2022, according to the Center on Budget and Policy Priorities.

But federal stimulus money from the Cares Act can’t be used for budget holes, another reason that governors and local officials are asking Congress for more aid in 2021.

Wisconsin will need at least $466 million in the first quarter of 2021 to pay for ongoing expenses related to the Covid-19 pandemic, money the state doesn’t have, Governor Tony Evers said Thursday.

Evers, a Democrat, sent a letter Thursday to his state’s congressional delegation, urging its members to push for an additional federal Covid-19 relief bill. Evers said his state simply doesn’t have the money to pay for the ongoing disruptions to the state’s economy caused by the pandemic after Dec. 31.

Wisconsin received $2.26 billion in Cares Act funds, which it has used for grants to farmers, small businesses and for rental and mortgage assistance. Additional Cares Act money will be spent on grants to 663 hospitality operators, Evers said.

"Having aid that helps states and localities fight the virus end when the virus is spreading is a terrible idea," said Michael Leachman, vice president for state fiscal policy at the CBPP. "It's kind of a no-brainer to help states and localities avoid the additional layoffs and cuts that would make that double dip recession more likely."

Bloomberg CityLab

By Fola Akinnibi

December 4, 2020, 8:51 AM PST

— With assistance by Stephen Joyce

Powell, Mnuchin Embrace New Stimulus After Fed Lending Rift.

- **Powell says small businesses at risk in virus second wave**
- **Fed chair provides no hint of policy action later this month**

Federal Reserve Chair Jerome Powell and U.S. Treasury Secretary Steven Mnuchin both backed more fiscal stimulus to bridge the economy through the next few months of the pandemic as the promise of Covid-19 vaccines looms.

"Some fiscal support now would really help move the economy along" and guard against downside risks, particularly to small businesses, Powell told the Senate Banking Committee Tuesday during a joint appearance with the Treasury chief. "The risk of overdoing it is less than the risk of under doing it."

Mnuchin said he is speaking with the Republican leadership including President Donald Trump, about further stimulus, adding "I urge Congress to pass something quickly."

Washington has gridlocked for months over providing additional fiscal aid, though a bipartisan group of lawmakers unveiled a new proposal Tuesday to break the stalemate. Rising virus cases threaten to restrain economic activity and slow the recovery at a time when millions of Americans are out of work and businesses struggle to hang on.

Powell gave no indication how the central bank may respond to the risk of fading economic momentum when it meets Dec. 15-16, though he reiterated that it would use all of its tools to help the economy recover.

"We do have a long way to go," Powell said, pointing out that about 10 million people remain out of work. "We will use our tools until the danger has well and truly passed, but it may require help from other parts of the government as well, including Congress."

The bipartisan group of senators proposed $908 billion of support, including $300 billion of forgivable loans for small businesses, $240 billion for state and local government and $180 billion to extend unemployment benefits. Neither Republican nor Democratic leadership has signed on to the plan.

Fed Programs

Powell and Mnuchin's joint hearing was their first since they disagreed last month over the expiration of several emergency loan programs set up after the pandemic hit in March.

Fed officials including Powell had pushed for the extension of all the central bank's lending facilities, saying they served as critical backstops and restored market confidence. Most of the funds are scheduled to expire Dec. 31.

Some of the programs have been sparsely used. These include the Main Street Lending Program, which supports bank lending to mid-sized companies, as well as facilities to aid the corporate bond market and the debt of cash-strapped municipalities.

Powell said no central banker would want to remove backstops in the midst of an emergency. He said facilities could be re-established with the Treasury's Exchange Stabilization Fund serving as backstop against loss if necessary.

He was echoed later on Tuesday by Mary Daly, president of the San Francisco Fed.

"Those lending powers can't be overlooked as being valuable to the economy," Daly told reporters on a conference call. " "Even when take-up of our facilities is low, it doesn't mean that our facilities aren't effective. They provide effective insurance."

Mnuchin announced last month that those Fed programs must sunset at the end of December, and asked the central bank to return unused funding authorized for the programs by Congress.

The Fed responded — in a rare public fracture between the two institutions — that it "would prefer that the full suite of emergency facilities" remain as a backstop "for our still-strained and vulnerable economy."

Even with the disagreement, Mnuchin praised Powell during the hearing and said the two had been speaking "constantly."

Powell noted that the lowest paid were experiencing double-digit unemployment.

"These are not people with a lot of savings, or a lot of resources, or a lot of opportunities right now," he said. "There are parts of the economy that really will need help, or that might need help, to get that last span of the bridge in place to get to the other side of the pandemic."

Bloomberg Economics

By Craig Torres and Christopher Condon

December 1, 2020, 11:03 AM PST Updated on December 1, 2020, 12:21 PM PST

— With assistance by Steven T. Dennis, Erik Wasson, Steve Matthews, Saleha Mohsin, and Catarina Saraiva

---

S&P U.S. Not-For-Profit Private College And University Fiscal 2019 Median

Ratios: Changing Landscape Leads To Weakening Credit Measures

S&P Global Ratings' key median indicators for U.S. not-for-profit private colleges and universities in fiscal 2019 saw credit quality deteriorate, reflecting the sector's increasing challenges and vulnerability to a changing higher education landscape. A variety of stresses, including increased competition for a shrinking pool of students and a heightened focus on affordability, contributed to the declining metrics. Generally, most demand metrics, such as retention and graduation rates, declined year over year, which is consistent with overall industry trends. The only exception was student quality as measured by SAT scores, which improved slightly. Full-time equivalent (FTE) enrollment saw an overall decline in medians for our rated universe, although the 'AA' rating category increased due to certain rating movement in the category. Similarly, operating margins remained compressed year over year, although the sectorwide median operating margin remained positive along with a decline in median available resource ratios.

Although the fiscal 2019 medians do not reflect financial stress from COVID-19, we expect that the repercussions associated with the pandemic, which have contributed to a trend of unfavorable rating and outlook actions throughout the sector this year, will be evident in the medians based on fiscal 2020 results and even more so in fiscal 2021.

Continue reading.

24 Nov, 2020

S&P: U.S. Public College And University Fiscal 2019 Median Ratios Remain Generally Stable Although Operating Stress Looms

The key median indicators for U.S. not-for-profit public colleges and universities were generally stable in fiscal 2019. The trend of mounting pressure on lower-rated entities continued; however, higher-rated institutions mostly maintained their overall enrollment, demand, and financial profiles. The fiscal 2019 metrics were recorded before the unprecedented disruption that the COVID-19 pandemic has caused in the sector. We expect to see the effects of operational and financial challenges related to the pandemic reflected beginning with the fiscal 2020 median credit metrics, with more pronounced changes likely in fiscal 2021. Although U.S. not-for-profit higher education entities faced increasing operational and financial challenges even before the pandemic, we believe fallout related to COVID-19 will both accelerate and amplify these pressures.

Due to the duration of COVID-19 and the gradual, uneven economic recovery, public colleges and universities face increasing challenges in many, if not all of their revenue streams. When colleges and universities sent students home in spring 2020, refunds were for services such as housing, dining, and parking. In addition, some states responded to budget pressures with end-of-year cuts to operating appropriations. This operating pressure was offset by management teams cutting discretionary spending, pausing or reevaluating capital projects, instituting layoffs or furloughs, and the receipt of federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding. While fiscal 2020 budgets were undoubtedly affected, we expect to see an even more pronounced effect on operating margins in fiscal 2021, with many institutions forecasting pressured net tuition revenue (due to lower enrollments, limited tuition increases in fall 2020, more financial aid, and a higher number of in-state students), a lower level of state support (as states grapple to balance budgets as a result of suppressed economic activity due to the pandemic), lower auxiliary revenues (due to de-densified campuses and deferral or cancellation of athletic and campus events), and potential for sluggish fundraising in light of economic uncertainty. In recognition of this pressure, we revised our rating outlooks on a number of higher education institutions (both public and private) to negative in April 2020 (see "Outlooks Revised On Certain U.S. Not-For-Profit Higher Education Institutions Due To COVID-19 Impact," published April 30, 2020, on RatingsDirect). We also recently published a mid-year update that reflects our view of the pressures the sector faces ("Not-For-Profit Higher Education Mid-Year Sector View: Fall 2020 Enrollments will Drive Credit," Aug. 18, 2020).

Continue reading.

24 Nov, 2020

Fitch: CDC Coronavirus Vaccine Priorities Positive for Senior Living

Fitch Ratings-New York-03 December 2020: Centers for Disease Control (CDC) guidance that skilled nursing facility (SNF) residents and employees should receive the coronavirus vaccine in the initial rollout is a credit positive for the sector, Fitch Rating says. The 14-member CDC advisory panel recommended to prioritize workers and the elderly in nursing homes to receive the first batches as part of Phase 1a of vaccine distribution. The CDC director, Dr. Robert Redfield, still needs to approve the recommendation, which is expected to be broadly followed by state governors.

The federal government expects 40 million doses of the coronavirus vaccine, enough for 20 million people, to be available by the end of the year. According to a report recently released by the American Health Care Association and the National Center for Assisted Living, coronavirus cases and deaths are rising in nursing homes, reaching levels not seen since reporting began in May.

The availability and distribution of the vaccine would be an immediate stabilizing factor for SNFs, which experienced a decline in occupancy since March, pressuring operating budgets. Lower occupancy is driven by a number of factors, including a reduction in post-acute care referrals from hospitals, beds being kept offline for the isolating or quarantining of coronavirus positive residents, and patients avoiding SNFs due to concerns such as family members not being able to visit.

The vast majority of SNFs that Fitch rates are part of the larger Life Plan Communities (LPCs) that offer a continuum of care that includes independent living (IL), assisted living/memory care and skilled nursing. Fitch rates approximately 160 LPCs. We revised our Outlook on the LPC sector to Negative in March and since then downgraded two LPCs and moved five Outlooks to Negative as a direct result of the effects of the coronavirus. This compares with YTD total rating actions of 20 downgrades, 11 Outlook revisions to Negative, and two credits placed on Rating Watch Negative. There have been no upgrades during this time.

Despite the stress on skilled nursing occupancy, the overall financial performance for LPCs remained largely stable due to steady levels of IL occupancy and a marked increase in IL sales in third-quarter 2020. The Coronavirus Aid, Relief and Economic Security Act funding directed at SNFs helped offset the effects of lower SNF occupancy on revenues. Skilled nursing occupancy has shown signs of recovering as referrals increased for post-acute care services as hospitals resumed elective surgeries, although this may subside somewhat with the surge in coronavirus cases. The vaccinations for SNF residents and staff should provide further velocity to financial recovery by increasing safety and confidence, and therefore admissions, in SNFs, as well as by reducing employee expenses related to quarantining or coronavirus-positive employees.

Contact:

Gary Sokolow
Director, US Public Finance Healthcare
+1 212 908-9186
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Margaret Johnson
Director, US Public Finance Healthcare
+1 212 908-0545

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

---

Fitch: New No Cruise Order Would Be Neutral for US Cruise Lines, Ports

Fitch Ratings-Chicago/New York-04 December 2020: Reimplementation of the Centers for Disease Control and Prevention's (CDC) No Sail Order would not result in immediate credit profile pressure on cruise operators and ports with sizable cruise operations, given we currently assume cruise operations will not meaningfully resume until 2H21, says Fitch Ratings. However, cruise operator and port credit profiles will become vulnerable to further deterioration if delays extend beyond this period and liquidity becomes an issue.

The CDC's previous No Sail Order that suspended cruise operations in the US from March 14 to Oct. 20 has expired. However, lawmakers reportedly began urging the CDC to reinstate the expired No Sail Order after several people on a Seadream Yacht Club cruise to the Caribbean tested positive for coronavirus last month.

A Framework for Conditional Sailing Order, which includes phases and milestones cruise lines must reach to resume operations in a way that mitigates the risk of spreading the coronavirus, replaced the No Sail Order at the end of October. This framework remains in effect until the earliest of a government declaration that the coronavirus is no longer a public health emergency, a CDC recension or modification of the order, or Nov. 1, 2021.

Major operators, including Norwegian and Royal Caribbean, voluntarily extended their suspension on some or all cruises this week, in part to provide time to comply with the conditional sailing order. Norwegian suspended nearly all voyages through March 2021. Royal Caribbean's extensions vary by geography and date with some into April 2021. Carnival announced extensions on certain cruises last month, suspending some seven-day or longer cruises until November 2021.

We believe the cruise industry revenue recovery to the 2019 base line level will be among the slowest in the hard-hit travel and leisure sector, due in large part to the health-related risks of occupying close quarters. Global and domestic travel restrictions will also have an impact, as most cruise passengers travel to reach the cruise port. We do not envision a secular decline in demand for cruising, as the industry has successfully navigated prior, more localized health-related incidents, but anticipate the time to return to pre-pandemic profitability levels will be lengthy.

Credit profiles for Fitch's universe of cruise operators and ports with significant exposure to the cruise industry have deteriorated due to the virtual standstill of cruising. Our forecasts for cruise operators and ports assume cruise travel does not begin to meaningfully pick up until 3Q21. Credit profiles are currently supported in part by liquidity positions but reinstatement of the No Sail Order that extends beyond our expectations and leads to cash burn could add pressure.

Cruise operators have minimal liquidity headroom, even after significant capital access and some delaying of the delivery of new ships to conserve cash. We estimate roughly 10 to 17 months of cash on hand for the three major cruise operators, after servicing upcoming debt maturities. Two of the three have become fallen angels due to the effects of the pandemic, with operators' revenue projected to be down 84% in 2021 over 2019.

Fitch-rated ports have strong liquidity and most have cargo operations that provide an offset to declines in cruise revenue. However, given uncertainty for the industry, minimal cruise activity is assumed through 2Q21 and we are forecasting 2021 revenue at only 34% of 2019 levels. Downside risk from coronavirus-related disruptions has resulted in multiple negative rating actions. Canaveral Port Authority's Outlook was revised to Negative from Stable in April and ratings subsequently downgraded to 'A-'/Negative from 'A'/Negative on Nov. 10 due to the severe deterioration of cruise revenues and resulting decline in financial performance. Port Miami's (A/Negative) and Broward County's (A/Negative) Outlooks were also revised to Negative.

Contacts:

Colin Mansfield, CFA
Director, US Corporates
+1 212 908-0899
Fitch Ratings
33 Whitehall Street
New York 10004

Stacey Mawson
Director, Infrastructure & Project Finance
+1 212 908-0678

Carla Norfleet Taylor, CFA
Senior Director, Fitch Wire
+1 312 368-3195

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@thefitchgroup.com
Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

---

Here's What the Water Sector Wants from Congress and President-Elect

Biden.

In a letter to President-elect Joe Biden last week, the American Water Works Association (AWWA) urged the incoming administration to prioritize COVID-19 relief for water utilities and investment for the overall water infrastructure sector.

The letter, authored by association president Melissa Elliott, cites AWWA research that revenue shortfalls at U.S. drinking water utilities may reduce economic activity by $32.7 billion and cost 75,000 to 90,000 private-sector jobs. Drinking water utilities are expected to see revenues from customer payments drop by nearly $14 billion, according to AWWA estimates. This is the result of the elimination of water shutoffs for non-payment, increased late payments due to high unemployment, reductions in non-residential water demands, and the addition of fewer new customers due to economic stagnation.

The letter explains that while the CARES Act passed earlier this year did provide funding relief to state and local governments, the act also carried a provision prohibiting the use of those funds to offset lost local utility revenues. AWWA says many utilities, particularly those serving small to medium-sized communities, are at risk resulting from diminished operating revenues. Not only do these lost revenues mean local communities are less able to renew, repair, and sustain aging infrastructure and treatment facilities, but some are feeling the effects in their ongoing operating finances, which may result in the loss of operators who are needed to ensure the utility is in regulatory compliance, the association says.

The letter calls on the president-elect and Congress to work together on the next COVID-19 relief package and urges that it include:

1. Funding to help low-income customers pay their water bills during the current pandemic emergency;
2. Funding to help those local water utilities that have suffered significant revenue losses due to the pandemic, so that they can continue to operate and provide safe water services; and
3. A definitive limitation to any mandated moratorium on disconnection of water service for non-payment, if such as moratorium is included in a legislative package.

Finally, the letter from AWWA also urged President-elect Biden to take up water infrastructure investment as a priority in his administration, recommending the following:

1. In the 2021 budget, seek fully authorized funding for the WIFIA and SRF programs.
2. Work with Congress to strengthen the effectiveness of WIFIA in this manner
3. Reauthorize WIFIA and increase authorized funding.
4. Authorize an increase in WIFIA staff to help get loans out the door more quickly.
5. In negotiating changes to the tax code, ensure that the tax-exempt status of municipal bonds is protected, and that the tax advantages of advanced refunding of these bonds is restored.**Water Sector Calls on Congress to Assist Low-Income Customers Amid Pandemic**

Meanwhile, as the COVID-19 pandemic persists in the United States, AWWA and other water sector groups including the Water Environment Federation (WEF), the Association of Metropolitan Water Agencies (AMWA), National Association of Clean Water Agencies (NACWA), National Rural Water Association and WateReuse Association, are calling on Congress for increased funding. Similar to the recommendations to the incoming Biden administration, the groups say utilities need more help to rebound from the pandemic and invest in critical infrastructure, as well as to assist low-income customers pay bills. The organizations' goals were laid out in a joint letter to Congressional leaders.

On the subject of assistance to low-income customers, the letter notes two versions of the HEROES Act approved by the House of Representatives this year (H.R. 6800 and H.R. 925) contained language to establish a $1.5 billion Low-Income Household Drinking Water and Wastewater Assistance program, which would provide funds to local water and wastewater utilities to offset water rates charged to low-income customers during the pandemic.

Water systems report that delinquent residential water accounts have increased dramatically over the past several months – especially among low-income customers – so this type of targeted assistance is vital to getting these vulnerable customers back on track while also providing a needed stream of operational funds to water and wastewater systems. The associations request that this or a similar low-income customer assistance program is maintained in any pandemic relief package.

Click here to read more from the full joint statement from the water sector to House Speaker Nancy Pelosi (D-Calif.) and Senate Majority Leader Mitch McConnell (R-Ky.).

WATER AND FINANCE MANAGEMENT

BY WFM STAFF

NOVEMBER 23, 2020

Federal Relief Proposals Aren't Enough to Thwart Some of the Worst Transit Cuts.

As Congress debates proposals to give public transit half of what was sought, officials warn of cuts that would gut regional economies.

Officials at some of the largest public transit systems in the U.S. say that sweeping cuts to service and staffing are in store if a second federal pandemic relief package does not arrive soon. And the transit aid proposals currently being considered in Congress may not be enough to prevent drastic changes that would be difficult to reverse in several big cities, leaders and advocates say.

That includes in Congress's own backyard, where staffers, interns, Capitol Hill service workers and a tiny handful of lawmakers are normally some of the most reliable users of the Washington, D.C., Metro. Now rail ridership on the second-most-used rail transit network in the U.S. is down nearly 90 %, and WMATA faces an approximate $500 million budget gap starting in FY 2022.

To close it, WMATA general manager and chief executive officer Paul Wiedefeld laid out a plan on Monday that would transform the system from metropolitan lifeblood to anemic last resort. It includes eliminating weekend rail service, reducing weekday rail service to 30-minute headways, closing the rail system at 9 p.m. and shuttering 19 stations entirely, and eliminating more than 30% of the bus routes that existed before the pandemic. This would be on top of 1,400 positions that are already in the process of being eliminated, in order to close a $167 million budget hole in FY 2021, Wiedefeld said.

D.C.'s proposed changes are not inevitable. A swift vaccine distribution and accompanying economic recovery could be cause for dialing back some of the cuts, Wiedefeld said, as would the prompt arrival of a second relief package from Congress.

On Tuesday, a bipartisan group of senators outlined a $908 billion stimulus that includes $15 billion for public transit — less than half of what public transit advocates say is needed. That amount may be the best-case scenario for federal transit funding. In a major concession, Democratic leaders have backed the bipartisan proposal, but Senate Majority leader Mitch McConnell rejected it and is pushing instead a version of a bill he previously failed to pass that includes no funding at all for transit.

Transit leaders say that $15 billion in aid would be better than nothing. Chad Chitwood, a spokesperson for the American Public Transportation Association, which is calling for $32 billion in transit funding, called it a "promising step in the right direction."

But officials stressed that it would not be enough to return to full service levels, or even to avoid some of the harshest cuts currently taking shape. Assuming that his agency received the same portion from a $15 billion relief fund as it did from the CARES Act in March, San Francisco Municipal Transportation Agency director Jeffrey Tumlin said it would fail to prevent the nearly 22% reduction in workforce and dramatic service cuts that the agency projects will be necessary to close the $600 million in losses it faces over the next two years.

"It's good but it's worse than our worst-case scenario that is leading us to 1,200 layoffs," he said of the possible relief funding, explaining that $15 billion would not put the agency over the threshold for aid that it says it requires to avoid those cuts.

In an SFMTA board meeting on Tuesday, Jonathan Rewers, a senior budget manager at the agency, clarified what would be necessary. "Only at the highest amount — the amount in the HEROES Act — do we have a chance at closing the deficits we project over the next two years," he said. That earlier more robust HEROES Act proposal would have funded transit at the requested $32 billion.

The $15 billion figure in the stimulus agreement represents a middle ground between proposals from both sides, according to a spokesperson for Senator Mark Warner, a Virginia Democrat who represents areas served by WMATA and is one of the authors of the compromise. WMATA's proposed cuts "will have a dramatic effect on the functions of the federal government as well as for constituents across the tristate area," Warner said at a press conference Tuesday. "So we made, I think, the right kind of investment in public transit."

The distribution of those funds will also be important, advocates said. The CARES Act distributed $25 billion to public transit agencies and has enabled many systems to continue operating this far. But those resources were never designed to last forever, and for big-city agencies with budgets that rely heavily on passenger revenues, they dwindled faster.

For example, New York City's Metropolitan Transportation Authority — far and away the largest transit operator in the U.S.— received $3.9 billion in CARES relief, or slightly more than 15% of the available aid. Yet it carries 34% of the nation's metro rail and bus trips, according to APTA data, and the money lasted just four months. The agency now warns it will need to cut subway and bus service by 40% and commuter rail by 50% and lay off more than 9,000 workers if the federal government fails to allocate $12 billion.

"We need to get the size of the pot right and the distribution right to save America's cities," said Danny Pearlstein, the policy and communications director at Riders Alliance, an advocacy group in New York City. To highlight what he called the inadequacy of the $15 billion figure, he added: "There would only be $3 billion left once MTA gets its twelve."

In Washington, D.C., Wiedefeld said that his agency would need more than $700 million to return to normal levels of operation and reverse all staffing and service cuts. In addition to the exact amount, timing matters, too, with more than 10% of the agency's workforce already hanging in the balance, Wiedefeld said.

"If we don't get a significant amount from Congress, or it doesn't come until late in the first or second quarter of the year, it will be hard to pull this back," he said. "If money came immediately to pull back 1,400 jobs, I'd do that. But if that does not occur until April or May, they're already gone. Then I'm trying to save jobs for the next fiscal year."

At the current trajectory, the agency projects ridership to return to 34% of its 2019 levels by June 2022 and to take years to fully rebound.

Until then, "we have to live under a balanced budget with no other resources to turn to," Wiedefeld said. "This is the reality of what we're up against."

The impact of the proposed cuts on the D.C. economy would be difficult to overstate. The transit system outlines the region's future, with one 2015 study estimating that 78% of the next 15 years in planned commercial, residential and retail construction would occur within a half-mile of a Metro station. It's not clear what would become of those blueprints if service was gutted. In addition to weekday commuters, the D.C. rail system is also a mode of choice for millions of annual visitors to the region's monuments and museums; cuts to weekend service would stymie the return of that tourism.

"Anyone who comes here from around the globe uses our system, so it does reflect at a national leve l," Wiedefeld said. "What does this reflect when the nation's capital can't provide a fundamental service that major metropolitan areas provide worldwide?"

Yet these challenges reflect similarly grim forecasts in other U.S. cities. In the New York City region, the MTA's proposed cuts would result in an estimated loss of $65 billion in gross domestic product annually and cost 450,000 jobs in the area by 2022, according to a report by the NYU Rudin Center for Transportation Policy and Management and New York-based consulting firm Appleseed.

The changes will make it difficult for the MTA to bring back riders to its network of subways, buses and commuter trains as other transportation options will become more attractive, Pat Foye, the agency's chief executive officer, said in an interview last month with Bloomberg TV.

"Cutting it back also will cause some of our customers to say, 'you know what, it's not worth it,'" he said. "We won't get their revenue. We won't get their service and that's just a terrible place for any transit agency to be."

Meanwhile, D.C. buses have continued to serve roughly 200,000 daily riders, or about 40% of normal ridership, which is a much larger portion than the rail system has seen. Ron J. Thompson Jr., a transit equity organizer at the advocacy group Greater Greater Washington, said that cuts could strand low-income bus riders from jobs, school, groceries and healthcare. As the region pulls itself out of the Covid-19 recession, he said, "you're setting us up for one of the most uneven recoveries, ever, in our nation's history."

Bloomberg CityLab

By Laura Bliss

December 3, 2020, 3:24 PM PST Updated on December 4, 2020, 2:21 PM PST

— With assistance by Michelle Kaske

[The MTA Could Be the Last to Tap the Fed’s Muni Facility. Wall Street Watchers Fret Its End.]

New York’s Metropolitan Transportation Authority is on track to grab one last slug of federal pandemic aid before it and other public authorities lose a key source of relief at year’s end: the Federal Reserve’s municipal lending program.

The MTA said it plans to sell nearly $3 billion in bonds by the end of the year to the Fed’s Municipal Liquidity Facility, a move that will help the agency cope with a plunge in ridership and close a $1.1 billion budget deficit this year, according to a presentation from CFO Robert Foran at a Nov. 18 board meeting.

Five Fed programs will expire at the end of this year, even as Covid-19 cases soar and some state governments impose partial shutdowns to control the virus’ spread. The programs were created or revived earlier this year to provide a financial bridge for a wide range of institutions affected by the pandemic.

Several facilities were designed for the large banks, bank trading desks, and money-market funds that were squeezed during the short-term rush for cash in the early stages of the pandemic. Yet the programs that are closing mostly cover borrowers that could face financial pressure over a span of years, such as large corporations, midsize businesses, nonprofits, and state and local governments.

Municipal-market and Wall Street strategists have argued that the MLF in particular should be extended, because it can take months or even years for state and local governments to experience the full impact of recessions on their budgets from trends such as declines in property values. Municipalities are required to file 30 days in advance before they tap the facility, meaning that any other eligible state or local government that wants to borrow from the Fed has until Nov. 30 to file their own notice of interest.

“We still don’t know what the next three, four, five, or even six months will look like. It makes sense to me that they extend it just in case there are high levels of shutdowns or something unexpected happens,” said Tom Kozlik, head of municipal strategy and credit with Hilltop Securities. “I think [the municipal lending] program was set up for such an event. And it should be extended.”

It wasn’t. In a letter last week calling to Fed Chairman Jerome Powell to let the programs expire and return unused funds, Treasury Secretary Steven Mnuchin said that he believes the Fed’s programs were successful, citing declines in yields on highly rated municipal bonds. And in a response published Friday, Powell said that the Treasury does have the option of using existing funds for “any Federal Reserve lending facilities that are needed to maintain financial stability and support the economy.”

Still, muni bonds haven’t rebounded to prepandemic levels, unlike corporate debt markets. The iShares National Muni Bond exchange-traded fund (ticker: MUB) has climbed about 15% since the end of March, compared to the iShares iBoxx $ Investment Grade Corporate Bond ETF’s (LQD) roughly 30% rally.

Citigroup strategist Vikram Rai, another vocal supporter of extending the MLF, said in a Nov. 23 note that he thinks the Treasury made the wrong call. “For now, the markets have largely brushed off the announcement, which is expected. But it would be easier to trigger weakness and volatility. For [example], say a high-profile deal faces weak demand,” he wrote. “It could be enough to have a ripple effect and fan investor fears—this in turn could cause volatility spikes."

Mnuchin also pointed out that only two state and local governments had used the facility as of Oct. 31: The MTA and the state of Illinois. Their borrowing combined adds up to a combined $1.7 billion, though that sum will rise to $4.6 billion after the MTA's next planned use of the facility. That is indeed small compared to the broader market, which totals $3.9 trillion.

But strategists say that the MLF didn't need to be used extensively to provide a backstop to the market.

"The importance of the MLF was always the fact that it was there, even if it wasn't going to be used," said Tom McLoughlin, fixed-income strategist at UBS. "As a consequence, it calmed a lot of nervous investors that there was this opportunity to borrow as a last resort."

Barron's

By Alexandra Scaggs

Nov. 24, 2020 6:30 am ET

[From Service Cuts to Budget Shortfalls: What Is in Store for American Transportation Agencies?]()

With a continued historic decline in ridership numbers and no additional federal help in sight, American transportation agencies are facing some serious fiscal challenges.

These transit agencies, once considered the backbone of metropolitan economies and moving a large number of passengers to and from work, are now running virtually empty with no real solution in sight for the foreseeable future. Although the recent news about a COVID-19 vaccine provided a glimmer of hope for many local and state economies, transportation agencies still have a long way to go before reaching their pre-pandemic ridership numbers and getting back to some state of normalcy. Furthermore, given the vital role transportation agencies play in metropolitan mobility, shutting down isn't an option for any of them.

In this article, we will take a closer look at the current challenges for American transportation agencies and what the future holds.

[Continue reading.]()

municipalbonds.com

by Jayden Sangha

Nov 25, 2020

['Existential Peril': Mass Transit Faces Huge Service Cuts Across U.S.]()

Reeling from the pandemic, transit agencies are grappling with drastic reductions in

ridership and pleading for help from Washington.

In Boston, transit officials warned of ending weekend service on the commuter rail and shutting down the city’s ferries. In Washington, weekend and late-night metro service would be eliminated and 19 of the system’s 91 stations would close. In Atlanta, 70 of the city’s 110 bus routes have already been suspended, a move that could become permanent.

And in New York City, home to the largest mass transportation system in North America, transit officials have unveiled a plan that could slash subway service by 40 percent and cut commuter rail service in half.

Across the United States, public transportation systems are confronting an extraordinary financial crisis set off by the pandemic, which has starved transit agencies of huge amounts of revenue and threatens to cripple service for years.

The profound cuts agencies are contemplating could hobble the recoveries of major cities from New York to Los Angeles and San Francisco, where reliable transit is a lifeblood of the local economies.

Trains and buses carry the office workers, shoppers and tourists who will help revive stores, restaurants, cultural attractions, hotels and other key businesses that have been battered by the outbreak.

The financial collapse of transportation agencies would especially hurt minority and low-income riders who tend to be among the biggest users of subways and buses.

For months, transit officials around the country have pleaded for help from the federal government, but with no new lifeline forthcoming and many systems facing December deadlines to balance their budgets, agencies have started to outline doomsday service plans that would take effect next year.

A glimmer of hope emerged in recent days, when a bipartisan group of lawmakers in Congress proposed $15 billion for public transit agencies as part of a $908 billion framework for a pandemic-relief package.

The plan, which President-elect Joseph R. Biden Jr. has said he supports, would provide nearly half of the $32 billion that transit leaders have lobbied for in recent months and that is intended to provide short-term relief.

But it has yet to be endorsed by Senator Mitch McConnell of Kentucky, the Republican majority leader, who has proposed a smaller stimulus plan that contains no financing for public transit. On Friday, Nancy Pelosi, the House speaker and a Democrat, expressed optimism that a compromise deal could be achieved before the end of the year.

Even if they receive some aid, transit agencies in some large cities have experienced such severe financial losses that officials say they will be forced to pare back service to save operating funds while serving riderships that are far below normal levels.

It is unclear whether ridership will ever fully return to pre-pandemic levels even after effective vaccines become widely available. Some commuters may end up working from home permanently; others may abandon public transit if cuts cause service to deteriorate.

“This is existential peril,” said Ben Fried, a spokesman for TransitCenter, an advocacy group.

“The economic rationale for cities is that people are in close proximity and can do a lot of things without spending a lot of time traveling from place to place," Mr. Fried said. "If the transit network is seriously diminished in a dozen or so cities that are a focal point for a large share of the nation's economic output, then that's going to have severe impacts on the national economy."

Since the pandemic swept across America in the spring, bringing urban life to a standstill and ushering in new work-from-home norms, nearly all of the sources of money that public transit relies on have been pummeled.

Ridership, and fare revenue along with it, vanished practically overnight after lockdown orders were enacted. As the economy slid into recession, the sales and income tax revenue used to finance many transit networks plunged. And cities and states sunk into their own financial crises, threatening government subsidies for public transit systems.

New York City's transit agency, which is grappling with the biggest losses of any system in the country, forecasts a $6.1 billion deficit next year. Officials in Boston are dealing with a $600 million budget hole, and Chicago's agency anticipates a $500 million shortfall.

By September, nationwide ridership on mass transit had crept back to nearly 40 percent of its pre-pandemic levels from a low of 19 percent in April, according to the American Public Transportation Association, a lobbying group.

But the numbers have plateaued in recent weeks as the virus surges throughout the country, making this the longest and most severe period of suppressed ridership for any of the nation's public transit systems.

In New York, ridership is at 30 percent of pre-pandemic levels, while on rail lines in Washington and San Francisco, it is below 15 percent of its usual levels.

"The effect on ridership in each of our agencies — subway, buses, Metro-North, Long Island Railroad — is dramatically worse than even in the Great Depression," said Patrick J. Foye, chairman of the Metropolitan Transportation Authority, which runs New York City's subway and buses and two commuter railroads.

Many big city systems rely on fare revenue more heavily than their counterparts in smaller cities and rural areas and have tended to get a smaller share of federal support relative to their size.

Fares contribute 70 percent of the operating budget in San Francisco, 40 percent in New York and Washington and about 33 percent in Boston.

There is no legislative text yet for the bipartisan proposal that Republican and Democratic Senators are now negotiating, nor are there specifics for how the transit aid would be divided among agencies.

"This is not limited to big, urban cities and states — lots of rural areas depend on buses that also get federal funding — so it has some degree of bipartisan support," Senator Chuck Schumer of New York, the Democratic minority leader, said in an interview. "But there are some who have never wanted any federal help for mass transit and that's who we are up against."

The stimulus package that is being negotiated is likely to face opposition from some liberal lawmakers who consider it insufficient and some conservatives who are unwilling to add to the national debt.

"The real answer to the economic problems is to get rid of what causes the economic problems and they're caused by economic dictates from governors that forbid commercial activity," Senator Rand

Paul, Republican of Kentucky, told reporters on Tuesday. “I’m not for borrowing any more money.”

When transit agencies have faced financial shortfalls in the past, they have typically turned to city and state governments or they have lobbied elected officials for new sources of revenue like dedicated taxes.

But many municipal and state governments are grappling with their own financial problems, forcing transit agencies to look to Washington.

“Unlike some other transit properties, we don’t have our own revenue source, we have two sources of revenue, it’s either the farebox or the subsidies from our local and state government,” said Paul J. Wiedefeld, the general manager of the Washington Metropolitan Area Transit Authority. “They are both under tremendous financial distress right now, so where do we turn?”

Many urban transit systems have exhausted the money they got from an earlier federal stimulus bill and have also imposed service cuts.

In New York, overnight subway service has been suspended since May. In Los Angeles, bus service has been slashed nearly 30 percent and rail service has also been cut. And the Bay Area Rapid Transit rail system in San Francisco has ended late night service and pushed wait times for trains from 15 to 30 minutes.

The cuts have helped stabilize operations and allowed them to continue providing at least limited service. But officials warn that the cutbacks could become permanent and that more could be added at the beginning of next year, a devastating prospect for the essential workers and low-wage riders who continue to rely on public transit.

Around 2.8 million American workers in essential industries like health care, grocery stores and pharmacies used public transit to get to work in 2018, according to an analysis of census data by the TransitCenter. That was 36 percent of all transit commuters in the U.S. work force that year, the group said.

“We have been the ones that have kept the economy of this country afloat because we do not have the luxury to work from home,” said Mayra Romero, 43, a restaurant worker in Boston who travels by bus from her home in nearby Chelsea, Mass. “We have been the ones who have been risking our lives and exposing ourselves.”

Margaret Dunn, who lives in Clinton, Md. and works at a hotel in Washington, used to work until midnight before she was laid off in March. Now, as she waits for a call to return to her job, she worries that service cuts could leave her with few travel options once her shift ends.

“We direly need some help.” she said, adding that she may have to rely on Uber or her husband to drive her.

In Washington, transit officials say that if the system receives sufficient federal assistance they will revive service as much as possible to help coax riders back as vaccines are distributed and the cadence of normal life begins to return.

But in other cities, additional federal aid may not guarantee the return of service. In Boston, New York and San Francisco, transit officials have said they plan to recalibrate service to match what they expect to be long-lasting, depressed levels of ridership.

“With the first tranche of money we got, we immediately put it in place to plug the budget gap because there was so much uncertainty, but as a consequence that money will run out this fiscal year," said Steve Poftak, the general manager of the Massachusetts Bay Transportation Authority, which serves the Boston area. "We want to do as much as we can in this period of low ridership so we have a reserve in place that we can apply to fiscal year 2022."

"That's been our approach," he added. "Preserve our service now, but also keep an eye toward the future."

Transit experts worry that with more cuts public transportation agencies could plunge into a "death spiral," where increasingly unreliable service keeps riders away, pushing systems deeper into financial distress.

With public health officials expecting the distribution of vaccines to begin early next year, agencies could wind up cutting service just as riders return to their commutes.

"Transit is not going to be there for people at the exact moment they are ready for transit again," said Nick Sifuentes, executive director of the Tri-State Transportation Campaign, an advocacy group. "We are looking at millions of people getting ready to head back to their workplaces and the thing they relied on to get there won't be reliable anymore."

The New York Times

By Christina Goldbaum and Will Wright

Dec. 6, 2020

Fitch: Coronavirus Muddies 2021 Outlook for U.S. Transportation Infrastructure

Fitch Ratings-New York-02 December 2020: U.S. transportation infrastructure faces a mixed outlook for 2021 with some segments returning to pre-pandemic levels quicker than others, according to Fitch Ratings in its 2021 outlook report for ports, toll roads and airports.

Fitch's 2021 Sector Outlook for U.S. transportation infrastructure is Improving, while Fitch's 2021 Rating Outlook is Negative. The Sector Outlook reflects Fitch's expectation for improved performance in 2021 as compared to 2020 for the two largest sectors – Airports and Toll Roads. "Toll roads and cargo ports are expected to recover to 2019 levels by 2022," said Senior Director Emma Griffith. "By contrast, airports and cruise ports face a more uphill battle with recovery not likely to materialize until 2024 or perhaps even later." The Negative Rating reflects 57% of U.S. transportation ratings carrying Negative Outlooks or Watches.

Cargo-focused ports have outperformed Fitch's expectations thus far, though performance will face pressure in 2021 due to a worsening economy and delays in fiscal stimulus. Conversely, the CDC's no-sail order in place for much of this year has severely hampered performance for cruise ports with pre-pandemic recovery not likely for several years.

Another resilient sector has been toll roads with traffic levels largely returning to pre-pandemic levels before leveling off somewhat last quarter. "Whether traffic recovers or backslides depends upon the path of the virus and related lock-downs, especially regarding commuter traffic from office workers," said Senior Director Scott Monroe.

The segment that may face the most formidable challenge over time is airports due to the unprecedented drop-off in passenger traffic. “Strong fee setting flexibility and liquidity will keep most airports numbers stable, though time will tell if that will be enough to sustain them with pre-pandemic recovery in passenger traffic to remain elusive for several years,” said Senior Director Seth Lehman.

‘Fitch Ratings 2021 Outlook: U.S. Transportation Infrastructure’ is available at ‘www.fitchratings.com’.

Contact:

Emma Griffith
Senior Director
+1 212 908 9124
Fitch Ratings, Inc.
300 W 57th St
New York, NY 10019

Seth Lehman
Senior Director
+1 212 908 0755

Scott Monroe
Senior Director
+1 415 732 5618

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

The Fastest-Growing Fixed Income Sector: Taxable Muni Bonds

With a Joe Biden administration looming, municipal bonds have been in play for fixed income investors. One pertinent idea is a taxable municipal bond, the focus of the Invesco Taxable Municipal Bond ETF (BAB).

BAB seeks to track the investment results of the ICE BofAML US Taxable Municipal Securities Plus Index. The underlying index is designed to track the performance of U.S. dollar-denominated taxable municipal debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. market.

According to Investopedia, taxable municipal bonds are “issued by a local government, such as a city, county, or related agency, to finance projects that the federal government will not subsidize, and it is not tax exempt.”

As its namesake suggests, the BAB ETF hearkens to Build America Bonds (BAB), which, courtesy again of Investopedia, “were created under the American Recovery and Reinvestment Act (ARRA) of 2009 and, although taxable, have special tax credits and federal subsidies for either the bond issuer or holder. Taxable municipal bonds are popular among institutional investors and mutual funds that cannot take advantage of other tax breaks."

Continue reading.

ETF TRENDS

BEN HERNANDEZ

DECEMBER 2, 2020

Demand for Taxable Munis To Continue in 2021: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence: stimulus talks revived and 2021 outlook for munis. Hosted by Paul Sweeney and Vonnie Quinn.

Listen.

Bloomberg Radio

December 4, 2020 — 10:29 AM PST

Why Taxable Municipal Bonds Are Booming and How to Invest in Them.

Municipal bonds and tax-exempt debt are no longer synonymous. Taxable municipal bonds are the fastest-growing sector in U.S. fixed income. This year, issuance has totaled more than $170 billion, double the $85 billion sold in all of 2019. The total market has grown to $700 billion—sizable but still below the $3.7 trillion tax-exempt muni market.

Taxable munis offer an attractive alternative to corporate bonds, with higher yields and lower historical default rates. The market's obscurity is part of the reason for yields that can be 0.5 percentage point to 1.5 percentage points higher than those of similarly rated corporate debt.

"Issuance has exploded, and we expect that trend to continue. It's about 35% of total municipal issuance," says Peter Hayes, head of the municipal bond group at BlackRock. "Investor appetite is growing domestically and internationally."

Continue reading.

Barron's

By Andrew Bary

Nov. 27, 2020 11:36 am ET

BAB: Taxable Munis Still Offering Value

Summary

- Taxable munis offer higher after-tax yields for everyone but those in the highest tax brackets, compared to tax-exempt munis.
- With markets hitting new highs, taking on less risk seems prudent. As a non-leveraged ETF, BAB offers a path to do so.
- Municipals should perform well in 2021, if states and cities get federal relief, which is more likely under a Biden administration.

Continue reading.

Seeking Alpha

Nov. 25, 2020

Future Returns: Insured Munis Offer Stable Income and Peace of Mind

Investors have had plenty to worry about in 2020, and this is particularly true for anyone who counts on municipal bonds to generate stable and, in many cases, tax-free income for their portfolios.

Covid-19 has put pressure on a wide range of municipal bond issuers, from state and local governments, to universities, senior housing facilities, and convention centers. While there has been an uptick in defaults, it's a long way from the doomsday scenarios that made headlines early this year.

For one thing, the initial analysis of muni defaults was done at the height of Covid-19 shutdowns in March, say Bob DiMella and John Loffredo, co-heads and co-chief investment officers of MacKay Municipal Managers. Meanwhile, not every segment of the market has been squeezed. Public utilities have held up well, while public schools should benefit from continued strength in the housing market. Pension plans, meanwhile, have gotten a lift from the surging stock market.

Still, for many investors—especially those who buy and hold individual bonds—municipal bonds with an insurance wrapper may be worth a closer look.

"It's a bond with a belt and suspenders," DiMella says. "You've got the underlying credit, plus you've got this financial guarantor as a second backstop."

Bond Insurance Makes a Comeback

As the name suggests, bond insurance guarantees that principal and interest for a municipal bond will be paid in the event that the issuer defaults. Such insurance was widely used before the financial crisis, DiMella says, when a handful of companies insured roughly 60% of all new issues in the municipal bond market.

"It basically fell off a cliff after the crisis, with insurance wrappers representing a small percent of the market," he says.

Insured municipal bonds had seen a slow resurgence over the last couple of years, but the Covid-19 pandemic has spurred new demand, with insured munis now representing about 10% of new muni bonds. More large and high-quality issuers are offering an insurance component on new bonds in order to quell investor angst about rating downgrades and defaults. Two companies, Assured Guaranty and Build America Mutual, insure most bonds today.

"Investors get the benefit of stable ratings, increased liquidity, and less volatility," Loffredo says.

Small Price for Peace of Mind

Insurance, of course, is never free. On average, investors will give up between 10 and 20 basis points (1/10th and 1/20th of a percentage point) of yield for muni bonds wrapped with insurance. While some investors will balk at this tradeoff, especially in a low-yield environment, buy-and-hold investors may find that it's money well spent.

"You don't have to sacrifice a lot of yield to get the benefit of stable cash flow," says Loffredo, who notes that high-net-worth clients and family offices have shown an increased interest in insured munis as of late.

Still Opportunity for Upside

At the same time municipal bond insurance is an inexpensive option for investors who hold bonds to maturity, active investors may also have the potential for price appreciation.

"We would make the argument that there is a lot more value today than there was at the beginning of the year," DiMella says. "In many cases they're wider than they've been in many years."

When the market first sold off this spring, virtually every segment of the muni market was impacted. Insured munis recovered faster than equivalent bonds, but spreads—the difference in muni yields versus comparable Treasuries—for triple-B-rated insured munis are still higher today than they were at the beginning of this year.

In fact, the spread for the insured index versus 10-year Treasuries began the year at 20 basis points and rapidly widened to 190 basis points during the market crisis this spring. They have since narrowed to 99 basis points, but the gap is still higher today than before the crisis, suggesting that yields should come down—and bond prices should move up.

Barron's

By Sarah Max

Dec. 1, 2020 12:13 pm ET

Premium Bonds As a Cushion for Rising Rates.

In the mid-1990s, the United States was emerging from a recession and facing unbalanced budgets, a transition of political party in the White House, and a slower-than-normal economic recovery in the wake of the Gulf War. (Sound familiar?)

I recall discussing the situation and its financial implications with my then business partner as we commuted across the Golden Gate Bridge. More than two decades later, I have a strong sense of Deja-vu as we evaluate clients' financial strategies in light of similar circumstances today.

As fixed income and muni market rates rise, the value of bonds go down. Municipal bond investors have a heightened awareness of the inverse relationship between interest rates and bond prices, but their knowledge of bonds, prices, yields and an extra dose of patience can be an advantage; they understand interest rates eventually will rise again.

For now, the Fed is planning to hold rates at near zero until labor markets reflect more maximized employment and inflation can reach 2% for some time. In this low interest rate environment, more bonds are being issued at premiums for sound reasons, and premium bonds can be used to help stabilize municipal bond values over time – if investors take time to understand them. When purchased correctly, premium bonds can work well in a portfolio and offer reasonable income solutions.

Continue reading.

municipalbonds.com

by Wayne Anderman CFP® MBA

Nov 26, 2020

S&P: Approval Of Nontraditional Revenues Dominates Recent Ballot Measures For U.S. State And Local Governments.

Key Takeaways

- Legalization of gaming and drugs continued to expand, with seven states approving new or additional taxing power from nontraditional revenue sources.
- Results from income tax increases were mixed, with the three major initiatives resulting in three different outcomes.
- Only two states had bond referendums on the ballot this year, but they all passed.
- Highlights from local government elections include some changes in property tax exemptions and police reforms in light of recent demonstrations across the country.

Voters weighed in on statewide ballot measures in 22 states on Nov. 3. Many of these were approved, with a clear preference for increasing "sin tax" revenues from gaming and legalized drugs. At S&P Global Ratings, our primary focus on ballot results is how credit quality could be affected; this generally stems from revenue increases and decreases, or a notable rise in expenditures. As more states turn to nontraditional revenue sources to support operations, we are also watching the long-term trend and stability of the new revenues.

Widespread Support Of Nontraditional Revenue Sources Including Gaming/Sports Betting, Marijuana

In recent years, various states have looked to legalization–and subsequently taxation–of retail marijuana. This seemed to continue with overwhelming support from voters, as all such measures on the ballots across the country passed. Arizona, Montana, New Jersey, and South Dakota approved the legalization of recreational marijuana, while voters in Mississippi and South Dakota approved medical marijuana programs. Colorado legalized marijuana some years ago, but this November asked voters for an increase in the nicotine tax, and Oregon increased taxes on tobacco products.

We expect that more states will pass measures like this but expect their overall effect on state finances to be marginal. Additionally, as more states legislate these kinds of revenues, we expect that as legalization of marijuana becomes more widespread, the growth of revenues from these taxes will slow over time as marijuana becomes more readily accessible. (See our report, "Is Marijuana Legalization The Answer To States' Budget Pressures?," published Feb. 21. 2019, on RatingsDirect)

Measures to expand gaming and betting also received support, with Nebraska approving three measures including enacting taxes on racetrack activities. Maryland and South Dakota also expanded gaming activities within the states. While not a statewide measure, Louisiana's voters approved sports betting in a majority of its parishes. All states that permit commercial casino gaming levy some form of wagering tax on adjusted gross receipts or gross gaming receipts less any payout for prizes.

Although none of these nontraditional sources make up significant components of a state's revenue, we do view the diversity of revenue sources as a net positive.

Mixed Results For Income Tax Changes

Three states had income tax changes on the ballot (Arizona, Colorado, and Illinois). While a voter initiative to reduce income tax rates passed in Colorado (to 4.55% from 4.63%), in Arizona voters approved an initiative to increase income tax on residents with incomes above $250,000. The measure sets up a separate tax bracket for residents that would increase the top rate to 8% from 4.5% on incomes above $250,000 (or $500,000 for joint filers). The additional revenue derived from the increased tax rate will be used solely to fund education.

Additional revenues at the state level can bode well for state revenue sharing for schools and local governments, and results for state-level tax increases varied. When revenue increases at the state level either enhance—or stave off cuts—to locals, the credit impact can be net positive.

Illinois voters did not approve a legislative measure to replace the state's flat income tax rate with a graduated income tax, which would have been significant in addressing the state's current budget challenges. (For additional information, see our summary report for Illinois published Oct. 7, 2020.) Limited support for increased income taxes is not surprising, particularly during an economic contraction. However, if this trend continues, states will have to look to other options to balance budgets as the effects of the COVID-19 pandemic on state revenues contribute to varying degrees of budget and liquidity stress across states.

There is no immediate credit impact for local governments in Arizona, Illinois, or Colorado as a result of the electorates' vote on income tax, but we are watching how it could affect local operations over the long term.

Few Requests For State Bond Issuances During A Tepid Economic Recovery

Two states, California and New Mexico, included new bond authorization questions this year, unlike in 2018 when six states had bond authorizations on the ballot. New Mexico was successful, as was California. Such authorizations can provide funding for various programs, taking advantage of favorable market conditions. In our view the decline of bond authorization measures could reflect the uncertainty of the recovery from the recent COVID-19 induced recession. S&P Global Ratings has noted that in the decade following the Great Recession state governments generally reduced their overall debt burden. (See "Infrastructure After COVID-19: Risk Of Another Lost Decade Of U.S. State Government Capital Investment," Oct. 2, 2020.)

Local Government: Some Shifts In Who Bears The Property Tax Burden

Across the U.S., voters approved multiple statewide measures that resonate down to the local government level. This includes some indication of an incremental shift in property taxpayers from residents to business, such as more homestead exemptions for segments of society such as veterans and senior citizens. Measures supporting these changes passed in Florida, Virginia, Louisiana, and New Jersey. These changes also represent a shift to more support for the social 'S' in ESG. Exceptions to this include votes in California and Colorado where voters decided not to shift the property tax burden more heavily to businesses:

California's property tax regime under Proposition 13 remains intact: A proposed seismic shift that would have changed the manner in which assessed valuations are determined for business properties (Proposition 15) was narrowly defeated, while amendments to Proposition 13 at the margins, such as those that benefit seniors, continue to be approved (Proposition 19).
Repeal of the Gallagher Amendment in Colorado (Amendment B) resulted in stopping residents' property tax rollbacks which had ultimately shifted more burden to businesses.

Local Law Enforcement Reforms

Following a summer marked by police protests in the wake of the May killing of George Floyd in Minneapolis, 14 cities and counties had elections addressing policing policies and procedures. Questions were on the ballot in seven states, from California to Ohio. Initiatives designed to change police duties, limit general funds spent on police operations, establish oversight boards and improve transparency found broad support in jurisdictions across the U.S., with 15 of 20 passing. For the most part, the changes are not expected to affect credit quality. However, should they result in notable revenue or expenditure changes that affect a jurisdiction's financial position, there could be an impact.

This report does not constitute a rating action.

[Fitch Ratings Releases U.S. Public Finance Transition and Default Study.]

Related Fitch Ratings Content: [U.S. Public Finance 2019 Transition and Default Study]

Fitch Ratings-New York-17 November 2020: U.S. Public Finance rating activity was largely positive in 2019, resulting in downgrades trailing upgrades by a ratio of 0.6 to 1, according to a recently published study by Fitch Ratings. However, USPF rating activity through October 2020 reversed the positive trend, with downgrades exceeding upgrades by 1.7 to 1.

U.S. Public Finance accounted for one speculative grade default in 2019, the charter school Cambridge Academy East, AZ, with debt issued by the Industrial Development Authority of Pima County, AZ. The resulting 2019 U.S. Public Finance default rate was 0.03%.

The average annual default rate remained low at 0.04%, across the historical 1999-2019 period.

This new study provides transition and default analysis on Fitch's U.S. Public Finance ratings in 2019 and over the long-term period from 1999-2019. The report provides summary statistics on 2019's key U.S. Public Finance rating trends.

The full 'U.S. Public Finance 2019 Transition and Default Study' is available at www.fitchratings.com.

Contact:

Charlotte L. Needham
Manager, Senior Director
+1 212 908-0794
charlotte.needham@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 57th St.
New York, NY 10019

Laura Porter
Managing Director, U.S. Public Finance
+1 212 612-7850
laura.porter@fitchratings.com

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch Ratings Updates Criteria for US NFP Hospitals & Health Systems and State Revolving Funds.

Related Fitch Ratings Content:

- U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Rating Criteria
- U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria

Fitch Ratings-Austin-18 November 2020: Fitch Ratings has made minor updates to its ‘U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria’ as part of the routine criteria review process. This update replaces the criteria report of the same name published in November 2019.

The changes are not substantive in nature and include updates to language regarding leases and official acceptance of the Portfolio Analysis Model (PAM) to conduct portfolio sensitivity analysis.

Fitch has also made minor updates to its ‘U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Rating Criteria.’ The update replaces the Fitch Analytical Stress Test (FAST) model with PAM as the model used to conduct portfolio analysis, where appropriate.

Fitch does not expect any impact on existing ratings from the updates to either criteria.

Contact:

Kevin Holloran
Senior Director
+1 512 813 5700
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

Major Parkhurst
Director
+1 512 215 3724

James Batterman, CFA (PAM)
Senior Director
+1 212 908-0385

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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

Read the S&P Report as of 11/17/20.

GFOA Elected Official's Guides - Understanding the Fiscal Health of Your Community

GFOA's elected official's series contains popular booklets providing practical and easy-to-understand explanations – in plain language – on a variety of public finance topics. Each one provides a thorough introduction to a single topic. An affordable price structure and quantity discounts make these booklets ideal for distribution to newly elected officials, government employees, citizen and taxpayer groups, the media, and others interested in local government finance.

Understanding the Fiscal Health of Your Community

Prepared leaders make effective policy. Elected officials who understand the language and concepts of public finance can better assess the fiscal health of their communities.

Purchase the guide.

S&P: The Post-Election Landscape For U.S. Public Finance

Read the S&P Report.

U.S. 2020 Election Investment Pulse: Neutral To Positive For Municipals.

Summary

- Many of the policies that a president will ultimately decide can be impactful. For example, tax policy, which could impact a state or local government's ability to raise their own taxes and impact demographics. But another impact is that it can also increase the attractiveness of munis as an asset class for investors.

- Regardless of how the two Georgia Senate runoffs are decided, we really don't expect Democrats to have the majority in the Senate that they really need to help Biden carry his policies through at the level he wanted. So we do expect there to be some gridlock, and that could hamper some of his policies.
- We're expecting additional stimulus, which should help stabilize some of the issues at the state and local levels. And then, we did see a lot of bond measures pass in the November ballot. And so, we expect there to be more bonds.

Continue reading.

Seeking Alpha

Nov. 19, 2020

Fitch: US Election Largely Credit-Neutral to Healthcare Sectors

Fitch Ratings-New York-17 November 2020: US election results are neutral to the credit profiles of corporate, not-for-profit and insurance issuers in the healthcare sector but legislative uncertainty remains, says Fitch Ratings. A divided Congress, due to a presumptive Republican-controlled Senate will translate into legislative gridlock but there is potential for some compromise, given President-Elect Joseph Biden's long career in the Senate. The fate of the Affordable Care Act (ACA) and support for Biden's healthcare proposals in the Senate are key credit-related items to watch.

Prior to the election, Fitch's U.S. corporates, not-for-profit and health insurance analysts studied the credit implications of three electoral outcomes. The scenarios were the status quo, reflecting a Donald Trump victory and a Republican-controlled Senate; a Democratic-party sweep, where Biden wins and Democrats control Congress; and a divided government, where the Presidency and Congress are controlled by different political parties. The Republicans currently hold a 52-48 majority in the Senate. If Democrats, which already control the House of Representatives, win the two Senate seats in the January runoff, they would also control the Senate due to Democratic Vice-President-Elect Kamala Harris' ability to cast tiebreaking votes.

Healthcare policy proposals outlined by Biden aim to build upon the ACA, which is being challenged before the Supreme Court of the United States (SCOTUS), but some proposals may still be viable even if the ACA does not survive. A decision on whether to strike down or uphold the law is anticipated by mid-2021.

Biden's proposals include expanding coverage, lowering healthcare and prescription drug costs and ending surprise billing. Bipartisan support on some less controversial proposals, including curbs on surprise billing and lowering drug prices, may be possible. The addition of a public insurance option and lowering Medicare's age eligibility seem less likely, given the pandemic's negative impact on the federal budget.

Contact:

Megan Neuburger, CFA
Managing Director, US Corporate Finance
+1 212-908-0501

Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10002

Bradley Ellis, CFA
Senior Director, North American Insurance
+1 312 368-2089
Fitch Ratings, Inc.
One North Wacker Street
Chicago, IL 60602

Kevin Holloran
Senior Director, US Public Finance
+1 512 813-5700
Fitch Ratings, Inc.
111 Congress Avenue
Austin, TX 78701

Carla Norfleet Taylor, CFA
Senior Director, Fitch Wire
+1 312 368-3195

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

S&P: The Post-Election Landscape For U.S. Public Finance

With the presidential election over, S&P Global Ratings offers a focus on the post-election landscape and what will be the key drivers related to credit across the broad and diverse U.S. municipal market. While U.S. fiscal federalism allows significant autonomy for the state and local government and enterprise obligors that comprise the municipal market, there are clearly fiscal interdependencies as well as regulatory and policy linkages with the federal government that influence their credit quality. Although there were substantive differences in the campaign platforms (see “U.S. Election: Promises, Policy, And The Potential Effects On The Economy And Corporate Credit,” published Oct. 19, 2020, on RatingsDirect), actual policy shifts during President-elect Joe Biden’s tenure will depend in part on the composition of Congress, which will be finalized in January. Administrative actions will also be something to watch. In the graphic above we highlight key issues we think will require credit focus across U.S. public finance. Below, we offer more detailed sector-specific views.

States: Uneven Economic Rebound And Policy Uncertainty Continue
The ongoing COVID-19 pandemic and subsequent recession have affected the credit quality of states; over a quarter of our ratings in the sector have a negative outlook or have been downgraded, to date. A path to economic recovery remains unclear and shows meaningful regional variations. States have been aided by existing federal stimulus packages in funding pandemic response costs, but there has been little in the way of replacement of lost revenues. The November ballot measures were successful in legalizing recreational drugs and various types of gaming. Both will continue to provide

new and additional revenues to states where taxed, although the amount of the revenue is not significant in replacing revenue streams lost to the pandemic. Other tax-raising measures on a statewide level generally failed. Some states continue to face budgetary imbalances for the remainder of fiscal 2021 as well as into fiscal 2022. For credit maintenance we would expect to see a number of options being utilized to balance current and out-year budgets, including expenditure cuts, reserve draws, other revenue raising options, and even limited deficit borrowings. There remains a possibility of additional federal stimulus, although it will likely have with more restrictions on use.

Fiscal policy with focus on health care

Federal grants to state and local governments are concentrated in three major functions: health; income security; and education, training, employment, and social services. The most significant single program area is grants to states for Medicaid–estimated at $458 billion of federal outlays to states in fiscal 2020, up from $370 million in fiscal 2016, an increase of 24%. The federal budget deficit in fiscal 2020 is estimated to be $3.1 trillion, up from $585 billion in fiscal 2016. Considering that entitlement programs–including Medicaid–are major drivers of the long-term fiscal deficits at the federal level, we expect that these programs will continue to be a short- and long-term focus. The U.S. Supreme Court is currently considering the case California v. Texas that brings into question the constitutionality of the Affordable Care Act (ACA), and with it, potential enforceability and funding to states for Medicaid expansion, which is a centerpiece of the law. Should Medicaid and Medicaid expansion funding be altered, states would need to consider the structure of their health care programs and this would likely lead to changes in the overall budget structure as well.

Infrastructure

From a credit perspective, we continue to look at the various economic policy decisions at the state and federal level. A once bipartisan policy issue that affects credit and economic direction is federal involvement, incentives, and funding of large-scale infrastructure projects. In a recent report we noted that in the decade following the Great Recession there was a $1.5 trillion decline in state capital spending and infrastructure investment, compared to the capital spending growth trends prior to 2009 (see "Infrastructure After COVID-19: Risk Of Another Lost Decade Of U.S. State Government Capital Investment," published Oct. 29, 2020, on RatingsDirect). This new paradigm was due to a number of factors, but mostly reflects a challenging operating environment and growing fixed-cost obligations, like pensions and other benefit costs through the lower-for-longer recovery period. A cohesive federal infrastructure program could help avoid another decade of underinvestment in the nation's infrastructure and concurrently act as an economic stimulus (see "Infrastructure: What Once Was Lost Can Now Be Found–The Productivity Boost," May 6, 2020).

Energy policy

Another economic policy widely discussed on the campaign trail was around energy. Energy policy, most frequently packaged in a simplistic debate over fracking, could have a credit impact on energy-dependent states, but as we recently wrote ("How Diverging Energy Policies In The U.S. Presidential Election May Affect Credit Quality," Oct. 23, 2020), we do not expect the Biden energy platform to have a meaningful credit impact on the nation's oil-producing states, but it could accelerate developing trends toward less mineral extraction. However, an outright ban on new onshore permitting on federal lands could add pressure to certain states like New Mexico and Wyoming which are the largest recipients of federal royalty payments.

Local Government: Post-Election, Credit Pressure Does Not Subside

Stimulus

Local governments remain on the front lines in fighting the pandemic, and with no post-election movement toward a meaningful state and local government stimulus package, we expect some governments will implement sizable expenditure cuts. Many issuers kept aside stimulus received earlier this year in anticipation of a third spike in COVID-19 cases; that will help manage costs but will not cure the budget gaps caused by revenue shortfalls. Severity and duration of this fall's COVID-19 spike will play an important role in how prepared local governments are for 2021, particularly if any enhanced social distancing measures result in a notable slowdown in economic activity, especially during the holiday season.

Economic/fiscal policy

How much time elapses before a meaningful economic recovery will be a critical part of how local government credit quality is affected by a new president, and we do not anticipate the pace of recovery will be the same for everyone. Our expectation for an uneven health recovery includes both physical and fiscal health, and some regions and states will be hit harder than others. In the meantime, we expect there will be more one-time measures used to close budget gaps, including an increased use of reserves and some deficit bond issuance. Our focus when evaluating the budget balancing strategies of local governments remains on the long-term effect of choices made now, particularly if assumptions for 2021 recovery are optimistic or if one-time strategies include deferring maintenance or reducing pension contributions.

Infrastructure

Looking further out in a Biden Administration, any major infrastructure package that includes local governments and schools would be a win-win in terms of both job creation and facility improvements.

Tax Policy

Reinstatement of tax-exempt advance refundings would be a benefit to governments. Their elimination as part of the Tax Cuts and Jobs Act resulted in more limited refunding options thereby reducing budgetary flexibility.

Pandemic Policy

Although more good news like Pfizer's announcement last week on a workable vaccine could come sooner than anticipated, we do not think it is likely to result in a quick return to business-as-usual for local economies; the imbalance is likely to be prolonged. In the meantime, we expect there will be deterioration in credit quality that could result in negative outlook revisions as the economic recovery takes (or doesn't take) shape. This could extend to downgrades in the most acute situations where short-term strategies have clear negative implications for long-term credit strength.

Health Care: ACA Support Is Key, But Watch Pandemic Response And The Supreme Court

We believe that a Democratic administration, and a potentially mixed Congress (or lack of a super majority of Democrats in the Senate depending on the Georgia runoff elections) coupled with the pandemic and economic challenges, is unlikely to yield large health policy changes over the next couple of years. That said, we believe that the incoming administration's support of the ACA and coordination of a national COVID-19 strategy could be a net incremental benefit for not-for-profit acute care providers, as they represent a departure from the policies of the current administration. Other policy initiatives put forth by the new administration may take longer to play out, if implemented, and require additional details to allow for assessment of the impact on the not-fo--profit acute care sector. Finally, the results of the California v. Texas case at the Supreme Court, along with the final determination of the Senate makeup, could have implications for the new administration's efforts to expand coverage and protections established by the ACA, and ultimately for not-for-profit hospitals. There are several key areas that we are watching.

ACA support and expansion

With likely less ability to make major health policy changes such as introducing a public health insurance option or reducing the Medicare age, we believe that the new administration will continue to support the ACA through administrative actions to encourage insurance coverage within the current ACA framework, which we view as incrementally beneficial for not-for-profit acute care hospitals. Examples of actions could include restoring funds for ACA consumer outreach and sign-ups, elimination of short-term health plans, and elimination of certain Medicaid waiver programs with eligibility restrictions.

Other proposals and views of the new administration

If the new administration is able to move forward on larger initiatives such as the public health insurance option or lowering the Medicare eligibility age, we believe it would likely take some time and the impact would initially be incremental and depend on the details. For example, providers could be negatively affected by a public insurance option if reimbursement tilts towards governmental rates and depending on how individuals and employers respond, but this could be partially offset by expanded insurance coverage. Other initiatives that we will monitor include potentially increased scrutiny of M&A activity which could negatively affect a hospital or health system's ability to fulfill strategic growth goals and address specific challenges. We view positively bi-partisan efforts to support rural health providers and telehealth, while the ongoing shift to value-based reimbursement would be viewed as neutral as most hospitals and health care systems have continued to invest in this area.

National strategy to address COVID-19

If effective–and likely over the medium to long term–a national strategy to address COVID-19 could keep infections at more manageable levels and minimize disruption at hospitals as well as help manage supply expenses. However, it may not be possible for a national strategy to make a meaningful impact to hospitals in the near term given the currently high infection rates and different state approaches to managing the pandemic thus far.

ACA legal challenge

We are monitoring the Supreme Court case California v. Texas which challenges whether the ACA can remain in place given there is no penalty associated with the individual mandate. There are different potential outcomes but a full strike-down of the law, which many believe is unlikely, would have the largest negative impact to individuals covered by various ACA programs as well as to acute-care providers. Among other changes, a full strike-down of the ACA would reduce eligibility for Medicaid and private insurance, or would rescind coverage for individuals currently covered under ACA programs. The new administration's ability to enact a remedy quickly, should there be an adverse ruling against the ACA, would be important to minimize disruption both to individuals and providers but may be a challenge if there is a split Congress. While we've seen hospitals adjust and accommodate to other adverse decisions, it may be more challenging to absorb the disruption now given the current operating challenges related to the pandemic. If the Supreme Court rules that the main provisions of the ACA can remain in place, we expect the new administration will continue its efforts to expand and strengthen coverage discussed above.

Higher Education: Potential Benefits From Increased Funding And Revised Immigration Policies

For higher education, a Biden administration would likely lead to a significant change in priorities, and a reversal of position on certain issues, that could be credit-positive for colleges and universities. We expect the key policy focus areas for a new administration will be on the federal student loan program, the funding environment for federal grants and contracts, and possible revisions to immigration student policies affecting international students, and oversight of Title IX. Of most immediate significance will be the outcome of any additional funding for pandemic relief. Also, the pause on student loan payments currently in place for millions of Americans is set to expire soon and monthly payments will resume in January. If no actions are taken, this could cause material stress and uncertainty for borrowers at a time when coronavirus cases are rising and unemployment levels remain high, and could result in an increase in defaults.

Because of the breadth of colleges and universities serving the higher education market, the above federal policy issues would affect post-secondary institutions differently depending on the size and scope of the organization. Discussions around expanding free college, and further supporting workforce training and historically black colleges and other minority-serving institutions, are expected to continue. For smaller colleges and regional universities, any changes to the federal student loan program, or political pressure or legislation regarding student access, tuition levels, or post-graduation employment, could significantly affect operations and enrollment. Students at these institutions tend to be the most price-sensitive and in need of the most financial and academic assistance, and the institutions themselves highly reliant on tuition and fees as their main source of revenue. Larger, comprehensive research and national/international colleges and universities will be more affected by the outlook for federal grants and contracts, and international students.

Housing: Financial Benefits May Be On the Horizon

Housing credits may see future financial benefits. Biden's "Build Back Better" plan provides support for additional unemployment benefits as well as other support for the economy and efforts to contain the pandemic. To the extent it is achieved, it will be a credit positive for the housing sector by improving currently unemployed owners' and renters' capacity to meet their housing payments.

Biden's $640 billion housing plan, "The Biden Plan for Investing In Our Communities Through Housing," released in February, also includes several notable features that would be a credit positive for the housing sector. These include a downpayment tax credit for first-time homebuyers that could drive increased demand for HFA single family mortgages, resulting in higher fee or annuity income. Biden's plan goes so far as to indicate its willingness to partner with state housing finance agencies in at least one instance: to help national service workers, including teachers and first responders access homeownership in certain neighborhoods. It also provides for expanded funding for community development financial institutions. The plan includes an expansion of the Low Income Housing Tax Credit program and the implementation of a new renter tax credit program. The plan also includes significant increased funding for the Section 8 voucher program–a positive for those PHAs that administer these programs.

Transportation: Show Me The Money

Infrastructure

We do not anticipate significant changes in the transportation infrastructure picture under a Biden Administration barring bipartisan agreement on funding sources, an obstacle that has stymied every grandiose plan in the past 20 years. The 2020 presidential election of course featured party platforms promising significant transportation infrastructure spending for repairing roads, bridges, and highways–with very different policy choices in terms of delivery and execution–but equally silent with respect to how to pay for it. An attempt to advance private transportation investment was made during the Trump Administration (see "President Trump's Infrastructure Plan: A Substantive Shift To Private-Sector Funding," Feb. 14, 2018), but it ultimately failed to get traction. We anticipate a similar outcome for the alternate reform agenda from the Biden Administration focusing on public investment while simultaneously addressing climate change, social equity and other policy objectives. Without some grand bargain, this 180-degree change in priorities will run into the same status quo roadblocks imposed by the current political gridlock and federal budget math (i.e. finding new revenues or budgetary offsets). And while states have been back-filling spending with gas tax increases and other measures, they risk another period of under-investment as the COVID-1- -triggered recession is expected to pressure transportation budgets.

Transportation legislation

Before too long, the Biden Administration will encounter the can kicked down the road this past fall called the FAST (Fixing America's Surface Transportation) Act highway law, which was set to expire on Sept. 30 but will now expire in the fall of 2021. Unable to reconcile different proposals, Congress passed and President Trump signed into law an extension that provided certainty of funding to states and regional infrastructure providers including transit agencies. But looming in the next reauthorization will be difficult decisions regarding a long-term solution to make the Highway Trust Fund (HTF) solvent. The HTF gets its revenues from a 24.4 cents-per-gallon diesel tax and 18.4 cents-per-gallon gas tax last increased in 1993 but pays out more every year than it takes in. We anticipate a Biden Administration to be more supportive of big ticket, urban rail, and transit system projects–another reversal of the Trump era focus on rural investment–and may signal future budgetary emphasis in any COVID-19-related stimulus bill, which many large transit systems are requesting.

Public Power: Tightening Environmental Regulations Likely

S&P Global Ratings expects the Biden Administration to pursue tightening environmental regulations governing the electric industry and its fuels. Such measures could directly and indirectly affect public power and electric cooperative utilities' operations, their costs of doing business, retail rates, their financial flexibility, and possibly their ratings.

Energy policy

During the run-up to the election, Joe Biden and Kamala Harris voiced unfavorable views of fossil fuels. The Biden energy platform–including recommitting to the Paris climate accords and variants on the Green New Deal–might be costly and technologically challenging. Whether the new administration can achieve its objectives could depend on the composition of the Senate, which will not be known until January. However, it is possible that the administration will bypass legislative gridlock through executive orders and regulatory pronouncements. We see precedent for such actions in the 2015 Clean Power Plan, one of the most far-reaching carbon emissions regulations to come out of the Obama Administration's Environmental Protection Agency.

If a Biden administration restrains fracking, natural gas prices could rise sharply. Natural gas is the primary input for producing electricity in the U.S. Consequently, consumers might see higher electricity costs. Higher retail rates could limit utilities' financial flexibility and potentially erode financial margins. We believe rate affordability plays an important role in influencing public power and electric cooperative utilities' credit ratings. In addition, because affordability and consumer acceptance place limits on the rates utilities charge for essential electric service, it is possible that spending for environmental compliance costs could come at the expense of investments in the reliability and safety of the electric grid. In recent years, many state initiatives for reducing carbon emissions, other greenhouse gas emissions, and the solid byproducts of electricity production, emphasized utilities transitioning to wind and solar resources. Some of the more ambitious of these initiatives appear to discount the intermittency of renewable generation and the insufficiency of existing storage technologies to counter intermittency. Neither solar nor wind produce electricity around the clock and current technologies do not provide capacity to store enough of the surplus solar and wind electricity produced during peak production hours to cover the nonproduction hours and could lead to less reliable electric service (see "California's Rolling Blackouts Could Foreshadow Rating Pressures For Public Power And Electric Cooperative Utilities," Sept. 10, 2020). Federal initiatives that build on state initiatives and that do not appropriately account for intermittency and storage issues could face similar pitfalls.

We expect the trend of significant coal plant closures seen in recent years to continue during Biden's presidency. If public power and electric cooperative utilities are compelled to close undepreciated power plants, their financial performance could face pressures. Although public power and electric cooperative utilities can look to their essentially captive customer bases to recoup uncompensated investments, this could be financially burdensome to customers, particularly if these utilities need to secure alternative sources of electricity production that add costs.

Ultimately, whether the new administration's environmental policies will affect the credit ratings S&P Global Ratings assigns to public power and electric cooperative utilities will depend on how much of the campaign platform translates into new regulations and legislation, and its costs.

Water Utilities: Regulatory/Environmental Policy Issues Are Key Focus

Fiscal policy
We would expect that a President Biden's first budget would double down on environmental protection, on top of his platform of giving environmental justice a higher priority, so it is likely those programs will be preserved if not increased.

Regulatory focus
S&P Global Ratings anticipates that the Biden Administration will end the "two for one" whereby the Trump Administration had a stated goal not to implement new rulemaking unless two existing rules could be eliminated. In fact, we expect increased regulation–and, potentially legislation–related to the federal Safe Drinking Water Act. There is bipartisan support even in a divided Congress to consider formal rulemaking on per- and poly-fluoroalkyl substances compounds, though less certain would be any federal participation in remediating certain contaminated sites. We also expect finality on the long-awaited update to the 1991 Lead and Copper Rule; final public comments were received earlier in 2020. It is unclear if Biden would modify or even rescind the October 2020 executive order related to water. That executive order established a federal "sub-cabinet" aimed at reducing bureaucracy and duplication of efforts among agencies and departments tasked with federal water supply and watershed management, among other stated goals.

Environmental, social, and governance policies
Because President-elect Biden also made climate change a centerpiece of his campaign, we would him to swiftly re-commit the United States to the 21st Conference of the Parties, commonly known as the Paris climate accords. In our view this is more impactful to electric and gas rather than water and sewer utilities. However, if recent proposed legislation–none has yet moved beyond committee–is any indication, Congress has acknowledged the rising cost of utility services to households and the related social credit factor of affordability. Specifically, one bill proposed a drinking water version of the federal Low Income Home Energy Assistance Program, which provides grant money to qualifying communities for certain expenses like customer bill pay assistance programs. This would be especially welcomed in communities that saw outsized COVID-19 economic destruction.

Infrastructure
We do anticipate that Biden will propose some type of infrastructure stimulus package, although it is not yet known which asset classes might be targeted. It would not be unreasonable to assume policy goals aimed at improving mitigation from and adaptation to impacts from climate change. Lastly, once the report to Congress from the recent federal stormwater task force is received, likely in early 2021, there could also be additional federal support, at least for technical assistance for infrastructure projects that naturally lend themselves to pre-disaster resilience.

This report does not constitute a rating action.

Don’t Discount States for U.S. Climate Progress.

The Biden administration should look to states as a laboratory for innovative climate action.

All climate policy eyes are on Washington, D.C., these days and for good reason. The fact that President-elect Joe Biden puts climate change among his top four priorities promises significant progress at the federal level, with or without the Senate. But don’t forget states as a crucial driver of climate progress.

During the four years of the Trump administration, states have served as a backstop, while federal climate action has been backsliding. Yet states’ roles go well beyond that. They often serve as a laboratory for new ideas as well as a conduit by which federal agencies make progress.

California is typically held up as the state with the most progressive climate agenda. It is, but it is hardly alone. Per the Center for Climate and Energy Solutions, 23 states plus the District of Columbia have their own greenhouse-gas reduction targets. States as diverse as New York, Montana, and Louisiana have net-zero greenhouse-gas emissions targets by midcentury. Ten Northeastern states have a power-sector emissions trading system that caps their emissions and establishes a price per metric ton of CO_2, albeit a low one. Virginia is poised to join in 2021 as the eleventh, while California has its economy-wide system plus additional ambitious sector-specific policies.

Meanwhile, 29 states and the District of Columbia have renewable portfolio standards, which require a certain portion of the state’s electricity mix to be low- or zero-carbon. These standards drive emissions reductions by as much as 10% to 25% below where they would otherwise be. Economists are quick to remind us that these reductions come at a cost. A recent analysis by University of Chicago economists Michael Greenstone and Ishan Nath concludes that costs range from between almost $60 to $300 per metric ton of CO_2 , well above California’s and even the European Union’s economy-wide carbon prices of around $17 and $32, respectively.

This only shows that the power-sector standards are significantly more ambitious than existing cap-and-trade systems and also achieve more emissions reductions. The higher prices paid may well be worth it. They are, after all, within the range of the latest cost-of-carbon estimates of $100 and often much higher.

State-level electricity sector policies are also an important part of federal climate policy. The Federal Electricity Regulatory Commission (FERC) is an independent body charged with regulating interstate electricity transmission, and with reviewing energy infrastructure projects. Its legal charge is economic regulation, which makes it an all-the-more powerful voice in the climate fight.

FERC’s power – and, thus, threat to fossil interests – was brought to the fore with the recent demotion of Neil Chatterjee, a former energy advisor to Senate Majority Leader Mitch McConnell and Trump appointee. He was replaced as chair in retaliation for supporting “state-determined carbon pricing” in wholesale electricity markets. While the Biden administration is poised to seek a more expansive role for FERC in advancing climate action, a significant part of that impact will still rest on state-level policies.

States are also an important laboratory for new ideas. California, while often out front, is far from alone. In 2018, Washington State saw a state-level carbon pricing initiative fail at the ballot box, to a large part because of stiff fossil fuel industry opposition. The oil industry spent $31 million to defeat the measure, led by $13 million from BP alone.

The campaign in Washington State is continuing, this time with a potentially important post-pandemic twist: the carbon tax is tied to green bonds focused on investing in a green economic recovery. The state has had prior experience with similar bonds, raising over $50 million in 2015 to invest in a number of energy efficiency and conservation efforts.

The additional benefit: The idea of green bonds tied to a new revenue source helps solve binding state-level fiscal constraints. It also ties nicely into Biden's "building back better" mantra. While Washington State's idea may not serve as a template for Washington, D.C., directly, versions of the idea may well be duplicated in other states, facing similar fiscal situations.

Most of these state-level efforts are indeed bottom-up, developed organically in municipalities and states. Yet there, too, might be a role for the Biden administration. The principle of testing large government policies in multiple local and regional pilots before a nation-wide implementation is not as ingrained in the U.S. as, for example, in China. There, the concept of shidian (试点), a focus on local entry points and testing for national policies, is indeed at least partially formalized. U.S. federalism – and the European Union's subsidiarity principle – allow for a version of this. Learning from local experiences ought to be an important component of more centralized efforts.

Bloomberg Greeen

By Gernot Wagner

November 20, 2020, 3:00 AM PST

[What Cities Need From the Biden Administration in the First 100 Days.]()

Covid-19 financial relief, housing help and gun violence research are among the top priorities for local governments.

Municipal leaders have a privileged position in America: We see first-hand how policies affect the 200 million people we represent in our cities, towns and villages. We are also the first to respond to the challenges our communities face, and the first to provide the resources our residents need.

While most of the last 10 months have been devoted to our immediate duty to protect our residents from the spread of Covid-19, it has also given us an important opportunity to examine the future of our hometowns, including how to address the systemic challenges that predated — and are now exacerbated by — the pandemic. Whether it's ensuring our cities are built to meet the needs of all our residents, providing help for working families struggling to support their households, or eradicating persistent inequities in our civic institutions, the challenges before us have been thrown into sharp relief.

Building more equitable cities at a time when we are fighting an uphill battle to rebuild our economy is no easy task. To tackle the monumental challenges before us, we need more from officials at the federal level. Below are the five most urgent priorities for local governments that the National League of Cities asks the administration of President-elect Joe Biden to address in its first 100 days.

Provide Covid-19 Relief for Local Governments

Local governments are facing more than $360 billion in revenue shortfalls over the next three years due to the pandemic, forcing municipal leaders to grapple with devastating cuts to essential services and personnel — including those that have been integral to local pandemic response and economic recovery efforts.

In Ruston, Louisiana, Mayor Ronny Walker said his city “wouldn’t have had to cut a single person from our payroll if Congress had done for cities what they did for businesses” through the Paycheck Protection Program. Pittsburgh Mayor Bill Peduto said laying off 10% of city employees would only make up a quarter of his city’s budget shortfall for the next year, and that in the coming years, “what you’re going to see in cities is more cuts to essential services.”

While negotiations over a comprehensive Covid-19 relief package remain stalled in the current lame duck session of Congress, local leaders are making difficult decisions to protect families, municipal workers and America’s economic future. It’s past time for the federal government to fulfill its responsibility to our local heroes serving on the front lines of the pandemic, and we strongly urge the Biden administration to work collaboratively with both parties in Congress to secure a Covid-19 relief package that provides direct federal aid to local governments and municipalities of all sizes.

Build Sustainable Infrastructure

Even before the pandemic, much of our nation’s infrastructure was in dire need of repair, improvement and modernization to meet the demands of the 21st century. Local governments have been forced to delay or cancel projects to repair roads, water systems and other critical infrastructure due to budgetary constraints caused by the pandemic, underscoring why it is more important than ever for the federal government to support infrastructure projects that will help put Americans back to work. Just this week, New York City’s Metropolitan Transit Authority was forced to consider a plan to cut 40% of weekday subway services and lay off more than 9,000 transit workers absent support from the federal government — an “end to the New York way of life,” as one official said.

Current transportation funding sources like the Highway Trust Fund are on track to be depleted as soon as 2021, according to recent CBO projections. By providing grants, tools and resources to support local infrastructure efforts, the federal government can do more than just ensure the safety and mobility of our communities; it can help make our communities more resilient in the face of extreme weather events and natural disasters, many of which we faced this year in the midst of the global pandemic.

It is also essential that the administration make investments in broadband service. With more people working and schooling from home, the need is clearer than ever before to ensure reliable, affordable broadband access for all Americans — particularly those in small and rural communities.

Provide Support for Building a Skilled Workforce

With the nature of work rapidly evolving due to the Covid-19 pandemic and technological advancements, we need enhanced workforce training programs to ensure our residents and communities can continue to play a central role in our nation’s economic recovery. As more Americans prepare to re-enter the workforce after historic levels of unemployment, it is necessary for the Biden administration to promote apprenticeship programs, expand financial aid programs for workforce skills training and create new pathways to successful careers for unemployed and underemployed Americans.

By investing in skills training and services to support participants, such as child care and transportation, the federal government can help city leaders build upon successful workforce development programs — particularly those that help remove barriers to accessing education and improve the likelihood that students will be able to finish college. This is particularly important for postsecondary students attending college during the current Covid-19 crisis who are being forced to remain or return to homes that may lack access to the internet or who, in some cases, may have no home at all.

Cities are counting on Biden to empower local workforce solutions, streamline federal funding and drive new resources into proven solutions to ensure that all people have opportunities to thrive.

End Housing Instability and Homelessness

The Covid-19 pandemic has been a catalyst for housing instability in the U.S. The nationwide moratorium on evictions has not prevented some landlords from evicting their residents, and 8 million tenants face the prospect of evictions when it ends in January 2021.

With more Americans out of work and unable to afford their basic needs, including housing, it is critical for the new administration to address housing instability and homelessness.

Cities need new policy solutions to stabilize and stem the loss of public and affordable housing. They also need the resources to expand promising ideas like "housing first programs," which focus on providing immediate permanent housing — regardless of circumstance — to people experiencing homelessness. Before the Covid-19 pandemic, several housing-first pilots were yielding notable progress. President-elect Biden can take meaningful steps toward ending homelessness by expanding these types of programs, as well as those that provide mental health and emergency services that residents need to stay stable and sheltered.

Reduce Gun Violence

Gun violence continues to plague our society, claiming the lives of thousands of Americans each year and tearing apart the very fabric of our communities. Our nation has seen a rise in gun violence since the onset of the pandemic, creating twin public health crises that threaten to undermine the safety that local leaders are entrusted to deliver to their residents.

The National League of Cities calls on Biden to convene a national commission on gun violence, including elected officials from all levels of government, victims' family members, survivors, gun advocates and law enforcement to offer recommendations on ways to reduce gun violence. In recognizing gun violence as a public health issue, the Biden administration should provide funding to the Centers for Disease Control to conduct comprehensive research to identify the underlying causes that lead to gun violence and mass shootings in communities.

If we are going to truly "Build Back Better"— a central theme of Biden's campaign — we must ensure the administration maintains a strong and close working relationship with local leaders from across the country. We know our communities best and are best positioned to help the new administration address the systemic issues that have long impacted them, only to now be exacerbated by the Covid-19 pandemic.

Bloomberg CityLab

Joe Buscaino

November 20, 2020, 7:33 AM PST

Joe Buscaino is the President of the National League of Cities and the President Pro Tempore of the Los Angeles City Council.

Congress is Forcing Cities to Defund the Police, Firefighters, and Schools.

Cities that had barely recovered from the Great Recession face huge budget shortfalls yet again.

America's mayors are begging for help.

Unless Congress passes a coronavirus relief package, cities and towns across the country are going to struggle "to keep the lights on" and perform basic services like responding to 911 calls, Joe Buscaino, president of the National League of Cities and president pro tempore of the Los Angeles City Council, told Axios.

In May, the National League of Cities (NLC) found that US cities are facing a $360 billion revenue shortfall over the next three years. And since then, there's been little movement from the federal government to provide the support needed to avoid furloughs and cuts to basic, necessary services to keep cities afloat as they govern through the Covid-19 pandemic.

Continue reading.

Vox.com

By Jerusalem Demsas

Nov 19, 2020

Cities Still Need Their Lifeline From the Fed.

Extend the Municipal Liquidity Facility beyond Dec. 31.

America's state and local governments face a difficult winter. Already under severe financial pressure, their resources will be stretched still further by a resurgent pandemic. Congress needs to give them new fiscal aid right now, but whether that will happen is in doubt.

Given these uncertainties, this is no time to remove the one reliable lifeline they have: the Federal Reserve's highly successful effort to ensure they can borrow what they need.

The Fed and the Treasury introduced the program, known as the Municipal Liquidity Facility, amid the Covid-induced mayhem of March and April — when markets froze and borrowing costs more than doubled for even the most highly rated cities. To restore calm, the central bank pledged to buy debt securities directly, at a closer-to-normal yield, from any creditworthy issuer that couldn't raise money from private investors.

It worked. Simply by being in place, the backstop revived the market. It brought yields below pre-pandemic levels, and only two issuers (Illinois and New York's Metropolitan Transportation Authority) actually had to tap it, using less than $1.7 billion of the $500 billion available. It's hard to imagine a more effective use of taxpayer resources.

Just one problem: The program expires Dec. 31, and — as Bloomberg News has reported — Republican legislators and the Treasury have opposed an extension. This wouldn't be so serious if the coronavirus crisis were ebbing and the economy were on a glide path to recovery. They're not. Cases and hospitalizations are on the rise in most states, threatening renewed social-distancing measures and a slower expansion (or worse). This will reduce municipal tax revenues again – and they're already projected to come up hundreds of billions of dollars short. Layoffs and service cuts are looming. And with Republicans likely to retain control of the Senate, it's unclear when, if ever, legislators will support a new relief package.

To be sure, borrowing is no substitute for fiscal support. But the backstop is crucial to help municipalities weather these stresses. It should remain in place until officials are certain it's no longer needed, as happened with emergency lending facilities after the 2008 financial crisis. The central bank should also consider expanding access — for example, by lowering the population threshold from the current 250,000, so struggling smaller cities can benefit.

Judging from the lack of jitters in municipal bond markets, investors are assuming that common sense will prevail. It's to be hoped they're right. The Trump administration should extend the facility immediately and, if it fails to do so, President-elect Joe Biden should pledge to set things straight after he takes office on Jan. 20. The finances of cities and states across the country depend on it.

Bloomberg Opinion

By Editorial Board

November 17, 2020, 6:30 AM PST

Congress Splits Along Party Lines Over Fed-Facilities Move.

- **Democrats criticize secretary for seeking to end the programs**
- **GOP Senator Pat Toomey says facilities have done their job**

Lawmakers split along party lines on U.S. Treasury Secretary Steven Mnuchin's move to shutter a number of Federal Reserve emergency-lending facilities that relied on his agency's backing.

"Ending emergency programs specifically intended to support the economy through this crisis is irresponsible and misguided," Democratic Representative Richard Neal of Massachusetts, chairman of the powerful House Ways and Means Committee, said in a statement. "The Covid recession is not over. Millions of workers remain without jobs, and the futures of businesses across the country continue to hang in the balance."

By contrast, Republican Senator Pat Toomey of Pennsylvania, a member of the congressional panel monitoring pandemic relief funds at the Treasury and Fed, said in a Bloomberg TV interview that the facilities have served their purpose to stabilize markets and are no longer needed.

"These were always meant to be very temporary facilities," he said Friday. "I'm not surprised that a central bank would like to keep more power and more tools, but that doesn't make it right."

Mnuchin, in a letter to Fed Chairman Jerome Powell released by the Treasury on Thursday, ordered the sunsetting of five of the central bank's facilities designed to buffer the impact of the coronavirus pandemic, while asking for four others to be extended for 90 days. The Fed then released a statement underlining its preference for the "full suite" of measures to be maintained into 2021.

Senate Majority Leader Mitch McConnell said the “obvious use” for the hundreds of billions of unspent dollars is to re-purpose the funds for small business relief and vaccine efforts. Congressional leaders have been deadlocked for months over how much to spend on additional stimulus and where to allocate the money.

“American workers should not lose their jobs needlessly when a second round of the job-saving Paycheck Protection Program for the hardest-hit small businesses would make a huge difference,” McConnell said in a statement.

Democratic Representative James Clyburn of South Carolina, chairman of the House Select Subcommittee on the Coronavirus Crisis, said the facilities that will no longer be able to purchase new assets beyond December were “part of a comprehensive set of tools Congress gave the Federal Reserve to combat the pandemic-related economic crisis.”

Clyburn asked Mnuchin to rescind his request, and suggested congressional Democrats may encourage President-elect Joe Biden’s Treasury chief to reestablish the programs next year.

Toomey said that he doesn’t believe a Biden administration would have the legal power to extend the facilities on its own, but that Congress could re-authorize the lending programs if economic conditions worsened.

House Speaker Nancy Pelosi accused Mnuchin of trying to hobble the next administration’s ability to deal with the economic fallout of the continuing pandemic.

“Why? — Because they want to impede the ability of the administration to have everything available to them?” Pelosi said Friday at her weekly news conference.

The congressional watchdog monitoring the Fed and Treasury’s relief efforts divided last month over whether one of the programs Mnuchin has ordered to be ended — which supports the municipal-debt market — should continue.

The panel’s two Democrats wanted the Municipal Liquidity Facility not only extended, but its terms adjusted to make it more favorable for bond issuers. State and local governments also lobbied to expand the program.

But Republicans on the oversight commission said the program, which had made only two loans at that point, had served its purpose to restore liquidity to the municipal bond market.

Bloomberg Politics

By Laura Davison

November 20, 2020, 9:05 AM PST Updated on November 20, 2020, 11:47 AM PST

[Treasury-Fed Clash Exposes Broader Policy Stress.]

Pressure is growing on the ability and willingness of officials to maintain the scale and scope of their initial responses to Covid-19.

Global markets woke up Friday morning to indications that exceptional and lasting policy support may be less certain than widely assumed. While short-term political considerations may well be playing a role — a view that most investors will be quick to grasp, dismissing the news as “noise” and reversible — a bigger phenomenon may well be in play: What was first designed as a huge “one-round” policy intervention has turned out to be much more than that, and the longer this “multiround” process persists, the greater the pressure on the ability and willingness of policy makers to deliver, especially in parts of the developing world.

Having eagerly supported the Federal Reserve’s massive intervention in financial markets in March and April, outgoing Treasury Secretary Steven Mnuchin seems to have surprised even the central bank late Thursday by refusing to extend backing for some emergency lending programs into next year and asking for the return of money for them. This immediately triggered an unusually public response from the Fed lamenting the decision and stressing that the “full suite of emergency facilities” plays a key role as “a backstop for our still strained and vulnerable economy.”

Some economists and market participants initially interpreted this as yet another indication of a problematic transition from the Trump administration to the incoming Biden team — one that is already complicating the country’s response to the surge in Covid infections and hospitalizations and may well play out in foreign policy and military affairs. Having said that, the implications are overwhelmingly viewed as both temporary and reversible under the new administration that will take office on Jan. 20.

The Treasury’s action came in the context of a general under-utilization of the Fed’s programs. Some see this as a signal of low need, bolstered by Mnuchin’s comment that “banks have the lending capacity to meet the borrowing needs of their corporate, municipal and nonprofit clients.” Others feel that this under-utilization is due to the markets doing the work for the Fed, thereby increasing moral hazard and excessive risk-taking. Yet others are arguing the move is motivated by the desire to reallocate money to other programs such as the Paycheck Protection Program, effectively enhancing public sector support for the economy.

The U.S. is not alone in its policy support difficulties. In the U.K., the Treasury is facing a large increase in its fiscal imbalance, with the latest data from the Office for National Statistics showing that the deficit for the first six months of this fiscal year (April-October) amounted to a record 261 billion pounds. This is leading some to expect a public sector pay freeze to be announced as early as next week when the latest round of Covid-related lockdowns could well send Britain into a double-dip recession. Politics is also seen as playing a role as Prime Minister Boris Johnson is trying to gather Conservative Party support for his pivot toward greater military expenditure as part of the redefinition of the country’s role on the world stage after Brexit.

Although short-term political considerations may well be playing a role, and these two countries can reverse course should policy makers so desire, a greater phenomenon exists that could well become more important the longer it takes to develop and distribute vaccines to counter the threat of Covid-19.

The initial global reaction to the economic “sudden stop” caused by Covid-19 was highly influenced by what worked for the global financial crisis: that is, a large-scale multifaceted intervention underpinned by the three notions of “whatever it takes,” “all in” and “whole of government.” At its essence, this is what in game theory terms would be labeled a “one round” policy response. Yet Covid is requiring several rounds of responses as illustrated by the new infection wave in many countries and the realization that vaccines will not be widely available until sometime next year.

As time has passed, a small but growing number of countries are finding it hard to maintain the scale and scope of their initial policy interventions. Well before these latest twists, the U.S. faced political resistance to renew one element after another of its initial fiscal relief, and the U.K. reduced support for those facing job challenges before having to reverse course.

Markets will be quick to dismiss the latest developments, especially in the U.S., where a new administration is likely to restore funding and the Fed can in the interim augment the quantitative easing program already at its discretion. But they should not ignore the warning signs. Particularly in the developing world, policy makers' willingness to continue to carry out a multiround policy response will increasingly face a harsh reality: that of declining ability.

Bloomberg Opinion

By Mohamed A. El-Erian

November 20, 2020, 7:15 AM PST

Without Fed's MLF, Stakeholders Warn of a Fragile Future for Munis.

Issuers will lose a financial, if not psychological, backstop from the Federal Reserve at the end of the year and some participants fear the municipal market will become more fragile, less resilient and more prone to shocks amid another wave of coronavirus cases.

Following Treasury Secretary Steve Mnuchin's move on Thursday telling the Fed to sunset emergency lending facilities created in response to the coronavirus Thursday, including the Federal Reserve's Municipal Liquidity Facility, the news struck some municipal stakeholders as poorly timed and made them wary of the muni market's future.

"As a country and a financial market, we're not out of this yet," said Matt Fabian, partner at Municipal Market Analytics. "So theoretically we should be layering on more tools, not removing them."

Fabian called the MLF an insurance policy for both borrowers and investors.

"Now, without the MLF, the market becomes more fragile and more susceptible to setbacks, illiquidity and maybe selling if things turn negative," Fabian said. "If credit trends turn even more negative, if fears of a major issuer defaulting or having trouble paying begin to grow," those trends could weigh on the industry.

As COVID-19 deaths continue to climb, the Treasury's timing "is poor," Fabian said.

More than 2,000 American deaths were recorded by John Hopkins University in one day on Thursday, the highest since May. There are now over 11 million recorded COVID-19 cases in the U.S.

Mnuchin asked in a letter sent to the Fed to return unused funds to the Treasury from the MLF and four other lending programs created under the CARES Act.

And while some sources said the move was not unexpected given how well the municipal market has performed since the sell-off in the spring, the withdrawal of the MLF means that next year, investors will become more concerned about issuers' ability to pay debt because of renewed economic shutdowns, Fabian said.

"It just makes us more fragile," Fabian said. "If there is a shock to the system, like we have multiple states shutting down their local economy or say tax collections are postponed again to make it easier on taxpayers, that is a challenge that the MLF would help us get through, but lacking it, it means that states and cities are more on their own so investors will have to be more careful."

On CNBC Friday morning, U.S. Treasury Secretary Steven Mnuchin explained his reasoning for ending the CARES Act programs.

"It was very clear that Congressional intent is it expires on December of this year," Mnuchin said. "It is very clear in the law."

Lawmakers could legislate extending the MLF and sources expects appeals from lawmakers before the end of the year on the interpretation of Congressional intent.

The Fed had the authority under the CARES Act to lend up to $500 billion for state and city issuers through the MLF. The U.S. Treasury provided $35 billion from the Exchange Stabilization Fund, using funds appropriated under the CARES Act, for the program. The rest of the funding comes from the Fed.

So far, Illinois and the New York Metropolitan Transportation Authority have been the only issuers to use the MLF. Both issuers this week said they intended to tap the facility before it expires and Mnuchin's announcement will not change those plans as both were allocated a portion of the money in the law.

Mnuchin also dug into the MTA on CNBC Thursday, saying the authority has a revenue problem and the MTA can currently borrow from the traditional market without the Fed.

"Let me just say, there is a big difference between grants and loans, and the areas of the economy right now that are really hard hit like the MTA, they need to work with the state and federal governments on how they're going to get grants to go forward," Mnuchin said.

MTA Chairman and CEO Pat Foye responded to Mnuchin's comments.

"We're glad Secretary Mnuchin has acknowledged the MTA has a serious and substantial revenue problem, that we have been devastated by the pandemic and that we are the economic lifeblood of New York and the nation," Foye said.

"We have been clear since the beginning of the crisis: Borrowing or cutting our way out of this is not an option. We need federal relief and we simply can't afford to wait any longer," Foye added.

But that is not stopping the MTA from using the MLF before it expires. The MTA's Board on Wednesday approved to borrow up to $2.9 billion, its maximum available.

Many state and local governments have said they need direct aid from the federal government to get them through the pandemic. House Democrats passed a relief bill in May that would give $915 billion in state and local aid, but Senate Republicans are not in agreement.

On Thursday, the Fed responded to Mnuchin?s letter saying it, "would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy."

The Fed is in the best position to say if facilities should be extended, Fabian said, adding that "if the Fed believes [the programs] should be continued, it's very likely that they should be continued."

Lawmakers have also weighed in, saying the facilities should be extended.

“The COVID recession is not over,” said Rep. Richard Neal, D-Mass., chair of the House Ways and Means Committee. “Millions of workers remain without jobs, and the futures of businesses across the country continue to hang in the balance. Ending emergency programs specifically intended to support the economy through this crisis is irresponsible and misguided.”

Sen. Bob Menendez, D- N.J., a member of both the Senate Banking, Housing and Urban Affairs and Senate Finance Committees called Mnuchin?s decision “short-sighted.”

Other market participants expect the worst is yet to come for municipal credit, so the MLF should be extended.

“The MLF exists in case the market does freeze like it did in March and April,” said Tom Kozlik, head of municipal strategy and credit at Hilltop Securities. “It would be prudent for the Treasury and Fed to continue with that program for at least the next year, if not longer.”

Others said the short-term effects of the Treasury’s announcement won’t have an immediate effect on the market, given high inflows and investors are not questioning what municipal credit will look like in the near future.

Patrick Luby, municipal strategist at CreditSights, said the end of the MLF will not have a material, adverse effect on the municipal market.

“Its function of being the backup source of liquidity of the market has been demonstrated by the abundant liquidity available in the marketplace that it’s not needed right now,” Luby said.

The Fed and Treasury did a good job of moving quickly and providing comfort to the markets, Luby said.

Mnuchin also announced Thursday that the Money Market Mutual Fund Liquidity Facility would be extended by 90 days. The money market facility includes short-term municipal debt, including municipal securities, with maturities of 12 months or less. Market participants have said that facility has been more beneficial to more issuers than the MLF.

“Because the Fed opened up the MMMLF and accepted municipal VRDOs as collateral, that unlocked a lot of the dealer balance sheets to be able to take risks and provide liquidity to the rest of the muni market,” Luby said.

Meanwhile, Fabian doesn’t think volatility like the market saw in March is likely, but said the future is unpredictable.

“We are losing resilience, removing the MLF deprives the muni market of some resilience,” Fabian said.

By Sarah Wynn

BY SOURCEMEDIA | MUNICIPAL | 11/20/20 03:37 PM EST

[Credit, Muni Markets Shrug Off Treasury Threat to End Fed Programs.]

NEW YORK (Reuters) – The credit and municipal bond markets held fast on Friday morning after U.S. Treasury Secretary Steven Mnuchin defended his decision, first announced Thursday evening, to let several of the Federal Reserve’s key pandemic lending programs end on Dec. 31.

Mnuchin said on Thursday that some of the Fed’s stimulus programs, which have established the central bank as a lender of last resort to U.S. corporations and municipalities, should be allowed to expire and that the unused funds should be given to Congress to reallocate. The announcement was not expected by Fed officials, who had said this week that the programs should be extended, and told Mnuchin so immediately after his decision was made public.

The Fed programs were essential to restoring liquidity in financial markets in March, when nervous lenders seized up and both the credit and municipal bond markets reached levels not seen since the last financial crisis. But both markets were steady on Friday morning, as investors bet that the liquidity established by the Fed’s programs would not soon dissipate.

“Markets seem to be acting as if this may be an overblown event,” said Kevin Giddis, head of fixed income at Raymond James.

“While the market “righted” itself in March at the idea that these facilities were available so quickly, funding away from the Fed became cheaper and easier for most companies in the capital markets versus Fed-assisted financing.”

The iShares exchange-traded funds tracking the high-yield HYG.P and investment-grade LQD.P markets both inched lower on Friday, with a slightly bigger move seen in LQD, last down 0.22%. The Fed’s Primary and Secondary Market Corporate Credit Facilities chiefly targeted investment-grade debt.

The $3.9 trillion U.S. municipal bond market opened steady on Friday with Municipal Market Data’s initial read of its benchmark triple-A yield scale largely unchanged. The iShares National Muni Bond ETF MUB.N was up slightly.

The Fed’s $500 billion Municipal Liquidity Facility (MLF) has so far only attracted two users – Illinois, the lowest-rated state, and New York’s Metropolitan Transportation Authority (MTA), which was hit exceptionally hard by a sharp drop in mass transit ridership due to the pandemic.

Greg Saulnier, managing analyst at Municipal Market Data, said Illinois and MTA bonds are trading inside the rates offered through the MLF and that muni market fundamentals are strong.

“Perhaps there is some marginal effect in terms of mentality without the safety blanket there, but I’m not sure how much of that will play out in terms of trading and spreads, if at all,” he said.

But Emily Swenson Brock, director of the Government Finance Officers Association’s Federal Liaison Center, said the loan program’s end comes as the resurgence of the virus threatens already weakened state and local government revenue.

“This is a pivotal time for states and local governments and to receive this news is extremely frustrating,” she said.

By Kate Duguid, Karen Pierog

Reporting by Kate Duguid; Editing by Alden Bentley, Chizu Nomiyama, Kirsten Donovan

NOVEMBER 20, 2020

Investors Say Fed 'Backstops' Removed by Treasury Were Little Used but Lifted Confidence.

(Reuters) – A surprise move on Thursday by the U.S. Treasury Department to withdraw hundreds of billions of dollars used to support corporate, municipal and other bonds ravaged by the COVID-19 pandemic has injected some new uncertainty in global markets, investors said.

While the support wasn't widely used, even its presence served to bolster investor confidence, said Andy Richman, director of fixed income strategies for Sterling Capital Management.

"They were there as a backstop and even the thought of them was seen as a safety net. If something did go wrong the Fed was there," he said.

Richman said he expected slightly lower equity prices and higher bids for U.S. Treasuries as a safety play on Friday, though the impact could be dulled by other developments in Washington such as a possible deal on relief spending.

Treasury Secretary Steven Mnuchin on Thursday told the Federal Reserve to return money earmarked for pandemic lending to businesses, nonprofits and local governments, ending on Dec. 31 some crisis programs that allowed the Fed to buy corporate bonds and make loans to small businesses and local governments.

The surprise announcement sent benchmark U.S. Treasury yields and equity index futures lower. The 10-year Treasury note yield US10YT=RR slid 2 basis points and was the lowest in 10 days at 0.83%.

Several investors said they were still trying to grasp the full implications of losing access to programs like the Municipal Liquidity Facility, which bought short-term notes directly from U.S. cities, counties and states.

"Without the MLF, the market won't collapse, but it will lack some resilience if its tested by a selloff or more pronounced credit fears," said Matt Fabian, partner at Municipal Market Analytics.

Isaac Boltansky, director of policy research for Compass Point Research and Trading, called the diminished role of the Fed "nonsensical" at a time when the U.S. economic recovery still seems shaky.

"This is a distressing development that injects uncertainty and instability into markets completely unnecessarily," he said. He added that "How many times will Washington trip on its shoelaces in response to this crisis?"

By Ross Kerber

Reporting by Ross Kerber in Boston. Additional reporting by Karen Pierog in Chicago; Editing by Lincoln Feast.

NOVEMBER 19, 2020

[Muni Market Faces Test With Cut to Fed Lifeline That Ended Crash.]

- **Treasury Secretary doesn't intend to extend credit programs**
- **Backstop improved investor confidence, though few loans made**

In March and April, the Federal Reserve's interventions in the municipal-bond market helped reverse a record-setting crash that erupted when panicked investors fled over concern about the financial impact of the coronavirus pandemic.

The central bank's commitment to lend to states and local governments if needed helped the price of their bonds to rally and has left yields hovering around the lowest levels in decades, even though only two borrowers tapped the $500 billion program.

Now, even with the coronavirus raging anew and states and cities still struggling to gauge the scale of the financial hits they're facing, that support is poised to end. Treasury Secretary Steven Mnuchin late Thursday announced a decision to allow some of the Fed's novel lending programs to lapse at the end of the year as scheduled, raising the risk that if the market seizes up again there won't be anywhere for governments to turn as a lender of last resort.

"It doesn't make sense to pull away this kind of support at this stage," Thomas Graff, head of fixed income and portfolio manager at Brown Advisory. "This is like taking off your seatbelt as you pull into your neighborhood. It is probably fine. But it is all risk, no reward."

The nation's $3.9 trillion municipal-bond market currently seems at little risk and prices edged up slightly Friday. Even as governments unleashed a record flood of debt sales last month, yields held not far from the record lows hit in August. New Jersey and Suffolk County, New York, which considered borrowing from the Fed, were able to borrow easily in the public markets at a lower interest rate this week. New Jersey paid yields of about 1% for three-year debt. Those securities have rallied and traded at a 0.5% yield Friday.

"That was a resounding affirmation that the market feels healthy enough," said Christopher Brigati, head of municipal trading for Advisors Asset Management Inc.

The market has also benefited from optimism about the initial results of two coronavirus vaccines. That's eased worries about the financial outlooks for a broad swath of borrowers, including airports and colleges, that have been heavily affected as the pandemic upended daily life.

Yet a turnaround is far from completely assured for states and cities whose tax collections tend to remain depressed long after the end of recessions, and the individual investors who dominate the market have frequently fled en masse in the face of bad news — a phenomenon that analysts call headline risk.

Agencies such as New York's Metropolitan Transportation Authority, the operator of the city's subway and bus system, are also pleading for help from Washington, where talks about a stimulus bill have made little headway since President Donald Trump's electoral defeat this month. It's not clear how much opposition Joe Biden may face once he takes office in January, since the political control of the Senate hinges on runoff elections in Georgia.

The MTA and Illinois were the only two to borrow from the Fed because they faced such large penalties in the public market, though other governments eyed it as a potential backstop that they didn't want to see withdrawn.

Before the Fed program lapses, the MTA has said it could sell $2.9 billion in debt to the Fed. Illinois has also raised the possibility of borrowing from the Fed again.

Barclays Plc strategist Mikhail Foux said cash-strapped borrowers who are the target audience for the Fed's loans could be negatively affected by the end of the program, though he noted there may be little impact for the broader market. Bank of America Corp. analysts said in a report the end of the Fed program could be a "small negative."

"This is very disappointing, especially for weaker credits which are still facing the financial impact from the pandemic," said Gary Pollack, head of fixed income for private wealth management at Deutsche Bank. "On the other hand, the muni lending facility was not utilized that much because its interest rate was too onerous. But still it is a back-stop for those who need it."

Bloomberg Markets

By Amanda Albright

November 20, 2020, 10:39 AM PST

— With assistance by Joseph Mysak Jr, and Elise Young

[Fed to Return Lending-Backstop Funds to Treasury as Requested.]

- **Powell letter follows public rift that arose a day earlier**
- **Mnuchin argues money should be put to better use elsewhere**

The Federal Reserve said Friday it would comply with a Treasury Department request to return unused funds meant to backstop five emergency lending programs, moving to tamp down a public rift that arose a day earlier.

"We will work out arrangements with you for returning the unused portions of the funds allocated to the Cares Act facilities in connection with their year-end termination," Fed Chairman Jerome Powell said in a letter to Treasury Secretary Steven Mnuchin posted on the central bank's website.

Mnuchin on Thursday sparked a conflict between his agency and the central bank when he said he wouldn't agree to extend the facilities enabled by the Cares Act, passed by Congress in March. The law appropriated funds to act as loss-absorbing buffers that enabled the Fed to stabilize financial markets and make loans to companies and municipal debt issuers.

Mnuchin says the programs are no longer needed, and the money should be returned to Congress and put to better use elsewhere.

The Fed had responded on Thursday with its own statement, saying it "would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy."

'Deeply Irresponsible'

The move drew swift criticism from Democrats. President-elect Joe Biden's transition team spokeswoman, Kate Bedingfield, on Friday blasted Mnuchin's move as "deeply irresponsible."

The S&P 500 Index extended a weekly decline as traders weighed the dispute over the emergency lending programs. The credit markets seemed to hold up amid the uncertainty. Corporate bond investors continued to flood Carnival Corp.'s bankers with orders for debt.

On Friday, Powell conceded the Treasury's authority in the matter, saying in the letter that the Cares Act "assigns the Treasury secretary sole authority to make certain investments in Federal Reserve emergency lending facilities, subject to limits specified in the statute."

Some officials, including a Democrat sitting on the commission supervising spending under the Cares Act, have said the Fed wasn't legally required to return funds already transferred to it by the Treasury. But the Fed made clear it would not escalate the spat and would return the funds.

Other Funds

Powell, in his letter, also appeared to urge the Treasury to consider using other funds held by Treasury to reauthorize at least some of the programs that will now be unable to make new loans after Dec. 31.

"As you noted in your letter, non-Cares Act funds remain in the Exchange Stabilization Fund and are, as always, available, to the extent permitted by law, to capitalize any Federal Reserve lending facilities that are needed to maintain financial stability and support the economy," Powell wrote.

The ESF contains about $75 billion that pre-dates the Cares Act. Mnuchin has also left open the possibility of using that money to re-activate the programs, but appeared to characterize that as an emergency option.

"In the unlikely event that it becomes necessary in the future to re-establish any of these facilities, the Federal Reserve can request approval from the secretary of the Treasury," Mnuchin said in his letter on Thursday.

The Fed, in contrast, believes the programs remain crucial. In an online event Nov. 17, Powell said the Fed would eventually shut down its emergency programs, but added, "I don't think that time is yet or very soon, we will put those tools away."

The programs affected include two that can purchase corporate bonds, one for municipal debt and one, the Main Street Lending Program, that makes loans to mid-sized companies through banks.

The programs will continue to hold existing assets and service loan agreements with banks. The Fed will retain about $26 billion received by the Treasury to continue to backstop the loans already made. But the programs won't be able to extend new credits unless they receive fresh funds from Treasury.

Bloomberg Economics

By Christopher Condon

November 20, 2020, 1:50 PM PST Updated on November 20, 2020, 3:04 PM PST

[This Fed-Treasury Public Fight Has No Winners.]

The coronavirus crisis dream team of Jerome Powell and Steven Mnuchin cracks after the election.

So much for the synergy between Federal Reserve Chair Jerome Powell and Treasury Secretary Steven Mnuchin in combating the fallout from the coronavirus pandemic.

In what might be an unprecedented public spat between two of the nation's most prominent economic leaders, Mnuchin sent a letter to Powell on Thursday that said he would let certain emergency lending facilities created by the Coronavirus Aid, Relief, and Economic Security Act expire on Dec. 31, citing what he saw as "congressional intent." Moreover, he requested that the Fed return almost $200 billion of unused funds to the Treasury, which would "allow Congress to re-appropriate $455 billion, consisting of $429 billion in excess Treasury funds for the Federal Reserve facilities and $26 billion in unused Treasury direct loan funds."

The Fed responded almost immediately with a short statement: "The Federal Reserve would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy." Shots fired.

At stake is the future of the Municipal Liquidity Facility, the Main Street Lending Program, the Primary Market Corporate Credit Facility, the Secondary Market Corporate Credit Facility and the Term Asset-Backed Securities Loan Facility. By contrast, Mnuchin requested a 90-day extension of the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, the Money Market Liquidity Facility and the Paycheck Protection Program Liquidity Facility.

I argued last week that it would be a mistake in particular to let the facilities for municipal bonds and small businesses expire, not just because their finances are the most imperiled by the pandemic but also because these programs are hardly used in the first place — a backstop in every sense. Those for corporate debt, on the other hand, don't seem quite as necessary given that junk-bond yields are near a record low and the investment-grade markets are wide open.

Mnuchin argues in his letter is that the facilities "have clearly achieved their objective," rattling off municipal-debt issuance figures, corporate-bond spreads and rates on asset-backed securities. Still, the announcement flies in the face of Powell's long-held position — which was thought to be shared by Mnuchin — that "when this crisis is behind us, we will put these emergency tools away." The Covid-19 pandemic is only worsening across America, from rural counties to New York City.

What happens now is something of an open question. Bharat Ramamurti, a member of the Congressional Oversight Commission, says the Fed can retain the $195 billion that's already been committed to the lending programs established by the Cares Act. "That's why (I imagine) the Mnuchin letter is a 'request' to return the funds, not just asserting his authority to take the money back," he said on Twitter.

It would be a remarkable move by Powell, who has repeatedly talked about the importance of elected leaders directing public funds, to deny Mnuchin's request outright. But at the same time, he said just this week that "I don't think the time is yet, or very soon," to wind down the emergency facilities. Handing back the money would severely constrain the Fed and President-elect Joe Biden's pick for Treasury Secretary from easily firing them back up should the need arise. If the Fed no longer had the Cares Act money, it could only back the facilities with "Core ESF funds, to the extent permitted by law, or additional funds appropriated by Congress," according to the letter.

Mnuchin, for his part, argued in an interview with Bloomberg News late Thursday that companies hurting from the pandemic need grants, not debt, and that he hopes the leftover funds are used to help the economy. Presumably, it would be significantly easier to sell Congress on appropriating these funds rather than working toward a bipartisan fiscal aid package, which has remained elusive for months and which President Donald Trump might not support anyway.

Tony Fratto, former assistant secretary for public affairs at the Treasury during the George W. Bush administration, said on Twitter that he's "never seen Treasury and the Fed in a public break. This is disturbing."

Whether the markets interpret it as similarly unnerving remains to be seen. Early indications suggest S&P 500 futures didn't take kindly to a public spat between Mnuchin and Powell, a duo that investors have relied upon to remain above politics and keep the economy on the right track. That dream team is now infighting.

Bloomberg Opinion

By Brian Chappatta

November 19, 2020, 4:06 PM PST

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

Treasury Seeks Unused Funds From Fed in Clash With Central Bank.

- **Fed prefers programs 'continue to serve their important role'**
- **Treasury wants Congress to re-appropriate $455 billion**

The Trump administration moved Thursday to end several emergency pandemic lending programs at the Federal Reserve, triggering a rare public rift when the central bank objected to the Treasury Department's instruction.

Treasury Secretary Steven Mnuchin, in a letter to Fed Chair Jerome Powell, sought a 90-day extension for four of the central bank's emergency lending programs, while requesting five other programs expire on schedule on Dec. 31 and the Fed return unused funds, allowing Congress to re-appropriate $455 billion and spend the money elsewhere.

The Fed responded in a short statement that it "would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy."

The conflict — a rare public rift between the Fed and the Treasury — comes as the U.S. recovery faces increasing pressure from a resurgent coronavirus pandemic and follows months of deadlock between Republicans and Democrats over the size and type of additional fiscal stimulus. Removing some of the emergency programs has the potential to leave the economy more vulnerable as President-elect Joe Biden prepares to take office in January.

"I am befuddled. It adds insult to injury to an economy that is about to be flooded by the surge in Covid cases, hospitalizations and deaths," said Diane Swonk, chief economist at Grant Thornton in Chicago. "If anything, Treasury should be shoring up the storm wall of these facilities."

Yields on 10-year Treasuries dropped about two basis points amid the news to end Thursday at 0.8 3%. U.S. stock futures pared gains into the close, and S&P 500 emini contracts were down about 0.9% early in the Asia session Friday. The Bloomberg Dollar Spot Index rose 0.2% Friday after five straight days of declines.

The emergency programs created by the Cares Act, the stimulus President Donald Trump signed earlier this year, were set to expire at year-end. Mnuchin is seeking to end the primary and secondary market corporate credit facilities, the Municipal Liquidity Facility, the Main Street Lending Program and the Term Asset-Backed Securities Loan Facility.

“The economy has responded very strongly, but there are still areas of the economy that need more support,” Mnuchin said in an interview. “That’s why I’m encouraging Congress to reallocate this money.”

The secretary sought a 90-day extension for the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, the Money Market Mutual Fund Liquidity Facility and the Paycheck Protection Program Liquidity Facility.

Demand for Main Street loans has picked up in the last few weeks
The Fed programs were launched this spring to stabilize markets and extend credit to U.S. companies as the Covid-19 pandemic took hold. They helped quell the panic but take-up has been relatively low — which the Fed says is a sign that they’ve worked.

Republicans in Congress have used that to argue that they are no longer needed and the billions of dollars sent to the central bank to set them up can be deployed better elsewhere. Democrats, as well as the central bank, say that removing the safety net of these programs as the virus surges again through the country is not a good idea.

“I do think it’s critical that the 13(3) programs, the public market backstop programs and programs that support Main Street and the PPP, that they continue beyond year-end. I think that’s very important,” Dallas Fed President Robert Kaplan said earlier Thursday in an interview on Bloomberg Television, referring to the section of the Federal Reserve Act providing the authority for emergency lending.

Republican Senator Pat Toomey, of Pennsylvania, praised Mnuchin’s move. “With liquidity restored,” the programs should expire, “as Congress intended and the law requires,” Toomey said in a statement Thursday.

The Fed’s intervention into corporate bond markets was particularly effective, staving off a massive wave of bankruptcies. But the government support also stoked record amount of issuance and ultra-low rates, resulting in worries that credit markets were overheating and taking too much risk.

While investors had expected the buying program to continue well into next year, market watchers were relatively sanguine about the demise — for now.

Bloomberg Economics

By Saleha Mohsin and Catarina Saraiva

November 19, 2020, 1:29 PM PST Updated on November 19, 2020, 4:00 PM PST

— With assistance by Steve Matthews, Christopher Condon, Lisa Lee, and Joanna Ossinger

---

The Treasury Is Asking the Fed for Its Money Back. Here’s What It Means for

Markets.

The Federal Reserve will likely be forced to close five pandemic facilities on Dec. 31 and return unused funds unless Congress acts. And while Wall Street watchers say the move could undermine confidence, markets had a muted response Friday.

Treasury Secretary Steven Mnuchin declined to extend the facilities in a late Thursday letter to Fed Chairman Jerome Powell, saying that they had done their job and highlighting that much of their capacity remains unused. What's more, he said, the only facilities slated to close are those financed with Treasury funding appropriated by Congress in the Cares Act. Mnuchin asked the Fed to return unused funds and extend the four programs that don't have that funding.

The Fed, for its part, came out with a statement saying that it "would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy."

Markets' responses were muted on Friday. The S&P 500 was down 0.3%, while the iShares iBoxx $ Investment Grade Corporate Bond exchange-traded fund was down 0.3% and the iShares iBoxx $ High Yield Corporate Bond ETF (HYG) was down 0.2%. And the iShares National Muni Bond ETF (MUB) gained 0.1%.

Still, many Wall Street strategists appear to agree with the Fed.

"While the amount of debt purchased so far isn't necessarily significant relative to the size of the market, we view the signaling of the purchases as important as the purchases themselves," strategists at CreditSights wrote in a Nov. 20 note.

They were writing on investment-grade debt, but strategists in other markets have echoed the sentiment.

"US credit markets will have to get through the winter months in which the surging new wave of the virus and exhaustion of savings from prior fiscal stimulus threaten a loss of economic momentum without a Fed backstop, though with support from vaccine prospects," Evercore ISA economists Krishna Guha and Ernie Tedeschi wrote in a Nov. 19 note. "Mnuchin's move will tighten financial conditions and removes a safety net for markets at the wrong moment."

Vikram Rai, a municipal-market strategist with Citigroup, wrote in a late October note that the "Municipal Liquidity Facility (MLF) MUST be extended beyond year-end 2020."

To get a more detailed idea of the implications of the facilities' closings, it may help to run down what specific facilities are expiring, the markets they were created to support, and their uptake:

The Primary- and Secondary-Market Corporate Credit Facilities:

These two vehicles were created to buy up to $750 billion in corporations' bonds, either directly or indirectly through exchange-traded funds. In the primary market facility, the Fed could buy four-year bonds directly from companies. In the secondary market facility it bought up to five-year maturity bonds that companies have already issued, with their selections based on a broad-based investment-grade market index. The secondary-market facility also bought corporate bond ETFs.

While the Fed hadn't bought any bonds in the primary-market facility, it owned $4.8 billion of bonds and $8.6 billion of ETFs in its secondary-market facility, totaling more than $13 billion.

That is a relatively small sum compared to the maximum $750 billion purchase amount, not to mention the overall size of the $9.6 trillion corporate bond market. Yet corporate bond markets across the quality scale have recovered to their pre-pandemic levels. According to ICE Indexes data, investment-grade bonds are yielding 1.9%, down from 4.7% at the height of March's selloff, and high-yield bonds are yielding slightly less than 5%, down from their 11% pandemic peak.

The Term Asset-Backed Securities Loan Facility, or TALF:

This facility was created to support the market for securities backed by loans, specifically: credit-card loans, automobile loans, student loans, certain types of business and insurance loans, and leveraged loans.

As of Oct. 31, the Fed had lent out $3.7 billion of cash with the TALF, in the form of three-year loans with AAA-rated asset-backed securities as collateral. The asset-backed securities market is about $1.7 trillion, according to the Securities Industry and Financial Markets Association, or Sifma, though a significant amount of those loans are backed by commercial mortgage-backed securities, which are included in the $10.3 trillion mortgage market.

In his letter to the Fed, Mnuchin highlighted steep declines in consumer-loan-backed security yields since the pandemic, indicating a rebound in prices—for both AAA- and A-rated securities. Credit-card asset-backed security yields are only slightly higher than pre-pandemic levels, as are auto loans.

The Main Street Lending Program:

This bundle of facilities was meant to help small-to-midsize businesses and nonprofits access cash. The program—five facilities all managed under a common umbrella—was created to purchase a large proportion of new or expanded loans of at least $100,000 from these entities' lenders. The facilities were created to purchase five-year loans with deferred principal and interest payments.

As of Oct. 31, the MSLP had purchased $4.2 billion of loans, from 419 businesses across the U.S. and one nonprofit. In his letter to the Fed, Mnuchin said that the financial system can now provide credit to businesses, citing a National Federation of Independent Business survey that found only 2% of small and medium-sized firms reported that they had unsatisfied borrowing needs.

The Municipal Liquidity Facility:

This facility was created to lend directly to state and local governments, but was one of the most controversial programs in the Fed's stable, as market participants said its costs were prohibitively high—even after a reduction—and strategists said the Fed didn't want to get too involved with a market that it saw as more Congress's area of focus.

The Metropolitan Transportation Authority and the state of Illinois have used the facility, as the MTA grapples with cratering revenues and Illinois' recent budget trouble threatens the state's credit rating. The MTA has borrowed $450.7 million from the MLF and plans to borrow an additional $2.9 billion by the end of this year, while Illinois has borrowed $1.2 billion.

Even so, the broader municipal market hasn't taken the coming expiration too hard yet, as mentioned above. The worst of the pandemic-related trouble has so far been experienced by regions with high population densities and/or tourism revenues, such as New York and Hawaii, or among issuers that were struggling already with structural deficits. And many of the most embattled issuers say they would rather have grants than than loans.

Still, with a divided government likely after January's runoff elections the question of federal aid is still up in the air. And UBS strategist Tom McLoughlin told Barron's in an interview last week that he believes there could be an uptick in the number of municipalities using the MLF in coming weeks if they believe it will soon expire.

In his letter, Mnuchin cited recent months' declines in municipal bond yields as evidence of the facility's success, even though that market hasn't recovered as strongly as corporate debt markets have.

And broadly, the programs' success appear to be a major reason that Mnuchin feels comfortable shutting them down.

But it is not yet clear how markets will fare this winter, with surging coronavirus case counts and a divided government that looks likely to persist into the new administration in January.

Even so, there is another reason that investors don't seem pessimistic about the facilities' closing at the moment: The possibility that the closing of the facilities will prompt more fiscal support from Congress. In an interview with CNBC on Friday morning, Mnuchin said that fiscal support is a more important factor in coming months, and said he would be working with Congress on Friday to attempt to push forward a deal.

"With lockdowns increasing, though hopefully mitigated by COVID vaccines in the coming months, now is a perfect time to get at least a [small] deal done," wrote Academy Securities strategist Peter Tchir in a Friday note. "So maybe Mnuchin has figured out a way to get the money out directly or is betting that this forces the hand of Congress. I think this might be what the economists who are harshly criticizing this move are missing."

Barron's

By Alexandra Scaggs

Nov. 20, 2020 12:31 pm ET

Biden Needs to Fix Mnuchin's Big Mistake.

The president-elect must safeguard the Fed's lifeline for companies and municipalities.

U.S. Treasury Secretary Steven Mnuchin has just put the country's financial stability at unnecessary risk, by refusing to extend programs that've kept credit flowing to companies and municipalities amid a severe economic crisis. It's now up to President-elect Joe Biden and the Federal Reserve to correct what could prove to be a costly mistake.

At issue are several emergency lending facilities, set up to address a severe credit freeze that accompanied the onset of the coronavirus pandemic in March and April. With $195 billion in backing from the Treasury, the Federal Reserve made about $2 trillion available to small businesses, corporations, and state and local governments, ensuring that they'd have access to the funds they needed to meet their obligations. The mere presence of such a formidable backstop emboldened lenders, making private credit widely available on excellent terms. As a result, the Fed's facilities have gone largely unused. For the most part, this is a sign that they're doing their job, providing the confidence needed for markets to operate on their own.

Now, however, Mnuchin wants to shut them down. In a letter to Fed Chairman Jerome Powell, he said he intends to withhold the approval needed to extend the programs beyond Dec. 31, and asked the Fed to return the capital that the Treasury has committed. His rationale is that he's acting according to the requirements of the Cares Act, that markets' thorough recovery makes removing the backstop completely safe, and that the money could better be used for direct grants.

He's wrong on all counts. When the programs were created, the clear intent was to extend them as long as necessary, just as the Fed did with its emergency lending facilities during the 2008 financial crisis. They remain necessary: With Covid-19 resurgent across the country, the economic outlook darkening, and Congress making no progress on added fiscal relief, it would be profoundly irresponsible to remove the one remaining lifeline that companies and municipalities have. And while direct grants are undoubtedly needed, that's a separate subject: The Treasury's capital is a commitment that it will eventually recoup, and it in no way prevents Congress from allocating funds for grants. It's hard not to see Mnuchin's decision as politically motivated, designed to undermine the incoming administration.

Together, Biden and the Fed can set things straight. The president-elect should affirm that after taking office in January, he'll direct his Treasury secretary to grant the approval that Mnuchin has refused. As long as the central bank doesn't return the Treasury's capital, the Fed should be able to revive the facilities. It's less than ideal, but the knowledge that help is on the way should be enough to get markets through what's turning out to be a difficult presidential transition.

Bloomberg Opinion

By Editorial Board

November 20, 2020, 7:30 AM PST

Steven Mnuchin's Finest Hour.

The Treasury chief decides to end Fed emergency programs as Congress intended.

The late, great Milton Friedman used to say that nothing is so permanent as a temporary government program. That's one of many reasons taxpayers should thank Treasury Secretary Steven Mnuchin for moving to end most of the Federal Reserve's special pandemic lending facilities on Dec. 31 as Congress intended.

This isn't popular at the Fed, which likes its growing ability to allocate credit and please politicians with loans to their allies. It also won't go down well on most of Wall Street, which loves the Fed backstops. And Democrats are unhappy because they want a long-term call on the Fed for their own political ends.

But Mr. Mnuchin has acted in the best interests of the economy and the federal fisc, and the facts of the financial markets and politics explain why. Specifically, Mr. Mnuchin asked Mr. Powell in a letter Thursday to end the facilities that the Fed stood up with money under the March Cares Act. This includes the state and municipal lending program, primary and secondary corporate credit facilities, the Main Street facility for businesses, and the program for asset-backed securities.

All of these programs were created in an emergency at the onset of the pandemic when the financial markets were in danger of melting down. The Fed also stood up facilities, without Cares Act money, for commercial paper, money-market funds, and primary dealer credit.

The programs worked. Even as the pandemic and government shutdowns have waxed and waned, financial markets have healed. Lending spreads have fallen, and liquidity is ample in nearly all markets.

The facilities worked even without the Fed doing much lending. Their existence alone helped restore confidence. Treasury provided some $195 billion in Cares Act cash to backstop the facilities. But the Fed has made only $25 billion in loans or funding for other assets. Small and large businesses have ample access to credit, and so do cities and states.

Democrats are squawking about the Municipal Liquidity Facility going away, but so far it has made only two loans: one to the sorry state of Illinois for $1.2 billion and one to New York's Metropolitan Transportation Authority for $450 million. New Jersey considered the Fed facility, but this week it floated $3.7 billion in bonds paying 1.95% in the private markets and the offer was oversubscribed. If even a deadbeat like Trenton can tap the private markets, there's no need for the Fed to do the lending.

Mr. Mnuchin has also asked the Fed to return $455 billion in unused Cares Act funding to the Treasury. That money will sit in the general fund and Congress can reappropriate it for other uses. It could pay for a new Covid relief bill if Speaker Nancy Pelosi ever agrees to compromise. Or it could be used to reduce the deficit (we can dream).

None of this means the Fed is out of ammo. Mr. Mnuchin has extended for 90 days four Fed facilities that were set up with pre-Cares Act money in Treasury's Exchange Stabilization Fund (ESF). That includes the commercial paper and money-market programs. The ESF also retains some $80 billion, and $50 billion of that could quickly be used to leverage as much as $500 billion in lending if need be. The Fed will also retain $25 billion in its facilities that it could use to leverage another $250 billion.

The Fed issued a statement on Thursday griping about Mr. Mnuchin's decision, which proves the secretary's point. Chairman Powell is behaving like a politician these days, opining on fiscal policy that is not part of his mandate. But it would be an abuse of his authority and a rejection of Congressional intent if he refuses to return the $455 billion to Treasury.

He'd essentially be saying that any money handed to the Fed in an emergency is the Fed's to use for whatever purpose and for as long as the central bank wants. This would be an unprecedented intrusion into fiscal policy. And it would make Congress understandably reluctant to hand more money to the Fed in the future. Senators Mike Crapo and Pat Toomey, who negotiated the Cares Act language in detail, issued statements Thursday supporting Congress's intent to terminate the emergency programs on Dec. 31. Late Friday Mr. Powell replied in a letter to Mr. Mnuchin that the Fed will work with the Treasury to return the money.

The termination is also important to limit the demands by politicians to use the Fed for policies they can't get through Congress. Four Senators, including Minority Leader Chuck Schumer, wrote Messrs. Powell and Mnuchin this month urging that the Fed programs be expanded. Democrats want the Fed to bail out states, invest in public works, add climate mandates and promote racial justice. The U.S. economy doesn't need more politicized credit.

Political actors rarely cede power or money they've received in emergencies, and thus do temporary programs become permanent. Mr. Mnuchin has done a public service in breaking that pattern, and Mr. Powell will as well if he follows that good example.

The Wall Street Journal

By The Editorial Board

Updated Nov. 20, 2020 6:08 pm ET

Letter from Chair Powell to Secretary Mnuchin Regarding Emergency Lending Facilities.

Dear Mr. Secretary,

Like you, I am pleased with all that we have accomplished together this year. We rapidly put in place emergency lending facilities to support state and local governments, small and medium-sized businesses, and large employers. These were novel and complex programs that required us to work productively together. Our efforts helped to prevent severe disruptions in the financial system and unlocked trillions of dollars of private lending to households, businesses, and municipalities at a moment when the economy needed it most.

The CARES Act assigns the Treasury Secretary sole authority to make certain investments in Federal Reserve emergency lending facilities, subject to limits specified in the statute. You have indicated that the limits on your authority do not permit the CARES Act facilities to make new loans or purchase new assets after December 31, 2020, and you have requested that we return Treasury's excess capital in the CARES Act facilities. We will work out arrangements with you for returning the unused portions of the funds allocated to the CARES Act facilities in connection with their year-end termination.

As you noted in your letter, non-CARES Act funds remain in the Exchange Stabilization Fund and are, as always, available, to the extent permitted by law, to capitalize any Federal Reserve lending facilities that are needed to maintain financial stability and support the economy.

November 20, 2020

Mnuchin-Powell Split Shows Rare Discord as Economy Struggles.

- **Treasury secretary, Fed chair typically work in lockstep**
- **Investors will look to whether Mnuchin successor renews**

The top two U.S. economic policymakers clashed over whether to preserve emergency lending programs designed to shore up the economy — a rare moment of discord as the nation confronts the risk of a renewed downturn spurred by the resurgent coronavirus.

The disagreement erupted late Thursday when outgoing Treasury Secretary Steven Mnuchin released a letter to Federal Reserve Chair Jerome Powell demanding the return of money the government provides the central bank so it can lend to certain markets in times of stress. Minutes later, the Fed issued a statement urging that "the full suite" of measures be maintained into 2021.

"This is a significant and disturbing breach at a critical time for the economy," said Tony Fratto, who worked at the Treasury and the White House during the George W. Bush administration. "We need all the arms of government working together and instead we're seeing a complete breakdown," he said, noting that Washington remains at an impasse on fiscal stimulus as well.

Investor reaction to the split was swift amid fears the decision will unsettle markets and impede the economic recovery: futures on the S&P 500 Index were down 0.5% in early Friday trading in Europe, with haven demand sending Treasuries higher and pulling down yields.

Treasury chiefs and Fed chairs typically coordinate closely at times of crisis, appearing jointly before Congress and working in lockstep to ensure funding markets run smoothly. The two agencies were tightly linked in the bailouts of the financial and auto industry more than a decade ago. And they united again in the March 2020 Cares Act economic rescue package, which appropriated cash for the government to finance Fed backstops for everything from municipal to corporate finance after markets buckled when the pandemic hit.

Now, Mnuchin wants some of the money back, arguing many markets are no longer at risk of seizing up and so don't need further aid beyond next month. In his sights are facilities which sought to ease corporate credit and municipal-borrowing and also offered loans to small and medium-sized businesses. He asked that four other programs be kept in place for an additional 90 days.

"Financial conditions are quite strong," Mnuchin said in an interview. "The good news is, the markets have recovered significantly," he said. Companies don't need more loans, and instead require more grant money, which requires action from Congress, he said.

The Fed has argued that the lack of take-up for some of the programs is a sign they've worked.

Mnuchin said that the purpose of his announcement was not to put the Treasury against the Fed, and that he was merely carrying out the law prescribed by the Cares Act. The facilities could be re-activated if needed with either congressional support or with other funds available to the Treasury, he said.

"It appears the Fed may be reading the legislation differently," said Michael Feroli, chief U.S. economist at JPMorgan Chase & Co.

The risk is that divisions between the key economic players undermines confidence at a time when growth is flagging. Fed Bank of Dallas President Robert Kaplan said on Bloomberg TV Thursday that there's the potential for gross domestic product to shrink this quarter and even next.

The economy is also set to go without fiscal stimulus: Republicans and Democrats remain deadlocked on a new package, and measures including extended unemployment benefits are set to expire next month.

"I was a bit surprised" at the Treasury's statement, Raphael Bostic, president of the Fed Bank of Atlanta, told Bloomberg TV. "Given where the economy is — and there's so much uncertainty still out there — it's prudent to keep those things open so that when people, if they do have stress, they can draw upon it."

Among the initiatives that will now no longer be able to extend new credit are two Fed facilities that allowed it to buy corporate bonds for the first time. They helped to unfreeze that market, even before the effort was up and running, and businesses have since logged record amounts of debt issuance.

Another, the Main Street Lending Program, has had a slow start, and the Fed recently loosened its terms to help encourage banks and smaller businesses to participate.

Powell himself said at a virtual conference on Tuesday that the time to discontinue the lending facilities was “not soon,” highlighting that typically the central bank keeps its backstops in place for some time after a crisis hits. He has repeatedly praised the Cares Act for what he’s described as “essential” support amid the historic collapse in GDP in the spring.

The U.S. Chamber of Commerce called for a reconsideration of Mnuchin’s decision.

“We strongly urge these programs be extended for the foreseeable future and call on Congress to pass additional pandemic relief targeted at the American businesses, workers and industries that continue to suffer,” the chamber said in a statement.

The sunsetting of some of the facilities may now build expectations for the Fed to take some other policy action when it wraps its next meeting on Dec. 16. Feroli was among those already anticipating that the central bank could tweak its main asset-purchase program by skewing it toward longer-dated securities.

President-elect Joe Biden’s administration could seek to renew the facilities, or press Congress to authorize fresh funding for them, when it takes office in January. Biden said Thursday that he’s made a decision on who he will nominate as Treasury secretary. Republicans in Congress have said the billions of dollars sent to the central bank can be deployed better elsewhere.

Biden’s Treasury could agree to restart the facilities, as Mnuchin pointed to, using the Exchange Stabilization Fund.

That could be one reason why credit markets may not immediately respond to the Treasury’s move, said Ellen Zentner, chief U.S. economist at Morgan Stanley. Plans by cruise operator Carnival Corp. to sell debt without collateral will test the strength of the market in the meantime.

“If the only implication is you’re going to have a three-to-four week disruption until a new Treasury secretary is confirmed, then credit investors won’t look to sell” for now, Zentner said on Bloomberg TV. The key will be to see whether that renewal will be forthcoming, she said.

Bloomberg Politics

By Chris Anstey and Saleha Mohsin

November 19, 2020, 8:04 PM PST Updated on November 20, 2020, 5:14 AM PST

— With assistance by Kathleen Hays

Municipal CUSIP Request Volume Continues to Surge.

NEW YORK, Nov. 16, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for October 2020. 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 surge in municipal request volume for the second straight month, while corporate volumes declined throughout the U.S. and Canada.

CUSIP identifier requests for U.S. corporate debt declined 9.2% in October, while requests for new U.S. equity identifiers fell 4.9% and Canadian requests were down 8.7% versus last month’s totals.

On a year-over-year basis, corporate CUSIP requests are up 12.2%.

Municipal requests climbed in October. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – surged 31.8% versus September totals. On an annualized basis, municipal CUSIP identifier request volumes were up 15.4% through October. On a state-by-state basis, issuers in Texas requested 300 new municipal identifiers in October, followed by California with 175 and New York with 148.

"The real story in this month's data comes from the municipal market, where issuers have really ramped up access to debt markets," said Gerard Faulkner, Director of Operations for CGS. "In Texas alone we saw 300 identifier requests for new municipal debt issues this month. It's clear that the combination of low rates and increasing funding needs is creating a recipe for increased municipal market activity."

Requests for international equity and debt CUSIPs were mixed in October. International equity CUSIP requests were down 13.8% versus September. International debt CUSIPs increased 5.9% on a monthly basis. Syndicated loan requests were up 38.0% on a monthly basis and down 28.2% year over year.

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

Agencies Provide Temporary Relief to Community Banking Organizations.

The federal bank regulatory agencies on Friday announced an interim final rule that provides temporary relief for certain community banking organizations related to certain regulations and reporting requirements as a result, in large part, of their growth in size from the coronavirus response.

Community banking organizations are subject to different rules and requirements based on their risk profile and asset size. Due to participating in federal coronavirus response programs—such as the Paycheck Protection Program—and other lending that supports the U.S. economy, many community banking organizations have experienced rapid and unexpected increases in their sizes, which are generally expected to be temporary. The temporary increase in size could subject community banking organizations to new regulations or reporting requirements.

With regard to the requirements covered by the interim final rule, community banking organizations that have crossed a relevant threshold generally will have until 2022 to either reduce their size, or to prepare for new regulatory and reporting standards. The rule applies to community banking organizations financial institutions with less than $10 billion in total assets as of December 31, 2019. Community banking organizations with under $10 billion in assets may have fewer resources available to prepare and comply with previously unanticipated regulatory requirements, especially during a time of economic disruption.

The rule will be effective immediately upon publication in the Federal Register, and comments will be accepted for 60 days after publication in the Federal Register.

Federal Register notice: Temporary Asset Thresholds (PDF)

November 20, 2020

Stakeholders Expect Next DOT Secretary to Have a Muni Edge.

Municipal bond market participants want the next U.S. Secretary of Transportation to have more issuer experience and understand the inner workings of the muni bond market.

Many candidates on the table for the next Secretary of Transportation have experience as issuer officials or as legislators dealing with tax issues, which gives localities some comfort.

"When you look at a potential new transportation secretary who has issued general obligation debt or any other creative structures to make infrastructure, rail and roads happen in their region, it?s satisfying because we won't have to start from square one when talking about the market and instead you?re starting from square three and you?re moving forward and beyond," said Emily Brock, director of the Government Finance Officers Association's federal liaison center.

Multiple media outlets have reported Los Angeles Mayor Eric Garcetti, Rep. Earl Blumenauer, D--., and former Chicago Mayor Rahm Emanuel as top contenders for the post.

They bring something new to the table, Brock said.

Biden could announce his pick in the next few weeks. President Trump has not conceded electoral defeat, though the Associated Press and other organizations have declared Biden the presumptive winner.

Current Secretary Elaine Chao was appointed by President Trump in 2016 and was the U.S. Secretary of Labor from 2001 to 2009. Though she does have a significant transportation background, the potential for local leaders to have experience in issuing general obligations is helpful, Brock said.

Blumenauer can be a strong advocate for municipal bonds if picked by President-elect Joe Biden. He was a county commissioner and member of the Portland City Council before being elected as a congressman in 1996. He is currently a member of the House Ways and Means Committee. He also was on the House Transportation and Infrastructure Committee for almost 10 years.

"(Blumenauer) has been a longtime supporter of bonds, from Plain Jane vanilla bonds to private activity bonds," Brock said. "So he understands the different tools in the tool kit. That would be incredibly useful. On the other hand, someone like Garcetti or Rahm could understand conceivably the GO and how it?s used and specifically with regards to transportation."

Biden plans to invest $1.3 trillion dollars over the next 10 years in infrastructure, with a heavy stated focus on resiliency.

"Every federal dollar spent on rebuilding our infrastructure during the Biden Administration will be used to prevent, reduce, and withstand the impacts of this climate crisis,? according to Biden's plan. ?If we transform our modes of transportation and the sources of energy that power them, we can make real progress toward reducing our greenhouse gas emissions."

Brock expects partnerships between local and federal governments to achieve those climate initiative goals.

Marion Gee, finance director at the Metropolitan St. Louis Sewer District and GFOA president, wants to see proposals for grant funding to help localities build resilient infrastructure.

“It will be difficult from a municipalities’ stance to do these projects on a standalone basis, so they’re going to need federal support to build those kinds of projects,” Gee said.

Gee hopes that the next transportation secretary will be an advocate for reinstating tax-exempt advance refunding to help fund future infrastructure projects. Tax-exempt advance refunding was taken away during the 2017 Tax Cuts and Jobs Act.

Last week, the Public Finance Network released a report on the benefits of tax-exempt advance refunding. The National Association of Counties, a PFN member, said pandemic effects on counties? finances would be helped by bringing back advance refunding. NACo plans to work with the next Congress on that issue.

“As described in this new resource, reinstating advance refunding of municipal bonds would improve state and local governments’ ability to invest in critical infrastructure projects, such as hospitals and other health facilities, schools, roads, bridges, water and sewer systems ports, airports and other public works,” NACo said on Monday.

NACo Associate Legislative Director Jessica Jennings wants the next transportation secretary to understand the role counties play in national transportation, adding that counties directly support 78% of public transit and 45% of public roads.

“That’s obviously a huge stake in the national system so having a secretary that understands that and realizes how important the local level is and what we?re doing is really what we need,” Jennings said. Jennings wants direct funding from the U.S. DOT instead of state DOTs.

Jennings also wants to see a fix to the depleted Highway Trust Fund. Biden has said he plans to stabilize it and ensure new revenues, according to his infrastructure plan.

The HTF is in need of funds as it runs mostly on gas taxes while also receiving money from Treasury general funds under existing legislation. Shortfalls in the funds have been filled by transfers totaling $144 billion since 2008, according to the Peter G. Peterson Foundation, a non-partisan research organization.

Highway, transit and airport grant programs run by the U.S. DOT is often used as seed money for issuers and can be leveraged with bond proceeds in order to raise money for infrastructure projects, said Michael Decker senior vice president of policy and research at Bond Dealers of America.

“It’s important that the secretary is committed to those programs, that they are committed to the success and proliferation of those programs and there are going to be opportunities under the next administration to expand some of the transportation-related initiatives that already exist,” Decker said.

One of those programs is the Transportation Infrastructure Finance and Innovation Act, which provides long-term, low-interest loans and other types of credit assistance for constructing surface transportation projects.

In July, Rep. John Garamendi, D-Calif., introduced the TIFIA for Airports Act. In 2019, Sens. Tammy Duckworth, D-Ill., and David Perdue, R-Ga., released a similar bill.

The next secretary could be a leader in expanding TIFIA, Decker said.

Other initiatives on the table are municipal provisions in the House’s Moving Forward Act. The House passed its infrastructure bill, which was folded into the larger Moving Forward Act in July

2020. That bill includes a series of taxable direct-pay bonds and a restoration of tax-exempt advance refunding.

“There are a lot of initiatives on the table in the context of the transportation bill where Congress’ action could be really helpful and I hope that the next Secretary of Transportation would be an advocate for those kinds of changes,” Decker said.

The National Association of State Treasurers is also hopeful the next secretary will be a strong federal partner.

“States need the tried and true tools to continue financing the lion’s share of America’s infrastructure, but we also need a stronger federal partner and additional federal funding in the mix if we are ever truly going to tackle our infrastructure deficit,” said Brian Egan, NAST’s policy director.

By Sarah Wynn

BY SOURCEMEDIA | MUNICIPAL | 11/17/20 01:44 PM EST

Public Infrastructure/Private Service Model For 21st Century Broadband Proves Worthy.

The emerging model presents a scalable option for communities that lack the expertise or interest to operate networks or act as ISPs themselves but want to own and control the core communications assets in their communities as a means of securing the benefits of broadband internet. Here’s a look at the model’s business case, technical elements and risks.

Broadband networks rank among the most important infrastructure assets of our time – for purposes of economic development and competitiveness, innovation, workforce preparedness, health care, education, and environmental sustainability. The criticality of broadband was illustrated when the COVID-19 pandemic shut down the U.S. economy. Households with fast connections were able to continue working and attending classes online. Unconnected households found themselves more cut off than ever.

If there was ever any doubt about the centrality of broadband to the national interest, the devastating pandemic erased this doubt. Yet the United States faces persistent gaps in broadband availability and affordability – as well as a troublingly noncompetitive broadband ecosystem in which most communities are served by only one or, at best, two high-speed broadband providers.

Continue reading.

Broadband Communities

By Joanne Hovis, Jim Baller, David Talbot and Cat Blake

November/December 2020

EPA Receives 67 New Requests for WIFIA Financing.

This year's requests – totaling over $9 billion – are the largest ever for the program.

The U.S. Environmental Protection Agency (EPA) has received 67 letters of interest in response to the agency's 2020 Water Infrastructure Finance and Innovation Act (WIFIA) Notice of Funding Availability. A total of $9.2 billion was requested this year—the largest amount ever requested through the WIFIA program.

"These letters show the incredible interest in the financial support that the WIFIA program provides to communities that are upgrading their water infrastructure," said EPA Administrator Andrew Wheeler.

Consistent with the agency's 2020 appropriation, EPA is offering approximately $5 billion in WIFIA loans to help finance more than $10 billion in water infrastructure projects. The agency received letters of interest from prospective borrowers located in 24 states, including six states that are seeking WIFIA loans for the first time. With these letters of interest, borrowers in 41 states, plus the District of Columbia and Guam, have requested WIFIA loans. Since the program began in 2017, EPA has received requests totaling over $30 billion. Since closing the first loan in 2018, EPA has closed 40 WIFIA loans that are providing $7.7 billion in credit assistance to help finance $16.6 billion for water infrastructure while creating more than 38,200 jobs and saving ratepayers $3.6 billion.

The 2020 letters of interest cover a wide variety of water infrastructure needs, including reducing lead and emerging contaminants and supporting wastewater management, drinking water quality, desalination, stormwater management, and combined approaches. Prospective borrowers include municipal government agencies—such as four small communities—corporations, and public-private partnerships. As the next step in this competitive process, EPA will evaluate the letters for project eligibility, creditworthiness, engineering feasibility, and alignment with WIFIA's statutory and regulatory selection criteria. This winter, the agency will identify projects it intends to finance and invite those selected entities to submit formal applications.

EPA's WIFIA program continues to provide financial support at a critical time as the federal government, EPA, and the water sector work to help mitigate the public health and financial impacts of COVID-19. Since March 2020, WIFIA has announced 24 loans and updated seven existing loans with lower interest rates. These recent announcements will save ratepayers over $1.5 billion.

WaterWorld

Nov 19th, 2020

Ready or Not, 5G is Coming: Governments Need To Be Prepared Today.

5G will revolutionize government operations. State and local governments must start preparing for it now to ensure they can maximize its benefits.

The implementation of 5G wireless and broadband protocol technology around the world is well underway. Before the coronavirus pandemic, approximately 45% of the world's population was slated to have access to 5G-enabled technology by 2024. While the pandemic has decelerated the rate of 5G growth, leading developers of 5G technological equipment, backed by the federal government, are ramping up spending and deployment to meet a sharply increased demand for faster and better internet speed connections.

5G is enterprise-focused, technologically unmatched and geared toward empowering businesses, consumers and governments in ways unimaginable. It will bring enormous benefits to local governments to expand and leverage digital connectivity. For example, 5G will deliver wireless broadband speeds of up 100 times faster than 4G LTE, meaning that governments adequately prepared for it can expect 5G to make their digital operations run much more smoothly and efficiently.

Similarly, energy providers will be able to analyze consumer energy use to make it more efficient, internet of things devices can identify issues with home appliances, vehicles, traffic flow, weather, flight patterns and so on. By some estimates, 5G could spur $13.2 trillion in economic activity by 2035. For local governments, that could lead to major increases in revenue, both from the application and renewal fees for 5G infrastructure devices (30,000 5G units for a 100,000 population city could mean up to more than $8 million in new, annual renewed right-of-way fees alone) and from the tax revenue generated by new industries and businesses.

But it won't be easy for governments to get the most out of 5G without proper understanding and compliance with federal law. If they don't start preparing now to adopt, place, deploy and monitor compliance with federal laws they will find themselves quickly and easily overwhelmed by the significant policy and operational challenges required to build for the 5G future.

The stakes of successfully making the switch to 5G are monumental. State and local governments can't afford to be passive. The problem, however, is that reaping the benefits of 5G will require local governments to tackle several difficult policy and operational challenges.

First, 5G will substantially increase the administrative and management workload for local governments. Most of America's 5G hardware has yet to be built and deployed (despite the commercial ads). With the coronavirus pandemic already elevating the workload and stretching the public sector labor force and localities' tax bases to the breaking point, cities and counties could easily be overwhelmed by the influx of administrative work generated by 5G implementation and possibly miss out on the revenues.

Governments can start preparing for the massive workload and administrative demands from 5G by streamlining their operations, automating their internal processes and upgrading their technology infrastructure to manage renewal fee revenues for system upgrades for regulatory compliance. With the right internal systems in place, governments will find they have the flexibility and efficiency to handle whatever 5G will throw at them. Public-private partnerships could certainly help with this, and governments may want to consider bringing in private sector vendors to help them.

Another challenge related to 5G is the enormous amounts of data that will be created. Governments will have to make hard decisions about how much data they will collect and how they will maintain and protect it. Retaining large amounts of data will dramatically increase the potential harms associated with a data breach. It doesn't matter whether that data is stored on a device or in the cloud, larger data stores present a more attractive target for data thieves. But thieves cannot steal data that has either been deleted after serving its purpose, properly secured or not even collected in the first place. That's why governments need to plan how they will prioritize, organize and potentially minimize the data they collect from their 5G-enabled jurisdictions and cities.

5G has the potential to usher in a new era of tech-savvy, data-driven governance. Governments should take the initiative to capitalize on these innovations and lean into the challenges so that they are best positioned to benefit from the impending 5G transformation. 5G is coming, and in many instances, already here. It's up to state and local governments to be ready for it.

Route Fifty

By Jonathan Gerth

NOVEMBER 20, 2020

Jonathan Gerth is vice president of tax and audit services at Avenu Insights & Analytics.

Still See Continual Inflows Into Muni Market: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, on the health of the muni market. Hosted by Paul Sweeney and Vonnie Quinn.

Listen to audio.

Bloomberg Radio

November 20, 2020 — 10:26 AM PST

HY Munis Worth A Look Vs. HY Corporate Credit Right Now.

Summary

- "High-yield" tends to be associated with corporate credit in investor income portfolios. However, the high-yield/unrated municipal sector is also worth a look.
- We discuss some benefits of HY muni bond CEFs over their corporate analogues such as relative valuation, higher-quality fund portfolios, resilient leverage structures and more.
- We also highlight a number of funds that allocate to the space such as OIA, NMZ and NMCO.

Continue reading.

Seeking Alpha

Nov. 21, 2020

Municipal Bonds: The State Of The States

Summary

- The media has been rife with headlines foretelling revenue shortfalls and a cash crisis for battered state budgets.
- We look under the hood to better assess the status of the headline-grabbing states with the largest debt burdens.
- Bond investors are right to be concerned.

As COVID-19 continues to slow the economy, the media has been rife with headlines foretelling revenue shortfalls and a cash crisis for battered state budgets. We look under the hood to better assess the status of the headline-grabbing states with the largest debt burdens.

Continue reading.

Seeking Alpha

Nov. 11, 2020

Amid a Spate of New Issuance, Municipal Bonds Stand Strong.

Municipal bonds and exchange traded funds, including the iShares National Muni Bond ETF (NYSEArca: MUB), are proving sturdy in the face of a raft of new issuance in the space.

MUB, the largest municipal bond ETF by assets, seeks to track the investment results of the S&P National AMT-Free Municipal Bond IndexTM. The fund generally will invest at least 90% of its assets in the component securities of the underlying index and may invest up to 10% of its assets in certain futures, options and swap contracts, cash and cash equivalents. The index measures the performance of the investment-grade segment of the U.S. municipal bond market.

MUB YTD Performance

"Municipals posted modestly negative total returns in October, with the S&P Municipal Bond Index finishing the month down -0.14%," according to BlackRock research. "Interest rates moved higher as economic data remained firm and the market began to price in an increased likelihood of a Democratic sweep, which, at the time of this writing, appears unlikely. (Bond prices fall when rates rise.) Credit sectors fared better than the more rate-sensitive segments. Muni-to-Treasury ratios in the intermediate and long end of the yield curve declined, but remain high versus the historical average."

Municipal Bonds Are Resilient

Yields on munis have been steadily falling with bond prices rising even before the coronavirus hubbub. After the 2017 tax law changes, demand for tax-exempt munis became more attractive in response to caps in the federal deduction for state and local taxes, especially among higher-tax states. The tax law also diminished supply due to new limits on when governments can issue tax-exempt debt.

Due to the economic shutdown, which led to a spike in unemployment rates across the country, plenty of states are facing budget woes. Some of those with the worst shortfalls are among the largest issuers of municipal bonds, meaning they're also among the biggest weights in this category's ETFs. However, to this point, the muni market is proving resilient.

"October posted the largest monthly issuance on record at $71 billion. Municipalities pulled forward deals ahead of anticipated election uncertainty. Despite the acceleration, supply was well absorbed given the expectation for a corresponding dearth of issuance in November and December. On average, new deals were oversubscribed by 4.6 times, up from 4.2 in September," according to BlackRock.

ETF TRENDS

by TOM LYDON on NOVEMBER 12, 2020

More High-Yield Muni Borrowers Are Defaulting but Investors Still Want In.

Prices on risky bonds have climbed even as repayment troubles have mounted

Covid-19 is wreaking havoc on the market for risky municipal bonds. Investors desperate for tax-exempt yield are still piling in.

Fixed-income returns that come with a tax break have become so precious to affluent American households that they are willing to overlook a spike in defaults, growing reports of repayment trouble and contagion risks of communal living projects.

The S&P Municipal Bond High Yield Index is now only about 1% lower than its pre-coronavirus pandemic level, despite falling 15% in March as global shutdowns roiled the market.

The Federal Reserve stepped in at that time to backstop a variety of assets including municipal bonds, resetting investor expectations about how much risk the pandemic poses to a range of markets from stocks to commodities to corporate and muni debt.

Continue reading.

The Wall Street Journal

By Heather Gillers

Nov. 13, 2020 8:00 am ET

The Mnuchin-Powell Dream Team Faces Its Biggest Test.

The Treasury has resisted extending the Fed's lending programs past year-end. Political pressure will only complicate the decision.

Throughout the U.S. coronavirus crisis, investors have viewed Federal Reserve Chair Jerome Powell and Treasury Secretary Steven Mnuchin as steady leaders who are capable of steering the world's largest economy through uncharted waters. They have appeared together before Congress to give updates on their joint emergency lending programs, which helped restore smooth functioning to corporate-bond and municipal-debt markets. Even when elected officials in both parties dragged their feet on another round of fiscal aid, traders could seemingly rest easy knowing that the Mnuchin-Powell duo would remain above politics and keep markets and the economy on the right track.

That was before last week's U.S. elections, which showed Joe Biden winning the presidency while Republicans appear likely to retain control of the Senate. Now it seems Democrats and Republicans are jockeying for power, and Mnuchin risks being thrown into the fray as well, given that his time as Treasury Secretary is presumably drawing to a close.

The most pressing issue on the table is whether to extend some or all of the Fed's emergency lending programs, which are set to expire on Dec. 31. The Municipal Liquidity Facility, for instance, which offers a backstop to state and local governments, will only accept notices of interest for loans at least 30 days before year-end, according to a central bank statement last month. So as it stands, three weeks from now, no state or city will be able to turn to the Fed to issue bonds at a known interest rate if Covid-19 outbreaks threaten their residents and economies.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

November 12, 2020, 3:30 AM PST

What Does President-Elect Joe Biden's Presidency Mean for Municipal Debt Markets?

In more ways than one, the 2020 American presidential election was a historic one: Joseph R. Biden, the 46th president of the U.S., will be the oldest president to take office and his VP will be the first female to hold the office of vice president in American history.

Aside from these historical measures, many investors are trying to decipher the president-elect Joe Biden's fiscal policies and their impact on the fixed income markets. Furthermore, given the rapid increase in COVID-19 cases throughout the world, how is he going to prioritize his efforts for local governments to ease their financial strains and revive the impaired revenue sources?

In this article, we will take a closer look at President-elect Biden's election promises and how they will likely materialize in the upcoming years.

Financially Strapped Local and State Governments

It is no secret that all local and state governments are faced with some serious liquidity challenges due to their impaired revenue sources due to COVID-19. These challenges are also worsened by the additional expenditures required by these government bodies to combat COVID-19 and provide testing in their respective jurisdictions – which they may not have been prepared or budgeted for.

President-elect Joe Biden will likely get the next stimulus bill passed; this bill has already gone through the House of Representatives, and the Senate has shown some interest in prioritizing this bill post-election. This will not only be a victory for President-elect Biden's camp, but also a piece of legislation that can provide over $436 million in funding for local and state governments. This bill mirrors the earlier tranches of COVID-19 financial help from the federal government, where the local governments submitted their respective claims for funding based on the lost revenues due to COVID-19.

Furthermore, the transportation agencies throughout the U.S. have been one the hardest hit local government agencies. This is strictly because these agencies rely heavily on the ridership volumes for the revenues. Since March, 2020, all – from small and midsize to large – transportation agencies have been severely impacted by the Coronavirus shutdowns and companies allowing their employees to work remotely. The inevitable shelter-in-place orders throughout the U.S. have delivered the hardest blow for these agencies. If passed, this new stimulus bill can be a life saver particularly for transportation agencies including light rail and bus systems.

Be sure to check out our previous article here on how the local government's fiscal resilience is going to be tested long after the COVID-19.

Infrastructure Push and Green Energy Promises

Almost every president in recent history has highlighted the dire need to fix and revamp America's infrastructure, including bridges, highways, airports and much more. President-elect Biden is no different in his promises.

The federal funding required to undertake these projects will be great for the municipal debt market, and local and state labor markets. It's also important to note that many of the infrastructure projects will require Public-Private Partnerships (PPPs) that will help infuse private and public capital into the markets. For example: airports, hospitals, water and sewerage systems and transportation projects, etc., are often built with a PPP, where the local government utilizes their ability to issue municipal debt and partner with a corporation to complete the project.

President-elect Biden also talked about the need to limit our dependency on oil and spend more on developing greener alternatives of energy. These efforts can potentially reignite the conversation about Green Debt issued by municipalities in order to fund projects that may include renewable and energy efficiency projects, pollution prevention and control, clean public transportation conservation, green buildings, and sustainable water and wastewater management.

Potential Changes to the Marginal Tax Rates

Although tough without the democratic control of the Senate, President-elect Joe Biden promised some sweeping changes to the tax-code structure based on the income levels where the marginal tax rates is likely to see a hike for the wealthiest Americans; in-turn, increasing the demand for municipal debt investments to capitalize on the tax-exempt income from local, state and federal taxes.

Under Biden's tax plan, individual taxpayers earning more than $400,000 annually would be taxed at 39.6%, up from 37% currently, and subject to an additional 12.4% Social Security tax on wages split equally with their employer. These changes to the marginal tax rates will make tax-exempt income more lucrative for individuals in higher tax brackets, in turn, driving up demand for local government debt.

President-elect Biden has also promised to restore the earlier corporate tax rates for corporations.

The Bottom Line

Although many things are still unclear about the control of the American Senate, which is the key for President-elect Biden to fulfil many of his campaign promises, American voters have chosen a leader who can work with both sides of the aisle on issues that transcend party lines – American infrastructure and reviving the American economy post COVID-19.

It's clear that the American economy has some challenging times ahead; but, with bi-partisan decision-making, these challenges can be overcome for the betterment of America.

dividend.com

Nov 11, 2020

[Municipal Bonds Faring Well Despite Election/Pandemic Uncertainty.]

The municipal and state bond markets are not being hurt as badly as expected prior to the election and before progress was made on a Covid-19 vaccine, according to Adam Stern, senior vice president and director of municipal research at Breckinridge Capital Advisors, a Boston-based financial services firm with $42 billion in assets under management.

Because Democrats did not take control of the Senate (pending run-off elections in Georgia), there is less likelihood of tax increases in the near future, which should lessen the upward pressure on prices and downward pressure on yields that had been predicted before the election, Stern said in an interview today.

At the same time, a vaccine that could begin distribution sooner rather than later will lessen the need for more stimulus money for municipalities and states, he added. Senate Majority Leader Mitch McConnell has indicated he would like to pass a new stimulus package in the lame duck session of Congress that would be less than the $1.5 trillion discussed before the election.

"More fiscal support is likely necessary to maintain the current recovery," according to a Breckinridge research report. "For munis, additional federal aid would reduce fiscal pressure." At the same time, "state and local issuers have significantly reduced their payrolls. Service cuts of this sort are beneficial to credit quality in the near-term. However, maintaining these cuts indefinitely will prove challenging."

Tax-free municipal bonds should still be readily available in the near future, Stern said. "But we find that ratings downgrades are likely regardless of the federal response. Mass transportation issuers would unquestionably benefit from increased federal aid."

Financial advisors should be on the alert for municipalities and states, such as Chicago and Illinois, that are in dire financial circumstances, he added. Illinois' credit rating has been downgraded to junk bond status in recent days. Although that is not typical of all states, Illinois presents the type of circumstances advisors should be aware of.

On the plus side, essential service municipal bond issuers have managed through the Covid-19 pandemic better than expected. Loose fiscal and monetary policy, coupled with better management of the virus, has helped limit the worst case outcomes, Stern said in a Breckinridge report. "We anticipate a challenging, but manageable, next several months" for bond investors."

Breckinridge said a combination of factors has contributed to a less dire outlook than was predicted a few weeks ago. For starters, fiscal stimulus provided under the CARES Act has been effective as transfer payments averaged 8% of U.S. personal income between April and August 2020, and these payments likely produced higher-than-expected sales and income tax collections.

In addition, very low interest rates likely allowed some borrowers to refinance maturing obligations to avoid credit mishaps, as well as enabling a significant amount of debt refinancing.

Finally, people have done a better job of managing and adapting to the coronavirus.

ETF TRENDS

NOVEMBER 11, 2020 | KAREN DEMASTERS

Public Finance Sector Optimistic about Biden Presidency.

Public finance sector officials are optimistic a Joe Biden presidency will mean strong financial support for state and local governments as well as robust infrastructure legislation.

They also are hopeful the negative impacts of a federal tax overhaul enacted in 2017 will be reversed.

The Associated Press called the presidential race in favor of Biden Saturday based on the vote count in Pennsylvania, where mail-in votes pushed him into a lead projected to be insurmountable. Pennsylvania's 20 electoral votes would be more than enough to push Biden past the 270 electoral votes needed to claim victory.

President Trump, however, has not conceded and his campaign has filed lawsuits in several battleground states contesting the results.

"If Biden is ultimately determined to be president, and even with a Republican Senate, there will be tremendous opportunities for infrastructure, bond, and other legislation and regulatory actions," said Charles Samuels, of Mintz Levin, counsel to the National Association of Health & Educational Facilities Finance Authorities.

His organization represents includes smaller nonprofit hospitals and colleges that would benefit from proposed legislation to would increase to $30 million from the current $10 million, the limit on small borrowers to use bank-qualified bonds. That provision is part of the House-passed Moving America Forward Act that has been blocked by the Senate.

In the next Congress that takes office Jan. 3, the House bill would need to be reintroduced and most likely modified to include provisions favored by the new administration.

Biden "has a deep understanding of municipal finance and the roles that tax-exempt bonds play to build American infrastructure," said former President of the U.S. Conference of Mayors Steve Benjamin, who is the mayor of Columbia, S.C., and president of Municipal Bonds for America.

Benjamin dealt with Biden when the former vice president was spearheading the Obama administration's implementation of the 2009 American Recovery and Reinvestment Act.

"I know from conversations with him and all his senior policy folks that infrastructure is at the very top of his list," Benjamin said. "We will have the preservation of the tax exemption and a number of creative looks at delivering infrastructure all across the country."

Pension funds, institutional investors, and sovereign wealth funds are eager to invest in American infrastructure that will create millions of jobs, Benjamin said.

Emily Brock, director of the federal liaison center at the Government Finance Officers Association who founded the Public Finance network as the voice of issuer groups on Washington policy issues, said her organization looks forward to meeting with Biden.

"We're thrilled to talk with him with our coalition?s efforts to enhance the municipal bond market," Brock said.

Brock said members are encouraged by Biden's support of municipal finance in the past, but wary whether Biden will pursue placing a 28% limit on personal tax deductions.

Benjamin said he had discussions with Biden when he was vice president explaining to him the municipal bond industry's opposition to the 28% limit on deductions.

The Bond Dealers of America was hesitant to discuss a Biden presidency, predicting ongoing litigation will bring uncertainty for weeks.

Mike Nicholas, CEO of BDA, said no matter who is in the White House, he is optimistic for bond initiatives in 2021, including in a future infrastructure bill.

A Biden presidency will make federal infrastructure legislation more doable, said Patrick Luby, senior municipal strategist at CreditSights. The Trump administration also saw infrastructure as a priority, but more in the sense of providing seed money, he said.

"There is a philosophical difference with a Democrat administration that they would be more willing to provide a greater share of federal funding to an infrastructure project," Luby said.

Biden's Build Back Better infrastructure plan has many of the same elements of the $1.5 trillion muni-friendly Moving America Forward legislation passed by House Democrats. That House bill includes many municipal bond provisions such as an increase of the limit on small issuer bank-qualified bonds to $30 million and a new program of qualified school infrastructure bonds.

It also includes upgrades to smart roads, water systems, municipal transit networks, schools, airports, rail, ferries, ports, and calls for universal broadband access.

By Sarah Wynn

BY SOURCEMEDIA | MUNICIPAL | 11/07/20 12:24 PM EST

What Does President-elect Joe Biden's Presidency Mean for Municipal Debt Markets?

In more ways than one, the 2020 American presidential election was a historic one: Joseph R. Biden, the 46th president of the U.S., will be the oldest president to take office and his VP will be the first female to hold the office of vice president in American history.

Aside from these historical measures, many investors are trying to decipher the president-elect Joe Biden's fiscal policies and their impact on the fixed income markets. Furthermore, given the rapid increase in COVID-19 cases throughout the world, how is he going to prioritize his efforts for local governments to ease their financial strains and revive the impaired revenue sources?

In this article, we will take a closer look at President-elect Biden's election promises and how they will likely materialize in the upcoming years.

Continue reading.

municipalbonds.com

by Jayden Sangha

Nov 11, 2020

Five Ways The Biden Administration May Affect U.S. Transportation.

With a new President comes new priorities and direction, and the Biden administration will hit the ground running in January. The Federal Government makes policies that affect how goods and people move, so it is likely that changes in how this happens are afoot. Here are five ways that a Biden administration will likely affect U.S. transportation policy:

Increased Government Spending

Most presidents have liked to spend money, but a Biden presidency will likely encourage the lame duck session to pass a stimulus package that in part would help the airlines again. More importantly, a Biden administration is likely to drive a true infrastructure bill that could have positive impacts on airports and air traffic control at least. Of course highways and rail can benefit as well, and perhaps drone technology too. Our economy needs people and goods to move freely and efficiently, and thus any infrastructure spend would be focused on making this happen while improving safety for consumers.

Amtrak Stays On Track

"Amtrak Joe" has been a life-long supporter of the National Passenger Rail Service, and has spoken often of the efficiency of trains. While I wouldn't expect a Biden administration to favor trains over airplanes for most intercity travel, I would expect major funding to Amtrak to allow the railroad to invest in its rolling stock, trackage, and fund longer haul train losses. Any talks of privatizing Amtrak will likely be squashed during this presidency, and the leadership at Amtrak will have the strongest possible supporter in the White House.

Federal Minimum Wage Standards Could Raise Local Costs

Federal efforts to raise the minimum wage, already addressed by some states, would help those at the lower end of the pay scales but also raise costs for smaller local transportation operators among others. This possibly could reduce air service to smaller cities, if an increase in the cost of servicing the plane makes the trip uneconomic. More likely, prices to travel by train, plane, and car would increase a bit to cover this higher labor cost. In a highly price elastic market, this would result in somewhat lower demand.

More Regulation

Transportation in the U.S. is highly regulated the areas of safety, licensing, and maintenance. But consumer advocacy focused regulation, active in the Obama administration but quiet for the last four years, may re-appear though airlines will push against this. This could be focused in areas of ancillary revenue charges, seating density, taxes that would be passed through to customers, refund ability, and more. In cars, improved gas efficiency standards could raise the purchase cost of automobiles and trucks. Less likely but perhaps considered would be investment by foreign companies in US airlines or for foreign airlines to fly within the US. Also, as airlines restructure due to demand losses this administration's views on potential merger agreements will likely change from the current president. It's hard to underestimate the creativity with which regulators will wish to control business, and transportation is ripe for this kind of approach.

Support For Organized Labor

The U.S. Airlines and Railroads are highly unionized industries, and a Biden administration with a more progressive labor agenda will be friendly to collective bargaining. This would have no immediate impact on deals currently in place, but could change the tone of future negotiations. Labor in these areas is governed not by typical U.S. Labor law, but by the Railway Labor Act. This act, meant to reduce disruptions in the national transportation networks, makes negotiations drag out at times and in extreme cases could make a Presidential Emergency Board decision requested to stop a planned work action. Thinking this could happen in four years is not realistic, and yet workers in the national U.S. transportation businesses, like the Amtrak employees, will know they have a president that backs them.

Forbes

by Ben Baldanza

Nov 9, 2020

States and Localities Shouldn't Count on More Federal Aid.

Mitch McConnell and other Republicans are opposed to further aid for states and localities. It looks like the Senate will stay in GOP hands, so prospects for relief next year have dimmed.

President-elect Joe Biden most likely will be dealing with a Senate led by Republican Mitch McConnell. That bodes ill for a lot of Democratic hopes, including major fiscal relief for states and localities.

It takes two sides to make a deal, so perhaps there's something Democrats can trade in exchange for more aid. But that's been the expectation for months now and McConnell hasn't budged.

"Sen. McConnell has put down the marker pretty strongly about why they think a bailout of the states is a bad idea," says Jonathan Williams, chief economist at the American Legislative Exchange Council. "I tend to think that Senate Republicans will hold together and say there are more effective ways to spend money than to send it to state and local governments as a pass-through."

Continue reading.

GOVERNING.COM

ALAN GREENBLATT, SENIOR STAFF WRITER | NOVEMBER 9, 2020

Fed's Mester Says All Emergency Lending Facilities Should Be Extended.

(Reuters) – The emergency lending programs the Federal Reserve set up during the coronavirus pandemic have eased distress in financial markets and are still needed, Cleveland Federal Reserve Bank President Loretta Mester said on Monday.

In addition to slashing interest rates to near zero levels in March and ramping up its asset purchases, the Fed set up a slate of emergency lending facilities to support the markets for commercial paper, municipal bonds, corporate debt and more.

While some of the programs have been lightly used, Mester said their presence serves as a backstop that helps to smooth markets that are not yet in the clear after being disrupted because of the pandemic, she said.

“I don’t think we’re out of the extraordinary situation that they’re meant to help with,” Mester told reporters. “I think they are needed at this point, given where we are.”

Fed Chair Jerome Powell will be working with the Treasury Department to determine if the programs should be extended beyond the end of the year, Mester said.

“But in my view, if it were me, I would extend all of them,” Mester said. “The fact that they exist provides confidence to the markets.”

The policymaker stressed that the Fed is not out of ammunition when it comes to stimulating the economy and that it could provide more accommodation by adjusting its asset purchase program and using other tools.

Mester also said that the economy rebounded more strongly than she expected, but gains have not been evenly spread. Despite promising news on Monday about a vaccine being developed by Pfizer PFE.N and BioNTech 22UAy.F, , Mester said she thinks economic growth will happen more slowly going forward.

The economy will need support from both fiscal and monetary policy to fully recovery, she said. “There’s still a long way to go.”

By Jonnelle Marte

NOVEMBER 9, 2020

Reporting by Jonnelle Marte; Editing by Chris Reese and Aurora Ellis

---

[Federal Reserve’s Emergency Loan Programs at Center of Political Fight.]

Democrats are eyeing the programs as a backup option if they can’t strike a deal to aid states and localities, and believe they may be needed to backstop markets. Republicans want them off the table.

WASHINGTON — A political fight is brewing over whether to extend critical programs that the Federal Reserve rolled out to help keep credit flowing to companies and municipalities amid the pandemic-induced recession.

The dispute has the potential to roil financial markets, which have calmed significantly since the Fed announced in March and April that it would set up backstops in response to market turmoil spurred by the coronavirus pandemic.

Those programs expire on Dec. 31, and it is unclear whether the Trump administration will agree to extend them. The Federal Reserve chair, Jerome H. Powell, and Treasury secretary, Steven Mnuchin, must together decide whether they will continue the programs — including one that buys state and local bonds, another purchasing corporate debt and another that makes loans to small and medium-size businesses. The officials will probably make that decision by early to mid-December, according to a senior Treasury Department official.

The Fed might be inclined to keep the efforts going, but Mr. Mnuchin, whose Treasury Department provides the funding backing up the programs, has signaled that he would favor ending the one that buys municipal bonds. And he is under growing pressure from Republicans to allow all five of the Treasury-backed programs to sunset.

Senator Patrick J. Toomey, a Pennsylvania Republican who could soon lead the Senate Banking Committee, is arguing that the Fed and Treasury do not have the legal authority to extend new loans or buy new securities beyond this year without congressional approval, according to a person familiar with the matter. While that view is disputed by legal experts, Mr. Toomey also believes it was Congress's intent for the relief programs to end on Dec. 31.

The programs's expiration could come at exactly the wrong moment, as the U.S. faces an expected surge in coronavirus cases this winter and as fiscal stimulus measures that Congress passed in the spring fade. While lawmakers have toyed with passing a new relief bill before next year during the lame-duck session of Congress, President Trump's election loss makes the outcome highly uncertain.

"Cliffing the programs at year-end would be ill advised, opening markets up to a year-end disruption," said Scott Minerd, the global chief investment officer at Guggenheim Partners, who expects the programs to be extended.

Mr. Mnuchin has made clear in responses to congressional questioning that he does not favor extending the municipal bond program. While Mr. Mnuchin's comment was specific to that effort, a senior Treasury official laid out reasons for allowing the others to end, mainly centered on a belief that the worst of the economic crisis has passed and the programs should not be a replacement for support from Congress.

But the programs are mostly designed as backup options: The financial terms for buying state and local debt, for instance, are not generous enough to compete in a market functioning well, and the corporate bond program is now making only small-scale purchases. Their main purpose has been to reassure investors that the central bank is there as a last-ditch option if conditions worsen.

Economists and analysts say there is logic in keeping that option open until a vaccine is widespread and the crisis is clearly over — and there is plenty of capacity left in the Fed's programs to buy more debt and make more loans. But the central bank cannot make material changes to the programs' terms to keep them running into 2021 without the Treasury's signoff.

Some Democrats had begun eyeing the municipal program as a backup option in the event that state and local government relief proved hard to pass through Congress. While the program's terms are unattractive now, they could in theory be sweetened under a Biden administration Treasury Department. Taking that program off the table would leave Democrats with fewer options — and give Republicans another bargaining chip in stimulus negotiations.

Mr. Toomey has talked about limiting the backstop programs for months, on the basis that they are no longer needed and might discourage private investment. Politico reported last week that he would favor letting all the programs end.

Lawyers generally agree that the Fed and Treasury can extend the programs without Congress — the way they are structured means that the Treasury has already made loans to the Fed, which then uses that money to insure against risk as it buys bonds and makes loans. The law that provided the funding allows such “existing” loans made from the government appropriation to remain outstanding.

Democrats also disagree with Mr. Toomey’s take.

“It’s clear that the Fed and the Treasury have the authority to extend the facilities, and they should,” said Bharat Ramamurti, a Democratic member of the Congressional Oversight Commission, which oversees the programs. “There is continuing need for municipalities and smaller businesses, and there is a significant chance of market disruption if these facilities are not extended.”

Senators Sherrod Brown of Ohio, Elizabeth Warren of Massachusetts, Mark Warner of Virginia and Chuck Schumer of New York — all powerful Democrats — sent Mr. Powell and Mr. Mnuchin a letter last week saying that the law “is clear that these facilities can be extended” on the Treasury and Fed’s authority and that “failing to signal the agencies intent now creates undue uncertainty and threatens the programs ability to promote economic recovery.”

If a coronavirus vaccine is rolled out in the coming weeks, the Treasury Department may be less inclined to extend the programs. Mr. Trump could also block a reauthorization by pressuring Mr. Mnuchin, leaving Mr. Biden with fewer economic stimulus tools at his disposal.

There are some signs that the programs could expire without causing a catastrophe. Markets are functioning normally now, having calmed after the Fed signaled that it would set up the backstops. It might be that investors have overcome the panic of the spring and no longer need a backup option from the Treasury and Fed.

But it is also possible that the comfort and security provided by a Fed backstop is still needed.

Millions of people remain out of work, the service sector continues to be hard hit, and state and local governments are facing budget shortfalls, albeit smaller ones than some had initially projected. Further shutdowns, even localized ones, amid rising coronavirus cases could cause a reversal in risk taking that roils markets once more.

“Some market participants have asserted that the expiration” of the municipal program “may be a nonevent since its existence is not essential for market functioning any more,” market analysts at Citigroup wrote in a recent research note. “These assertions are wrong, in our view.”

Analysts interviewed by The New York Times were divided on what ending the programs could mean for markets. Some believed they could function on their own, with the economy recovering nicely. Others pointed to risks looming ahead and suggested that removing the backstop now would be a bad idea.

“You need to see those facilities extended, particularly if you’re not going to see stimulus,” Matthew Luzzetti, the chief U.S. economist at Deutsche Bank, said in an interview last week. “Just having that backstop has been a really important signal to the market that the Fed is there.”

Asked at a news conference last week whether the programs would be extended, the Fed chair demurred.

“We are just now turning to that question,” Mr. Powell said. “We’ve had a lot of things to work our way through.”

After the news conference, Michael Feroli, an economist at JPMorgan Chase & Company, wrote in a research note that for the programs to be extended, “not only will the Fed Board have to decide that it is needed, but Treasury will also have to be convinced that it is both needed and legal."

The New York Times

By Jeanna Smialek and Alan Rappeport

Nov. 9, 2020

[Political Battle Looms Over Fed's Emergency Loan Programs.]

Treasury Department faces pressure to allow lending backstops to expire, but some Fed officials fear the move could be premature

The success of the Federal Reserve's emergency lending programs in stabilizing financial markets is fueling a political battle over whether the programs should be extended.

Divisions over their future are being amplified by partisan gridlock in Congress over whether to provide more economic stimulus. Democrats, looking ahead to President-elect Joe Biden's inauguration in January, see the programs as a potential tool to deliver more aid if Congress doesn't act, while some Republicans are worried about relying on central bank lending powers as a substitute for congressional spending decisions.

The tussle could open a divide between the Fed and the Treasury Department, which have mostly collaborated smoothly this year over providing emergency support after the coronavirus pandemic convulsed Wall Street. The Treasury launched the programs with the central bank in March and April after that turmoil threatened to freeze the flow of credit to small businesses, large companies, cities and states.

Continue reading.

The Wall Street Journal

By Nick Timiraos

Nov. 10, 2020 2:42 pm ET

[With the Election Over, Will Covid Stimulus Actually Move Forward?]

Sen. Majority Leader Mitch McConnell said Congress needs to approve a coronavirus aid package before the end of the year.

Senate Majority Leader Mitch McConnell on Wednesday said approval of another coronavirus stimulus package before the end of the year would be his top priority when the Senate reconvenes next week. Funding for state and local governments, a sticking point in prior negotiations, could also be considered, he said.

"We need another rescue package," McConnell said during a press conference in Kentucky, where he won reelection. "Hopefully the partisan passions that prevented us from doing another rescue package will subside with the election. And I think we need to do it and I think we need to do it before the end of the year."

The Senate will be back in session Monday, and McConnell said a stimulus deal and omnibus spending bill to keep the government open will be the focus in the coming months. He had earlier suggested that a deal was not likely until early next year.

Talks over another possible coronavirus stimulus bill had stalled for months ahead of the election as Senate Republicans, House Democrats and the Trump administration were unable to come to agreement on a deal. Disagreement about a potential package continued, even as unemployment figures suggested a slow down in the economic recovery. Local and state officials also lobbied for more help, saying they are still spending money to respond to the pandemic, while tax revenues shrank during the economic downturn.

State and local governments will still need financial support even if the coronavirus pandemic subsides over the winter, said Mike Leachman, vice president of state fiscal policy at the Center for Budget and Policy Priorities. State and local governments have furloughed or laid off 1.2 million workers, and are likely to face budget shortfalls exceeding $500 billion over the next two years, he said.

"The economic decline we've seen this year is entirely due to the pandemic," Leachman said. "That's why state revenues are down and that's why they need aid."

But with Republicans less receptive to the idea of providing financial assistance to state and local governments, the results of the election will have implications for any future aid package.

As the vote count in battleground states continued Wednesday, Wisconsin and Michigan were called for Democratic presidential candidate Joe Biden, making it more likely he would beat President Trump. Republicans appeared likely to retain control of the Senate, while Democrats kept the House.

But exactly how those dynamics will play out remain uncertain. In the days leading up to the election, Trump expressed renewed support for more financial aid to help people and businesses affected by the pandemic. It isn't clear what the president's position will be if he is voted out of office and asked to consider a new package during a lame duck session.

Before the election, House Speaker Nancy Pelosi also emphasized that she remained far apart from the White House on key points, including financial aid for state and local governments.

McConnell said Wednesday he'd be open to the possibility that state and local assistance is included in a stimulus bill, but he said funding may need to be curtailed to localities that can demonstrate certain levels of need in order to qualify.

"It's a big item for Democrats and it is not something my side is very fond of because it's hard to figure out who really needs it and who doesn't," McConnell said.

One possibility for approving stimulus initiatives could be to attach measures that both sides agree on to a must-pass spending bill, said G. William Hoagland, senior vice president of the Bipartisan Policy Center. A stopgap spending bill approved in September only keeps the federal government funded through Dec. 11.

"One way or another, something will have to be done in the lame duck session just to keep the government operational," Hoagland said.

A federal extension of unemployment benefits and funding for Covid-19 testing, tracing and vaccine distribution could all be likely measures for including in a government funding bill, he said. But because funding for state and local governments remains a controversial topic in Congress, Hoagland said it seems unlikely to be tacked on to other legislation.

ROUTE FIFTY

by ANDREA NOBLE

NOVEMBER 4, 2020

Divided Government May Push the Fed to Go Bigger. Here's What That Might Look Like.

Gridlock in Washington doesn't seem to be going away, and a divided government probably won't be providing much more help to an economy still ailing from the coronavirus.

That's bad news for the growth outlook. After all, the economy is still about 5% smaller than it otherwise would have been, with roughly 11.6 million Americans still unemployed or underemployed compared with February. And while roughly 20 million Americans have returned to work since April, the recovery hasn't been enough to prevent millions of people being jobless for longer than 26 weeks. Moreover, many of those who have gotten rehired since April are nevertheless in a bad financial situation, given the low level of wages of the jobs that have been added and the depletion of household savings.

Continue reading.

Barron's

By Matthew C. Klein

Updated November 9, 2020

Here Are All The Coronavirus Relief Programs Expiring At The End Of The Year.

As coronavirus cases surge across the country and new stay-at-home orders threaten further damage to an already fragile economic recovery, millions of Americans will lose crucial federal benefits if Congress can't come to agreement on a new round of stimulus legislation.

Continue reading.

Forbes

by Sarah Hansen

Nov 15, 2020

Pelosi Touts Possible Bipartisan Cooperation on Infrastructure After Election.

The House speaker also said she has no plans to stop pressing for a big coronavirus relief deal. Meanwhile, at least one top Senate Republican also indicated it's possible Democrat and GOP lawmakers could come together on a public works plan.

U.S. House Speaker Nancy Pelosi on Friday pointed to a large infrastructure package as an area where Democrats and Republicans might cooperate with Democrat Joe Biden in the White House, but Republicans maintaining control of the U.S. Senate.

Pelosi also rejected the idea of Democrats downsizing their ambitions for another round of coronavirus relief in order to strike a compromise with Republicans, and specifically emphasized the need for more federal financial assistance to state and local governments.

"No, it doesn't appeal to me at all," Pelosi replied when asked during a press conference about her openness to a scaled-down relief bill.

She noted that, since the pandemic began, there have been hundreds of thousands of jobs cut in the state and local public sector "because of the funds that have been used to address the virus and lost revenue."

Democrats have been pushing in recent weeks for a roughy $2 trillion package. A bill they pushed through the House in October included upwards of $400 billion for states and localities.

Biden won the presidency on Saturday, clinching the lead in key battleground states, and was close to winning when Pelosi spoke on Friday.

Exactly which party will control the Senate is still up in the air. Partisan control in the closely divided Senate looks like it likely will hinge on a pair of runoff elections in Georgia in January.

In the House, Democrats are expected to maintain their majority, despite losing seats.

At least one key Republican on Friday also raised the possibility of infrastructure legislation—Sen. Lindsey Graham, of South Carolina, who after his reelection this week noted that he is in line to chair the Senate Budget Committee if the GOP keeps control of the chamber.

With Republicans in charge, Graham warned, "the agenda coming out of the House is dead on arrival in the Senate." But he also said there's "plenty of space to find common ground on infrastructure."

"I think there's a lot of bipartisanship for roads and bridges and ports," Graham told reporters during a video call. "We need to redesign the Highway Trust Fund because there are less cars on the road using gasoline and the Highway Trust Fund is based on gas taxes."

Pelosi characterized House Democrats "Moving America Forward" proposal from earlier this year—a $1.5 trillion package of bills—as a possible starting point for talks about infrastructure and said it was similar to plans that the Biden campaign has outlined.

"As we go forward with an infrastructure bill, that is usually not partisan," she said.

During his time in office, President Trump repeatedly expressed an interest in a large infrastructure package and discussed this possibility with Pelosi and other Democrats at times. But a deal has proved elusive, with funding a key sticking point.

Pelosi blamed the president for a lack of leadership on the issue, saying that he talked up the idea of a sweeping public works plan only "until it came time to make the tough decisions about paying for it and the rest and then he stomped out of the room."

Republican leaders in the Senate have generally been cool toward the idea of passing a massive new public works package during Trump's tenure and never lined up behind a funding proposal.

The U.S. Chamber of Commerce this week highlighted infrastructure and another round of coronavirus stimulus as two of its top post-election priorities. The Chamber has backed the idea of a new federal infrastructure investment program previously.

Graham, who won reelection defeating Democratic challenger Jaime Harrison by about 10 percentage points, drew attention at the end of the week for aligning himself with Trump as the president made unfounded allegations about voter fraud.

But the South Carolina senator said Friday that he will be willing to look for ways to work with Biden on certain issues if the Democrat wins. Graham also said he wants to move ahead with another stimulus bill before January, prior to the next presidential term beginning.

"I've been in the camp of going big," he said of the virus relief legislation. "We need a big package." But he also acknowledged that some fellow Republicans don't agree with him on this.

Republicans in recent months have been resistant to the idea of funneling large additional sums of federal aid to state and local governments as part of further coronavirus relief.

ROUTE FIFTY

by BILL LUCIA

NOVEMBER 6, 2020

Transforming Municipal Water Performance.

Exploring the economic challenges of running a municipal water utility during a pandemic

Publicly owned and operated water utilities are increasingly running up against tight budgets, debt obligations, and other barriers to investment as user charges, municipal bonds and traditional financing tools fail to keep up with the level of need.

While governmental departments provide some financial support for municipal water infrastructure, most water investment is locally driven, and municipalities must prioritize their improvements based on a specific set of economic, political, and environmental factors—often easier said than done. A municipal utility's ability to generate revenue is far more limited than that of an investor-owned utility and many municipalities do not have the capacity to take on additional debt. From complying with new regulatory requirements to preparing for the next major storm, municipal utilities must carefully weigh local needs when launching new investments.

Utilities must overcome several financial hurdles to address aging pipes and water mains, as well as wastewater treatment and transport concerns, including rising operating costs and unpredictable revenues that can make it difficult to maintain self-sufficiency and make long-term capital plans. Meanwhile, many municipal utilities are dealing with a heavy debt burden, and are underfunded, with many not investing sufficiently in their networks to keep up with decaying infrastructure.

The gap continues to grow between water and wastewater capital needs and historical public and private capital investment. Meanwhile, regulatory pressures over water quality increase, and environmental burdens of severe storms or severe droughts become more frequent. All of these combine to intensify the challenges facing cash-strapped municipal utilities.

With these challenges providing the backdrop, the COVID-19 pandemic is now providing additional financial performance challenges for municipal water utilities. A recent report prepared for the American Water Works Association and the Association of Metropolitan Water Agencies estimated that the aggregate financial impact of COVID-19 on drinking water utilities in the U.S. alone will likely be approximately $13.9 billion, which represents an overall 16.9% financial impact on this sector. These new pandemic-related financial impacts are the result of two unexpected impacts. First, increased costs due to operational challenges needed to handle social distancing and remote working. Second, utilities are anticipating reduced revenue due to lower non-residential water demand during lockdowns, due to some customers' inability to pay their bills, and also the no-disconnect policy followed by many utilities during the COVID-19 crisis.

Tackle Performance Challenges With Innovation

Pandemic challenges aside, many water utilities were already struggling, focusing on yesterday's work without the capacity to plan ahead. Few have proactive business models in place, and even fewer are able to invest for performance.

A few years ago, Global Water Intelligence (GWI) launched Leading Utilities of the World (LUOW), a global network of the world's most successful and innovative water and wastewater utilities. The goal of the group is to drive performance across the water sector by recognizing achievement and celebrating those successes while inspiring others in the industry. For example, LUOW member Dubai Electricity & Water Authority's AMI project helped the utility save 1.4 billion gallons of water in 40 months and increased revenue by $13.7 million USD.

It is not just economics that separates the successful utilities from those struggling to keep up. The winning combination, as evidenced by LUOW members, is leadership and innovation. San Francisco Public Utilities Commission, faced with the multiple challenges of earthquakes, aging infrastructure and droughts, diversified its water resources through four different initiatives: conservation, groundwater, recycled water, and non-potable water. As a result of these initiatives, per capita consumption is now averaging only 40 gallons of water per day per person.

Other municipal utilities are facing these challenges through integrated water resource management (IWRM), which emphasizes collaboration and information sharing to bridge the gap between different public and private shareholders while improving financial and environmental outcomes.

In some areas, there are efforts being made to encourage "utility strengthening through consolidation." For example, California State Water Resources Control Board is encouraging "water partnerships" (local resource sharing, physical or managerial consolidation, or full regionalization) to benefit from economies of scale and to save meager resources that can then be spent on necessary improvements, funding reserves or paying down debts.

Further, municipalities and municipal associations often contract out water and wastewater services to private sector companies such as SUEZ, Veolia and Inframark. In these cases, these companies provide scalable solutions depending upon the need of the municipal utility through public-private partnerships and comprehensive asset management contracts. Through this type of contractual arrangement, municipalities can outsource the management and operation of their water and wastewater systems while retaining control, ownership of their assets, and rate-setting authority.

It is this same long-term planning and execution of innovative approaches to performance management that have positioned some municipal water utilities to weather the impacts of the COVID-19 pandemic better than others. While the impact of the pandemic will vary for individual water utilities depending upon its impact on their customers, with utilities heavily associated with C&I and institutional customers, high unemployment, or already stressed cities likely to take a greater financial hit, the water utility sector has had previous practice dealing with periods of stress due to droughts. In an American Water Works Association-sponsored webcast in mid-May focused on the financial impacts of the pandemic, Helen Cregger, Moody's vice president and senior credit officer of public finance, noted that such periods of stress have prompted utilities to build cash reserves and increase fixed charges, and these will help them ride out this unexpected storm.

Embrace Electric Utility Strategies to Improve Water Utility Performance

The COVID-19 crisis has utilities across the board looking at ways in which to conserve capital, and it is here that water utilities can look to the electric utility industry for inspiration. For a municipal water utility with economic challenges, the key first step is to focus on making more of what is on hand: by operating and maintaining existing assets by and taking a more analytical approach. This can unlock new capacity to do new work. By better managing existing assets utilities can alleviate or postpone massive capital expenditures on new infrastructure.

As a second step, municipal water utilities can also embrace the asset and network management techniques being adopted by electric utilities.

Through network sensors, IoT, and real-time analysis of the data provided, water utilities can increase their understanding of their network assets. Adding sensors and other IoT devices will allow the utility to access first-hand information from the field, clarify asset health, and feed that data back into planning and maintenance systems faster, to better optimize asset performance and reduce incidences of failure.

Using a network management system and its modeling capabilities (as electric utilities have been doing for years) to create a water network model will provide the utility with a better understanding of flow and potential leakage areas within the system, allowing for better maintenance planning.

As a third step, municipal water utilities need to seriously consider moving their enterprise applications for asset, metering, and billing to the cloud, either alone or in tandem with other neighboring utilities in a resource-sharing, multi-tenant arrangement.

The cloud offers flexibility and modularity, providing a scalable, reliable, and agile platform for every utility's core business. It is a much quicker route to new features and functionality than on-premises implementations, allowing utilities to cut costs and remove the upgrade burden, allowing them to repurpose budgets and staff to focus on value creation.

WATER & WASTE DIGEST

BY KATE ROWLAND

NOV 11, 2020

COVID-19 Recovery: WIFIA's Role

As part of the nation's COVID-19 response, federal policymakers should consider expanding and repurposing existing federal financing programs like U.S. EPA's Water Infrastructure Finance and Innovation Act (WIFIA) Loan Program.

In many ways, the economic consequences of the COVID-19 pandemic are just beginning for state and local governments and public-sector infrastructure agencies. They will face the direct effects of the prolonged shutdown on revenues and expenditures while being responsible for economic and social recovery in their communities. These challenging conditions will likely persist for years.

Even for those governments and agencies in good long-term financial shape, financing assistance may be critical to help manage the massive budget dislocations caused by this unprecedented crisis. Such assistance is especially effective for infrastructure agencies to keep major projects from being delayed or canceled due to unexpectedly lower revenue expectations.

The federal government's role in the pandemic's economic recovery is well recognized. But plans for specific federal financing programs are far from finalized. Many in Congress are calling for the $500 billion Municipal Liquidity Facility (established by the Federal Reserve in the CARES Act) to be amended to offer cost-effective loans. This concept is included in several bills recently passed or proposed in the House, but full enactment is still a distant prospect in the current political environment. And even if new sources of federal credit were established, the design and implementation of large-scale lending programs is a major task. It can't be accomplished overnight.

Continue reading.

Water World

by John Ryan

Nov 11th, 2020

SEC Commissioner Lee: SEC Must Address Systemic Financial Risk Posed by Climate Change - Cooley

At last week's PLI annual securities regulation institute, SEC Commissioner Allison Lee gave the keynote address, *Playing the Long Game: The Intersection of Climate Change Risk and Financial Regulation*. She began her remarks with the pandemic as metaphor: a global crisis that, before it struck, was "understood intellectually to be a serious risk," but not fully appreciated as something we really needed to worry about. Now, we have experience of a crisis, no longer viewed "antiseptically through our TVs or phones, but firsthand as it unfolds in our homes, families, schools, and workplaces—not to mention in our economy. Seemingly theoretical risks have become very real." Another dramatic risk that looms even larger with potential for more dire consequences is the topic of Lee's remarks: climate change. According to a 2018 study by scientists in the U.K. and the Netherlands, the "point of no return" for achieving the goal of two degrees Celsius by 2100 set by the Paris Accord may arrive as soon as 2035. To be sure, the lesson from the pandemic is "not to wait in the face of a known threat. We should not wait for climate change to make its way from scientific journals, economic models, and news coverage of climate events directly into our daily lives, and those of our children and theirs. We can come together now to focus on solutions." And while this is hardly Lee's first rodeo when it comes to advocating that the SEC mandate climate risk disclosure, it seems much more likely now, with the imminent change in the administration in D.C., that the SEC may actually take steps toward implementing a regulatory solution.

Acknowledging that the SEC does not make policy to address climate change, Lee highlights the role the SEC does play—protecting investors, facilitating capital formation and maintaining fair, orderly and efficient markets—and how they all intersect with climate change. At a high level, financial regulators, including the SEC, must understand and, "where appropriate, address systemic risks to our economy posed by climate change. To assess systemic risk, we need complete, accurate, and reliable information about those risks. That starts with public company disclosure and financial firm reporting, and extends into our oversight of various fiduciaries and others. Investors also need this information so they can protect their investments and drive capital toward meeting their goals of a sustainable economy."

According to Lee, there is a "growing consensus that climate change may present a systemic risk to financial markets," a view shared by, for example, the Task Force on Climate-Related Financial Disclosure (TCFD) (see this PubCo post), and the Market Risk Advisory Committee to the Commodity Futures Trading Commission (see this PubCo post), among others. (Lee views "systemic risk" as risk "characterized by the following features: (1) 'shock amplification' or the notion that a given shock to the financial system may be magnified by certain forces and propagate widely throughout; (2) that propagation causes an impairment to all or major parts of the financial system; and (3) that impairment in turn causes spillover affects to the real economy.") To the extent that asset prices fail to fully incorporate risks, systemic shock becomes more likely; there is clearly evidence, in her view, that climate risks have not been priced in, especially for "long-dated assets, utilities, commercial mortgage-backed securities, and potentially municipal bonds, among others." In the event of major climate-related events, markets may discover these anomalies, leading to "abrupt and disruptive re-pricing." For example, some have highlighted the "risks of extreme weather events to the creditworthiness of state and local issuers in the municipal bond market, risks of hurricane and flooding to the commercial real estate market, and risks of aging infrastructure in conjunction with hurricanes and wildfires to the electric utility sector."

But these disruptions will not necessarily be cabined within those sectors; rather they can spread throughout the financial system in expected and unexpected ways. The Bank for International Settlements, she observes, has identified climate risk as a "green swan" event—"a colossal and potentially irreversible risk of staggering complexity." Climate risk differs from the better-known "black swan" in the level of its complexity—"a new type of systemic risk that involves interacting, nonlinear, fundamentally unpredictable, environmental, social, economic and geopolitical dynamics, which are irreversibly transformed by the growing concentration of greenhouse gases in the atmosphere."

These disruptive effects compound each other, potentially affecting non-climate related vulnerabilities, such as "historically high levels of corporate leverage, and the effects of the COVID-19 pandemic which has depleted household wealth and bank balance sheets, and created more debt. Climate related shocks could further magnify these vulnerabilities." And these effects may well be irreversible. Because of the potential for a climate-induced "overall shock to the global economy with systemic implications," it is "imperative for the SEC to focus on climate risk as systemic risk, and coordinate with domestic regulators through the Financial Stability Oversight Council, and with international regulators through the Financial Stability Board's Standing Committee on Assessment of Vulnerabilities, to monitor and address this risk."

The starting point, she maintains, must be a "clear-eyed analysis of accurate, reliable data," and there has been an unprecedented demand by investors for climate-related and ESG-related disclosure. Beyond so-called “impact” investing, she observes, climate and other ESG risks and metrics have become significant, decision-making drivers in a variety of sustainable investment strategies, as well as in “traditional investment analyses designed to maximize risk-adjusted returns on investments of all types. They represent a core risk management strategy for portfolio construction.…The bottom line is that businesses now actively compete for capital based on ESG performance, and that competition needs to be open, fair, and transparent.”

How do we get there? Through “uniform, consistent, and reliable disclosure.” Some disclosure has resulted from private ordering, but, as she has contended previously (see, e.g., this PubCo post, this PubCo post and this PubCo post), “some level of regulatory involvement [is needed] to bring consensus, standardization, comparability, and reliability.”

To illustrate, Lee looks to the role of banks, both in financing fossil fuel industries and in the opportunity to finance a shift toward a lower carbon economy, considered by all accounts as “a heavy lift.” She advocates that the SEC work with “market participants toward a disclosure regime specifically tailored to ensure that financial institutions produce standardized, comparable, and reliable disclosure of their exposure to climate risks, including not just direct, but also indirect, greenhouse gas emissions associated with the financing they provide, referred to as Scope 3 emissions. There is a concentration of risk in the financial sector that is not readily ascertainable except through Scope 3 emission disclosures.” With appropriate resources, the SEC should take on the challenge of implementing appropriate regulatory action as it relates to standardized disclosure requirements.

The SEC must also address climate risk in the context of oversight of funds and their advisers, credit rating agencies and accounting standards. Clear disclosure is also necessary, in Lee’s view, in connection with funds marketed as “green” or “sustainable.” What does the fund mean by these terms and is the fund implementing a strategy that is consistent with that disclosure? Standardized company ESG disclosure would help, she believes. In addition, she suggests that the SEC consider requiring advisers to maintain and implement policies and procedures governing their approach to ESG investment. She also advocates that the SEC encourage increased transparency at credit rating agencies regarding how climate and other ESG factors are weighted when incorporated into credit ratings.

Lee also asks whether the FASB should look at climate risk in the application of GAAP as the IASB has done in issuing guidance addressing how existing IFRS requirements interact with climate-related risks, and identifying how climate-related risks may need to be reflected in financial statements, including in connection with asset impairments, asset valuations and useful life, contingent liabilities and expected credit losses.

In conclusion, she again alludes to the pandemic as an example of what not to do, advocating that we not wait until the crisis is upon us to respond, but instead “move forward with considered, informed rule-making and other initiatives in this space.”

by Cydney Posner

November 10, 2020

Cooley LLP

Climate Change Lawsuit Reaches the US Supreme Court.

The US Supreme Court recently granted certiorari in an important climate change lawsuit, *BP P.L.C. v. Mayor and City Council of Baltimore*. The lawsuit pits the Mayor and City of Baltimore against twenty-six multinational oil and gas companies that Baltimore claims are responsible for climate change. Baltimore alleges that the companies contributed to climate change by producing, promoting, and (misleadingly) marketing fossil fuel products long after learning of the climate-related dangers associated with them. Specifically, Baltimore argues that the companies engaged in a "coordinated, multi-front effort" to conceal their collective knowledge of climate change. Also that the companies discredited the "growing body of publicly available scientific evidence," and worked to "undermine public support for regulations of their business practices." Baltimore seeks relief for " climate change-related injuries."

Continue Reading

By Brent Owen on November 11, 2020

Squire Patton Boggs

Take an Active ETF Approach to Navigate the Municipal Bond Market.

Fixed-income investors can consider an opportunity to access tax-exempt income while actively managing credit and duration exposures through a short duration municipal bond exchange traded fund strategy.

In the recent webcast, No Time for Passive: The Case for Active Muni Bonds, Samantha Azzarello, Executive Director, Global Market Strategist; J.P. Morgan Asset Management, outlined the current markets we find ourselves in with both daily increases in coronavirus cases and fatalities. Meanwhile, the economy is still trying to recover its former glory prior to the Covid-19 pandemic, with 11.4 million regained employees on total nonfarm payrolls after the economy suffered a loss of 22.2 million. We see that the leisure and hospitality sector has been one of the worst hit areas, followed by transportation, utilities, education, health services, business services, and other services industries.

Looking ahead, Azzarello argued that we are still on a path to recovery as supportive monetary and fiscal policies help lift the economy. Consensus analyst estimates reveal a return to positive earnings growth ahead for the S&P 500.

Richard Taormina, Managing Director, Head of the Tax Aware Strategies Team, J.P. Morgan Asset Management, also highlighted the strong demand and record supply in the fixed-income market as more investors look to diversify their bond portfolios in a quickly changing environment. Taxable supply continues to be strong with issuance up 200% year-over-year. Tax-exempt issuance, though, is slightly lower than last year. Fund inflows have reversed the $45 billion in outflows across the March and April months and now show a positive $20.2 billion year-to-date positive inflows.

Taormina noted that short rates will remain low as the yield-curve steepens ahead. The curve on 2 to 10 year bonds are at their steepest since 2018 after hovering near record lows earlier around March.

Meanwhile, Taormina argued that munis are still an attractive segment of the market for fixed-income investors when comparing the triple A-rated munis to U.S. Treasuries.

As a way to help better control their fixed-income duration exposure, investors can look to the actively managed JPMorgan Ultra-Short Municipal ETF (Cboe: JMST) to go down the yield curve and better manage risk. The JPMorgan Ultra-Short Municipal ETF tries to generate a high level of current income exempt from federal income tax as is consistent with the relative stability of principal. The portfolio primarily consists of investment-grade fixed, variable, and floating-rate municipal securities exempt from federal income taxes.

JMST comes with a 0.51% 30-day SEC yield or a 0.86% tax-equivalent 30-day SEC yield for those in the highest income bracket. The fund also has a 0.74 year effective duration and a 0.18% expense ratio.

The JPMorgan Ultra-Short Municipal ETF focuses on 0 to 1 year debt maturities, which make up about 74% of the portfolio. Compared to the benchmark Bloomberg Barclays 1-year Municipal Bond Index, it is slightly underweight to the top-rated muni debt securities since it holds a 16% position in non-rated debt, which may help the fund better generate yield opportunities. The ETF is also more heavily focused on local general obligation debt, hospital bonds, and housing-related bonds, as compared to the benchmark.

ETF TRENDS

by MAX CHEN on NOVEMBER 11, 2020

Ability to Address ESG Risk Will Increasingly Differentiate Credit Quality After Pandemic: Moody's

Read the Moody’s Report.

In re: The Financial Oversight and Management Board for Puerto Rico - SIFMA Amicus Brief

Amicus Issue:

Whether the security or property interest of bondholders and the monolines in excise tax revenues and toll revenues levied or collected by the Commonwealth specifically to repay the bond debt issued by the Commonwealth’s independent instrumentalities does not attach until after those revenues are deposited with the fiscal agent.

Counsel of Record:

Faegre Drinker Biddle & Reath LLP

Laura E. Appleby
Kyle R. Hosmer

[Read the brief.]

[Tighter Municipal Budgets Shrink Retiree Health Benefits.]

Some city and state retirement programs swap in health stipends for medical plans or cut back benefits

America's retired workers are getting squeezed on their health care.

Cities and states can't afford to keep the same medical benefits they promised government retirees.

For all 50 states combined, revenue declines for 2020 and 2021 could reach 13% cumulatively, according to Moody's Analytics projections, while the average cost of an employer health-care plan for an individual increased 4% in 2020 to $7,470, according to the Kaiser Family Foundation nonprofit.

"With Covid, revenue coming into governments is diminished, making it even more difficult for cities and states to fund retiree health care," said Marianne Steger, director of public sector and labor strategy for Willis Towers Watson, a multinational insurance brokerage and adviser.

The pandemic has crushed sales-tax income and tourism dollars, leaving local governments struggling to find ways to cut costs.

Over the past decade, New Jersey, Michigan, Connecticut, Kentucky and Texas reduced benefits, tightened eligibility requirements or increased premiums and fees, according to the National Association of State Retirement Administrators.

While state governments have legal protections for their workers' pension plans, not all have protections for retiree health plans.

Most states rely on a pay-as-you-go basis for these benefits, said David Draine, senior officer of the public-sector retirement systems project for the Pew Charitable Trusts. This means money isn't set aside to pay for these benefits in the future.

"We are seeing a greater divergence into places who are trying to prefund these benefits and those who aren't," he said.

Only three states—Alaska, Arizona and Oregon—have funded ratios for retiree benefits above 75%, according to a study published by S&P Global in December 2019. There were 17 states as of December 2019 that haven't accumulated any assets to prefund benefits such as health care.

For those prospective retirees who have yet to qualify for Medicare, medical-benefit cuts can mean working longer hours for more years, or even picking up another job.

"It's causing guys to have to work longer into their 60s and 70s, which could further impact injuries and health," said Steve Teolis, 64 years old, a retired firefighter who lives in Canton, Ohio, and is a member of the Ohio Police and Fire Pension Fund.

"I was still able to retire, but I knew the consequences when I left, that I had to eventually pay for my own health care," Mr. Teolis said.

The Ohio Police and Fire Pension Fund sponsored a self-insured health-care plan for its retirees from 1975 to 2018, said fund spokesman David Graham.

“With no dedicated funding source for this plan, it eventually became unsustainable,” Mr. Graham said in a written statement, adding that retirees would have had to increase their contributions to keep the health-care fund solvent.

When Mr. Teolis retired, he was eligible to receive health services through a broker who contracted the services for the fund. Because none of the hospitals or doctors near him were covered by the insurance, he decided to purchase a plan on the market.

Now the Ohio fund offers a health stipend in place of medical benefits.

The health plan “still costs me roughly $1,000 out of my pocket a month, and the stipend pays for about half of that,” Mr. Teolis said.

Health stipends are a less-expensive option for retirement funds. When people under 65 are able to choose their own health-insurance plans on the marketplace, the state sheds the risk and liability of large claims that might come with old age, Ms. Steger said.

Mr. Teolis said he is looking forward to when his Medicare benefits kick in next year, when he turns 65.

Medicare allows retirees 65 or older extra coverage for medical expenses if they already have a group health plan from a former employer.

Generally, Medicare pays for a retiree’s health-care bills first, and the group health-care plan coverage pays second.

Some funds such as the State Teachers Retirement System of Ohio, or STRS, are comparatively well-positioned to continue paying health-care benefits to retirees.

The net amount for STRS’s health-care fund reached $3.9 billion in 2019, according to the fund’s annual financial report, with a 182% funded ratio as of last month.

“What we had to do is look at what we could afford to offer and we had to rely on premiums and reimbursements, as well as our investment earnings,” said Nick Treneff, spokesman for the fund that serves about 160,000 benefit recipients.

This means if all goes as planned in the years to come, the fund is projected to be able to fully pay these benefits to retirees.

“If the fund didn’t offer health care, I would work longer than I planned to, and I would probably work until I was 65 and could qualify for Medicare, and that’s a very old age for teachers,” said Dale Price, a high-school math teacher for Toledo public schools and an STRS board member.

The Wall Street Journal

By Logan Moore

Nov. 7, 2020 5:30 am ET

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

Read the Current List.

Muni Bonds Falter on Prospect of Divided Government in Washington.

Generous aid to state and local governments is less likely if Democrats fail to control both White House and Congress

The prospect of a divided government in Washington has been received rapturously in the stock market this week, but it hasn't made municipal-bond investors happy.

"It's probably one of the more negative outcomes for the asset class," said Mikhail Foux, head of municipal strategy at Barclays PLC.

Prices on bonds issued by states and local governments fell relative to Treasurys in the immediate aftermath of the election and then rebounded, but didn't receive the big bump many analysts had expected would follow in the event of a sweep by Democrats.

Yields on 10-year AAA, tax-exempt municipal bonds were 109.1% of 10-year Treasury rates Wednesday, up 2.4 percentage points from Tuesday, according to Municipal Market Data, reflecting an increase in investor concern about the risk of munis relative to U.S. government bonds. Yields fall when prices rise.

The importance of the Senate to muni prices was made clear as the week wore on. By Friday yields had slipped to 99% of 10-year Treasury rates as results in Georgia pointed to potentially two runoffs that could hand the Senate majority to Democrats come January.

For muni-bond investors, a divided government diminishes the probability of two scenarios that would have likely driven a rush into the asset class.

A Democratic sweep could greatly increase the prospects for a large state and local-government aid package meant to solidify the finances of many of the municipalities that have been crushed by the impact of the coronavirus pandemic. In addition, a Democratic House and Senate could raise the likelihood of large income-tax increases that would make tax-exempt munis more desirable to investors.

Also weighing on munis was the possibility that the bonds of Illinois could be rated as junk after voters there rejected a plan for a statewide tax increase on affluent residents.

Analysts and investors said muni bonds tied to sectors most affected by the pandemic such as tourism and mass transit were most likely to be hit by election developments.

Over the past several months, coronavirus budget shortfalls have dragged down the trading price of some municipal bonds, and October data from Municipal Market Analytics show new defaults in the roughly $4 trillion municipal market are at an eight-year high since the start of the pandemic.

Heading into this week, investors had said that muni bonds would rally if former Vice President Joe Biden defeated President Trump and the Democrats got clear victories in the House and Senate.

Under that scenario, the White House and Congress might push for more aid to state and local governments or champion an infrastructure plan or income-tax increases.

But as of Friday morning, closer races and the reduced likelihood of Democratic control of Congress and the White House mean there are likely to be more limits on such moves. Senate Majority Leader Mitch McConnell has said he doesn't favor using federal-assistance money borrowed "from future generations" to fill in state budget gaps.

Moreover, should Republicans maintain control of the upper chamber of Congress, a state and local-government aid package that the Senate might support could drive up the supply of tax-exempt debt, pushing down prices, analysts said. That is because even fairly stable governments might rely more on borrowing to manage through coronavirus-induced shortfalls. About $45 billion in local borrowing measures was on the ballot Tuesday, according to IHS Markit.

One source of new debt would remain limited under a divided Congress, however.

If Republicans stay in control of the Senate, Democrats are less likely to be able to end the ban added by Republicans in late 2017 on tax-exempt refinancing of municipal debt before the agreed-upon refinancing date. That would keep closed one longtime avenue for tax-exempt debt to enter the municipal market, helping to stabilize prices.

Before the ban, state and local governments could reap more savings from early refinancing as rates dropped. Hennepin County, Minn., for example, saved more than $30 million in 2017 by refinancing debt used to help build Target Field, where the Minnesota Twins play.

Many in the market were surprised by an outcome of the Illinois election.

Yields rose by about a third of a percentage point Wednesday on 10-year Illinois general obligation bonds relative to AAA rates and remained at about that same level Thursday, according to Municipal Market Data, after Illinois voters rejected the ballot measure proposing to increase taxes on incomes over $250,000.

A February poll of 1,000 Illinois registered voters by the Paul Simon Public Policy Institute at Southern Illinois University, Carbondale, found that they favored the tax by 2-1. During a state bond sale two weeks ago, investors agreed to prices significantly higher than where the state's debt was trading Wednesday, Thursday and Friday, according to Municipal Market Data and the Municipal Securities Rulemaking Board's Electronic Municipal Market Access platform.

The state tax plan would have brought in more than $1 billion in yearly revenue, according to an estimate by Fitch Ratings. The refusal to approve the tax increases the chances that Illinois, currently rated one notch above speculative grade by multiple credit-rating firms, will become the only U.S. state in junk-bond territory.

"Unless there's a surprisingly large federal stimulus bill or state lawmakers very quickly come up with another solution to raise a lot of new revenue, Illinois is likely to suffer a downgrade from at least one of the rating agencies in the next several months," said Adam Stern, co-head of research at Breckinridge Capital Advisors.

Higher-grade bonds are expected to fare better and could even experience a longer-term bump as investors look to quality credits. The state of Florida, despite a tourism industry suffering from the pandemic, has benefited substantially from aid sent in the spring, said Ben Watkins, director of the Florida Division of Bond Finance.

"It's been a godsend," Mr. Watkins said. If cities and states don't get much more aid, the resulting market distress "will be much more isolated than a widespread problem," he added.

The Wall Street Journal

By Heather Gillers

Nov. 6, 2020 8:00 am ET

[Munis Rally Despite Election Suggesting 'Least Bullish' Outcome.]

- **Divided government promises less aid, obstacle to tax hikes**
- **UBS sees 'headwind' for credit quality of muni market**

After Tuesday's election, state and local government bonds staged their biggest rally in more than six months as traders wagered a divided federal government would spend less aggressively — a positive shift for investors worried about long-term inflation.

But municipal analysts say such an outcome, with Democrat Joe Biden in the White House and a Republican-led Senate, is less welcome to the $3.9 trillion market than a clean Democratic sweep.

That's because a political gridlock would likely reduce the scope of the aid state and local governments will get to bridge budget gaps created by the coronavirus shutdowns. It would also reduce the odds of tax increases on the wealthiest Americans, which would make tax-exempt bonds more alluring.

Analysts from UBS AG said Thursday that a divided government increases the credit risk on the bonds, since any aid package is likely to be "less generous." Citigroup Inc. analysts led by Vikram Rai said ahead of the vote that a Biden presidency with GOP control of the Senate was the "least bullish" scenario for the municipal-securities market.

A party split between a Blue White House and a Red Senate would likely mean "legislation for future fiscal aid packages will not flow through easily and aid will be less generous," Citigroup's analysts said. "This would not bode well for municipal credit."

The outcome of the election is still in flux, with ballots being counted in several key states and President Donald Trump pushing legal challenges intended to sway it in his favor. Georgia may also need to hold a second run-off election for one of its Senate seats, which could help tip the balance of power in that chamber to the Democrats.

Treasury yields edged up slightly Thursday. But those on municipal bonds, which are far less volatile, dropped for a second day, with 10-year yields falling 2 basis points to 0.82%. That follows a 9 basis point drop Wednesday, the biggest one-day decline since mid-April.

The results are crucial for states and cities that have been battered as the pandemic cut into two major sources of revenue — income- and sales-tax collections — while the coronavirus drove the economy into the deepest downturn since World War II. That's left states and local governments facing combined shortfalls of $450 billion through fiscal 2022, according to a September estimate by Moody's Analytics.

Extending them federal aid was a key sticking point in negotiations over a new stimulus bill ahead of the election, with Trump mischaracterizing it as a bailout of states run by his Democratic foes. House Democrats included $1 trillion of such aid in the bill they passed.

"Fiscal stimulus to state and local governments is now expected to be less generous than under a Blue Wave scenario," wrote analysts at UBS's wealth management arm in a note published Thursday. "This represents a headwind for municipal credit quality."

Biden's campaign has reiterated that state and local government aid would be central to his economic stimulus. Jared Bernstein, a senior economic adviser to the campaign, said such aid is a high "fiscal multiplier" and would help to build "a fiscal bridge to the other side of the crisis."

Such aid would prevent the need for large budget cuts, tax increases or layoffs that would deal a further setback to the economic recovery. It could also prevent a surge of borrowing by some states to temporarily paper over their shortfalls, which could put pressure on their credit ratings.

Kentucky Senator Mitch McConnell said on Wednesday it's a "possibility" that he would support more aid for states and cities.

Lyle Fitterer, co-head of municipal investments at Robert W Baird & Co Inc speculates that a state and local government stimulus would be around $250 billion under a divided government.

"We would still argue that that's plenty and that's sufficient until we see what's going to happen to the economy from a longer term perspective, so that gets them over the hump for the next year," he said in an interview.

Bloomberg Markets

By Danielle Moran

November 5, 2020, 10:16 AM PST

— With assistance by Shruti Singh, and Martin Z Braun

In Election Dispute, Citi Sees Munis Lagging in Flight to Safety.

- **Market will go into 'risk-off mode' analogous to 2000 election**
- **Treasuries would likely gain, making munis look cheaper**

A disputed presidential election could set off a Treasury rally that would make state and local government bond prices look cheaper — at least in comparison.

Citigroup Inc.'s municipal strategists said they foresee a "somewhat high probability" that a clear victor won't quickly be known. If so, Treasury prices would likely rise as investors shift cash into the safest assets, widening the gap between yields on those securities and less volatile municipal bonds.

"We would expect a moderate Treasury rally as the market goes into risk-off mode as they await the adjudication of the election by SCOTUS," Citigroup Inc. muni strategists led by Vikram Rai wrote, using the acronym for the U.S. Supreme Court.

While polls show Democrat Joe Biden leading in the polls, President Donald Trump and Republicans are poised to mount legal challenges in battleground states where a flood of mail-in ballots will continue to be tallied after Election Day.

Yet traders and fund managers may not need to gird for extreme volatility: While Treasuries would gain as the election is sorted out, muni-bond prices would likely be little changed in light trading, Rai said in a phone interview.

“If they don’t trade, the prints will remain stale and it will seem like the ratios are widening, it will seem like the spreads are widening.” he said. “That’s typical for what happens with all spread products whenever there’s a risk-off rally.”

Top-rated 10-year municipal bonds currently yield about 0.93%, or about 110% of comparable Treasury bonds, up from as little as 86% in August. That ratio — a key measure of relative value — signals that municipal bonds are growing cheaper when it rises and more pricey when it falls.

Treasuries rallied in the aftermath of the Gore versus Bush election of 2000, after a recount battle was ultimately decided by the Supreme Court. From Nov. 8, 2000 to December 12, 2000, when the Supreme Court ruled on the recount dispute, the 10-year U.S. Treasury rallied by about 0.52%, according to Citigroup. The 10-year was 5.87% on Nov. 8, 2000, so a comparable decline in percentage terms would be just 0.07 percentage point.

By contrast, if the election is decided without a dispute, Citigroup strategists expect bond markets will selloff moderately and stocks will rise “as investors breathe a sigh of relief at the thought of finally having this epic event behind us.”

Bloomberg Markets

By Martin Z Braun

November 3, 2020, 10:30 AM PST

Wall Street Bets On Biden Win, GOP Senate, And Smaller Stimulus.

Wall Street is betting on Joe Biden winning the presidency, Republicans controlling Congress, and a divided government. As a result, there’ll be a much smaller stimulus package in early 2021 and few, if any, tax hikes.

“Gridlock is the most likely outcome,” Brian Gardner, chief policy analyst for Stifel & Co. in New York, told clients in a report, predicting that the GOP would retain control of the Senate.

“Progressives had their wings clipped” Gardner wrote. Bad feelings between leftist Democrats and conservative Republicans “will likely prevent widespread collaboration.” He expects Congress, with the GOP in control of the upper chamber, will disappoint investors by spending less than the Democrats’ promised $2 billion to prop up the economy, though more highway spending is likely.

“The likelihood that the Senate will not flip to the Democrats gives comfort that major legislation is unlikely,” James M. Meyer, chief investment officer at West Conshohocken-based Tower Bridge Advisors, which invests over $1 billion, told clients in a note. “That leaves the economic reins in the hands of the Fed. Investors should like that.”

Meyer added that, if the Senate remains Republican, “the stock market barely reacts to social unrest, crude political speech, wars, or climate change." It reacts, instead, to corporate profits and Federal Reserve interest rates. "No one can fault investors who want to see more of the same": cheap borrowing rates, modest but steady growth, and "hopefully, an end to the pandemic sometime in 2021."

In response, the Dow Jones Industrial Average jumped 367 points Wednesday to close trading at 27,847.

A divided Congress is unlikely to pass drug-pricing limits, so that's a good outcome for pharmaceutical companies, while a Biden presidency, even without full congressional support, could bring "a more rigorous and thoughtful approach to science," Geoffrey Porges, analyst at SVB Leerink, told investors in a note excerpted in Endpoints News, a drug industry newsletter.

The GOP majority "takes extreme scenarios off the table, including large tax hikes, major health care changes, and a huge stimulus package," said Jeff Mills, chief investment officer of Bryn Mawr Trust Wealth.

Biden has said he would only raises taxes on the wealthy, on those who make more than $400,000 a year.

Strange as it sounds, divided governments often result in stock prices moving higher.

"Ultimately a gridlock scenario ends up being a good thing. We can start to focus on earnings, vs. handicapping major swings in policy," Mills said.

Key takeaways for investors under this scenario include a weaker U.S. dollar, compared with other currencies.

"We see pressure on the dollar under a Biden presidency, with a reversal of tariffs and trade policy," Mills said. Tariffs tend to tamp down growth internationally, so scrapping the Trump-era tariffs would have the opposite effect.

"If tariffs are reversed, on a net basis, that's better for growth in international markets, but has the opposite effect on the U.S. dollar," he said.

Interest rates: With a smaller stimulus package, that means less possibility of inflation in the U.S. economy, Mills said.

"If we get a stimulus package, it won't happen until Congress is sworn in Jan. 3, and then likely wouldn't pass before February," he said.

Less inflation means less likelihood of higher interest rates, so yields on Treasury bonds have dropped early today in trading.

Health care: This sector, which includes insurers, biotechnology, and pharmaceuticals, is "the biggest winner," Mills said, since changes to the Affordable Care Act or a so-called "public option" would be off the table.

"That was weighing on this area of the market."

Big Technology: Should the GOP continue to control the Senate, regulatory scrutiny of Big Tech will likely fade, which prompted share prices of Facebook (FB) and Amazon (AMZN) to rise in early trading.

Marijuana legalization: Voters in New Jersey, Arizona, Montana, and South Dakota legalized recreational marijuana, and now 1 in 3 Americans live in a state where adult pot use is legal.

The results sent a mild ripple through the marijuana sector. Shares of Canadian companies were down 7 to 9 percent. Canadian cannabis companies cannot own assets in the United States and they cannot sell Canadian grown marijuana in the U.S. So they had nothing to gain from the four states legalizing.

Stocks in the American-owned multistate operators — among which Cresco Labs and Green Thumb Industries are the largest — were flat to slightly up, according to analysts.

“On the whole, it was a wash,” said Pablo Zuanic, analyst for Cantor Fitzgerald

Pot sales tax revenue will help cash-strapped New Jersey and towns that allow and tax marijuana retailers, but it could take “two to three years” to start collecting even limited revenues, and by then neighboring states will have likely cut into New Jersey sales, Baye Larsen, vice president at Moody’s Investors Service, said in a report.

More drug-related initiatives were also passed, with Oregon becoming the first in the nation to decriminalize possession of “hard drugs,” while D.C. voters approved a measure decriminalizing “magic mushrooms” and other organic psychedelics. Denver, Oakland and Santa Cruz passed similar proposals.

Muni bonds: “As the economy improves and we get to a vaccine, we should see higher [interest] rates no matter who is finally elected President,” wrote David Kotok, municipal bond and fixed income investor with Cumberland Advisors. For now, however, interest rates remain low.

“Munis should be fine,” he wrote, although these bonds “will probably not get a tax-increase boost right away, from a demand/supply standpoint they are in very good shape.”

Until a second stimulus bill passes Congress, “we may see some additional actions from the Federal Reserve to shore up markets if needed. We also expect further jawboning from the Fed to Congress on the importance of additional stimulus.”

Tax moves: Hank Smith, head of investment strategy at Haverford Trust said if Biden wins, and the Senate remains Republican, there is “no shot of any major legislation, tax increases or state tax changes” including a wealth tax passing Congress, he noted.

“We won’t see anything crazy in the cabinet because everything has to be approved by the Senate. Elizabeth Warren will not become Treasury secretary. All Biden will be able to do is issue executive orders,” Smith said.

Philadelphia Inquirer

November 5, 2020

Staff writer Sam Wood contributed to this article.

Democratic Senators Call for Expansion of Fed Lending Programs.

Four Democratic senators, including Minority Leader Chuck Schumer, urged the Federal Reserve and the U.S. Treasury to expand emergency lending programs for businesses and states and municipalities to provide support while Congress debates additional fiscal stimulus.

In a Nov. 5 letter to Fed Chair Jerome Powell and Treasury Secretary Steven Mnuchin obtained by Bloomberg, the senators asked that the programs be extended beyond their Dec. 31 deadlines, and that changes be made to make them more broadly available. In addition to Schumer, a senator from New York, the letter was signed by Mark Warner of Virginia, Sherrod Brown of Ohio and Elizabeth Warren of Massachusetts.

"Absent additional action, these facilities will fail to reach their full potential to support a robust economic recovery," the senators wrote.

Both the Main Street Lending Facility, which is aimed at providing loans to small- and mid-size businesses and nonprofits, and the Municipal Liquidity Facility, for state and local governments of a certain size, have faced criticism for low participation. The Fed has argued that the muni facility has worked in that it provided a backstop for the market, which seized up in March but has functioned smoothly since then.

No Decision

Powell told a press conference Thursday that there had been no decision taken on whether to extend the facilities, which the Fed would do in coordination with the Treasury, while stressing that they had provided an important backstop during the coronavirus crisis.

"If things deteriorate, that would be the case where you'd want to maybe continue the facilities and maybe change them and maybe have new ones," Powell said.

The Main Street program, which isn't seen as merely a backstop, has so far only lent out $4.1 billion of a potential $600 billion. Critics say that banks won't make loans to the companies that need it most right now, as they pose a higher risk. Without further stimulus from Congress on the immediate horizon, the Fed's emergency programs remain one of the few life lines in an economy that continues to struggle through a sputtering recovery.

The Fed has already made several changes to the Main Street program to widen the pool of potential borrowers. Last week it lowered the minimum loan amount to $100,000 from $250,000 and increased the fees banks stand to gain from participating in it. The senators propose further lowering the minimum to $50,000, which would target small businesses who no longer have access to the shuttered Paycheck Protection Program, and further incentivize banks to lend through a more-attractive fee structure.

Muni Facility

Beyond extending the deadlines, the senators also ask for longer terms in the facility loans, beyond 3 years for the municipal program and 5 years for Main Street.

The Treasury Department said last month it opposes extending the $500 billion municipal lending program beyond the end of 2020 or easing the costly terms that have left it virtually unused. But that could change should there be a change in administrations following this week's presidential election.

The senators also ask that the Fed and Treasury allow more localities to access the muni facility, which is limited by population size, and that they set up a program to buy muni bonds in the secondary market. The current facility buys bonds directly from the issuing entity, and some have argued that aid to the secondary market would be a better way to support local governments that have seen tax revenue plummet in the last few months.

They say that these changes would particularly help minority- and female-owned businesses, who tend to own smaller companies, and first responders, who also are also disproportionately female and Americans of color. They note that women and Americans of color have borne the brunt of the damage in the pandemic.

Bloomberg Business

By Catarina Saraiva

November 6, 2020, 8:54 AM PST

Divided Government May Push the Fed to Go Bigger. Here's What That Might Look Like.

Gridlock in Washington doesn't seem to be going away, and a divided government probably won't be providing much more help to an economy still ailing from the coronavirus.

That's bad news for the growth outlook. After all, the economy is still about 5% smaller than it otherwise would have been, with roughly 11.6 million Americans still unemployed or underemployed compared with February. And while roughly 20 million Americans have returned to work since April, the recovery hasn't been enough to prevent millions of people being jobless for longer than 26 weeks. Moreover, many of those who have gotten rehired since April are nevertheless in a bad financial situation, given the low level of wages of the jobs that have been added and the depletion of household savings.

Continue reading.

Barron's

By Matthew C. Klein

Nov. 6, 2020 4:30 pm ET

Emptied Sports Stadiums Tackle Losses With New Experiences.

Drive-ins, weddings and dinosaur safaris help keep jobs—but can't compete with game-day revenues

Darryl Dunn, the chief executive and general manager of the Rose Bowl Operating Co., would have been preparing to receive the biggest crowd of his year around now, had this year been normal. The 90,000-plus college football fans that usually flock to the Rose Bowl's stadium in Pasadena, Calif., for the annual New Year's Day game will be watching the action at home this time, in accordance with

California’s social-distancing measures.

Mr. Dunn will instead be organizing the arrival of roughly 70 animatronic dinosaurs. The Rose Bowl’s parking lot in January will be transformed into a “Jurassic Quest” safari. The parking lot has already served as an outdoor concert and comedy venue, and a haunted drive-through at Halloween.

The stadium is one of many large sports venues testing new visitor experiences as the coronavirus pandemic chokes revenue from ticket sales. The venues hope to take advantage of one asset they still have: large amounts of indoor and outdoor space.

“Our revenue is based on people, and if we don’t have people, we don’t make money,” said Mr. Dunn. “But what we have got is space—so we said to ourselves, let’s use that to try and make lemonade out of this situation.”

The Rose Bowl’s foray into lockdown live experiences began in July, when a deal with the Tribeca Film Festival saw the stadium’s parking lot turned into a drive-in movie theater for 30 screenings across four weeks. Tickets cost $30 per vehicle, and attendees could purchase food and beverages from outdoor concession stands. Each screening of 500 cars sold out, Mr. Dunn said.

The Tribeca series put the Rose Bowl on the drive-in map, Mr. Dunn said, and led to other deals with entertainment companies such as Netflix Inc. and Walt Disney Co. ’s Hulu, which last month hosted an immersive “haunted drive-through forest” experience there as part of its “Huluween” horror movie screenings.

“We’ve literally transitioned our business to drive-in movies,” Mr. Dunn said. “That’s the business that we’re now marketing and selling.”

The Miami Dolphins have similarly found creative uses for their home stadium, which has reopened to spectators at a limited capacity of 13,000. Since June the National Football League team has turned the outside of Hard Rock Stadium into a makeshift theater. A 90-foot-wide screen, originally installed for the 2019 Miami Open tennis tournament, screened movies throughout the summer; attendees sat in tented pods dotted around the west and east lawns of the venue. The setup on Sept. 13 rebranded as the Gameday Theater and now shows home and away Dolphins games.

Meanwhile Gillette Stadium, best known as the home of the NFL’s New England Patriots in Foxborough, Mass., will later this month open a drive-through holiday lights display in its parking lots, allowing guests to navigate the 1.5 mile route in a car, bus or limo. The stadium in September also played host to Jurassic Quest, which “was such a huge success that two additional weeks were added to its original 10-day run to meet the demand for tickets,” a spokeswoman said.

Sports fans are longing to return to the stands, but health experts say stadiums are one of the highest-risk areas for coronavirus transmission. Dr. Peter Chin-Hong, an infectious disease specialist, walks us through how easily the virus could spread among the crowd. Photo: Associated Press (Originally Published May 17, 2020)
In the nation’s capital, soccer team D.C. United has been working with local fitness studios to host outdoor exercise classes on Audi Field. And the NFL’s Green Bay Packers last month turned home stadium Lambeau Field’s parking lot into a contact-free trick-or-treating zone for Halloween.

With no end in sight to social-distancing protocols, some stadiums plan to build dedicated venues that will let fans watch games and concerts at a social distance. The National Basketball Association’s Milwaukee Bucks earlier this year signed off on the construction of a multilevel “outdoor tailgating space” in the parking lot of their home arena, Fiserv Forum, which will let small groups of fans eat, drink and watch any action inside the arena from shipping-container pods and parking spaces overlooking new exterior screens.

The plans have been put on ice as the team awaits guidance from the municipal health department about permissible capacity, said Bucks and Fiserv Forum President Peter Feigin.

Nevertheless, Fiserv Forum from July to September held NBA Playoffs watch parties, turning the arena's central court into a restaurant for groups of up to 10 people. Food and beverages were delivered to dining tables, a DJ provided pre-tip-off entertainment, and the games were streamed on the center hang screens. It was, Mr. Feigin said, "like the coolest basketball wedding you've ever been to."

The success of the parties encouraged the Bucks' sales and marketing team to develop Fiserv Forum's fledgling hospitality offering, which—for now, at least—will be targeted at people looking for a space big enough to host socially-distanced parties, meetings and weddings of up to 100 people, Mr. Feigin said. Wisconsin limits public gatherings to no more than 25% of a room or building's total occupancy.

The Bucks hope such an alternative revenue stream will at least cushion decimated ticket sales and keep staff employed if the coming basketball season goes ahead without spectators, Mr. Feigin said. Still, stadium executives are clear these new experiences will not come close to covering the losses of 2020, no matter how successful they have been.

Hard Rock Stadium does "not make much money at all" from its Gameday Theater, but its operation does create jobs for local people, said Todd Boyan, the Dolphins' senior vice president of stadium operations. The Rose Bowl, which is owned by the city of Pasadena and operated as a nonprofit, will lose around $13 million this year, Mr. Dunn said.

That is better than the estimated $16 million loss it would have suffered without the drive-in theater and experiential events, but a far cry from its usual break-even forecast, he said.

"But this helps us keep jobs and it sends the right message to our community," Mr. Dunn said. "We're saying to the city: We're still open—we're just open a bit differently."

The Wall Street Journal

By Katie Deighton

Nov. 3, 2020 5:23 am ET

Voters Back at Least $26.7 Billion of Municipal Borrowing Plans.

- **Results still pending on about $16 billion of proposed bonds**
- **About $3 billion of bond measures on ballots rejected so far**

Americans approved at least $26.7 billion in state and local borrowing measures, more than half of the proposed bond sales on ballots across the country, while another $15.7 billion are still pending final results.

So far, only $2.7 billion of bond measures, or about 6% of those proposed, had been defeated as of Thursday, according to a preliminary tally based on data compiled by IHS Markit and Bloomberg.

Voters rejected a $275 million measure in Amarillo, Texas that would have financed improvements to the civic center, and a $155 million school bond in Wausau, Wisconsin, also failed.

U.S. voters weighed proposals to issue an estimated $45 billion of bonds. That's the lowest in a presidential election since 2012, according to data compiled by IHS Markit. The uncertainty over the pandemic's impact on public finances prompted many municipalities to strike borrowing referendums from ballots. The results so far bode well for governments looking to improve schools, roads, bridges and hospitals.

Of the 10 largest bond measures on the ballot, six were approved, including a $7 billion bond proposal for the Los Angeles Unified School District and about $3.5 billion in borrowing for improvements and construction for Dallas schools. A $5.5 billion California bond offering for stem cell research was still pending results.

In California, which had the most proposed bonding on ballots across the country, voters approved about 75% of local revenue measures, including more than $12 billion of school bonds, based on preliminary results.

Bloomberg Markets

By Nic Querolo

November 5, 2020, 1:23 PM PST

— With assistance by Joseph Mysak Jr

[Cracks Form in the Fragile Muni Bond Market.]

In the long run, fundamentals matter in all financial markets.

Stocks can be overvalued for a time. But eventually a price decline or a surge in earnings reverses that condition.

Bonds can also be overvalued or undervalued. In these markets, analysts focus on cash flows instead of earnings to determine value.

Just as in the stock market, cash flow is measured with inflows and outflows.

In the municipal (muni) bond market, inflows consist of tax revenues. Outflows are expenses for government services.

A security could be undervalued, for example, if a tax increase is about to be implemented, that will ensure a state can repay its debt. If revenues decline suddenly, the bond could be overvalued.

Over the next few years, inflows for states should fall. The chart below shows that revenue is expected to drop by more than 11% in 2021.

[Continue reading.]

moneyandmarkets.com

Posted by Michael Carr | Nov 6, 2020

Municipal Bond Market Update - November Edition

Investors are closely watching U.S. election results as expectations for a clear outcome dwindle.

As votes continue to be counted, investors are paying close attention to states such as Michigan, Pennsylvania, and Wisconsin. Market participants fear a contested election due to the potential for increased volatility amid concerns of a drawn-out count. The election has shifted attention toward mail-in ballots and final tallies, away from the groundbreaking quarter of economic growth reported last week.

On October 29, the Bureau of Economic Analysis (BEA) released U.S. GDP for the third quarter of 2020. The BEA estimates that real GDP accelerated at a record 33.1 percent annualized rate as the economy recoups lost ground from the first half of the year. The historic recovery reflects "continued efforts to reopen businesses and resume activities that were postponed or restricted due to COVID-19" the commerce department reported.

Despite the U.S. economy's blockbuster rebound, election uncertainty and further stimulus bill delays led to a spooky October for investors as broad-based equity and fixed income markets ended the month lower.

Muni Market Performance

Municipals were not exempt from the month's frightening performance as the broad market, measured by the Bloomberg Barclays Municipal Bond Index, concluded the month 0.30% lower. Despite tax-exempt's lackluster month, the asset class outperformed taxable bonds with Treasuries ending the month 0.94% lower and the Bloomberg US Gov/Credit Index finishing 0.60% lower.

The AAA municipal benchmark yield curve continued its steepening trajectory, with yields in the two-year range concluding the month 4.8 basis points (bps) higher while ten and thirty-year yields ended 8.2 and 9.7 bps higher, respectively. As evidenced by the steepening yield curve, longer dated muni bonds (22+ years to maturity) lagged shorter dated peers for the month, producing a total return of negative 0.43%. Municipals with maturities in the one to five-year range led performance for the month, returning 0.15%, while intermediate term munis in the five to ten-year range ended 0.26% lower.

October marks six-straight months of high-yield (below investment grade) muni outperformance. The lower quality asset class ended the month in positive territory with a total return of 0.18%, according to the Bloomberg Barclays Muni High Yield Index. Despite the streak of positive relative performance, lower quality paper remains behind year-to-date, struggling to recoup losses from March's drawdown. Through the October month end, the Bloomberg Barclays Municipal Bond Index has returned 3.02% for the year whereas the Bloomberg Barclays High Yield Municipal Bond Index has returned 0.54%.

Supply & Demand Situation

Municipal issuance saw a record setting month as issuers seek to capitalize on historically low interest rates. October's almost $70 billion in new issue deals came to market against the backdrop of political uncertainty as municipalities rushed ahead of the election. Year-to-date supply was 26.6 percent higher than the same time last year, amounting to a total volume of nearly $415 billion. Tax-exempt municipals continue to trade favorably despite the heightened political discourse. The two-year muni-to-Treasury ratio, which represents muni yields relative to Treasuries, ended October at 129 percent while the ten- and thirty-year ratios both ended the month at 107 percent.

As final tallies are counted in the U.S., municipal bonds may continue to see volatility as investors search for clarity around potential income tax changes and additional stimulus measures.

municipalbonds.com

by Corey Boller

Nov 04, 2020

Get Short-Term Municipal Bond Exposure in 2021 with "BSML"

Blue wave or red wave, it's important to get bond exposure to offset equities in a portfolio, especially with market forces still tilting on the side of uncertainty. As far as where to look for special opportunities in the bond market, municipal bonds are worth a look to capitalize on short-term movements following a presidential election with the Invesco BulletShares® 2021 Municipal Bond ETF (BSML).

Municipal bonds give investors exposure to a bond market that historically has low default rates. While a company can fold, local government typically won't so the safety of investing in debt paid for by taxpayers adds that extra layer of assurance.

As for BSML, the fund is based on the Invesco BulletShares® USD Municipal Bond 2021 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 US dollar-denominated, issued by US state, state agencies, or local governments with effective maturities in 2021.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ on NOVEMBER 5, 2020

HYD: High Yield Munis Still Face Plenty Of Headwinds

Summary

- High yield munis continue to face enormous macro-pressure, as current revenues for local and state governments are well below their pre-pandemic levels.
- HYD holds a large amount of non-rated and non-investment grade bonds. These will be the first to face selling pressure if states do not get a better handle on their finances.
- The fund's top state is Illinois, which is notorious for its budget problems. This past week, residents voted down a proposal to move to a progressive income tax, challenging future revenues.

[Continue reading.]

Seeking Alpha

Nov. 6, 2020

[Fitch Ratings: ESG in Public Finance 2020 White Paper]

[Read the Fitch White Paper.]

[Moody's: Supply Chain Changes Due to COVID-19 to Cause Hospital Costs to Increase]

Hospital systems will not just have to pay higher costs for personal protective equipment and other medical supplies but also for public construction projects, a new analysis from Moody's said.

The analysis found that higher costs for materials and public spending constraints are going to likely increase the price tags for new construction projects for hospitals. At the same time, hospitals will face higher costs for PPE and other supplies as the supply chain shifts to more domestic manufacturing.

"Increased costs for essential medical supplies and building materials would impact not-for-profit hospitals and healthcare providers as well as public finance sectors with significant capital expenditure programs," the analysis, released Tuesday, said.

The costs for construction projects are likely to rise due in part to higher costs for imported building materials as the global supply chain gets more fragmented due to the pandemic.

"Beyond major producing regions in the global construction supply chain such as Chinese copper and steel, Canadian lumber, Italian marble and ceramic tile from Brazil, Spain and Turkey, a range of other materials and equipment are sourced globally, including paving stones, lighting, electrical equipment and elevators," the analysis said.

State and local governments, which are contributors to hospital spending projects, are also facing major demands to improve infrastructure and are pressured by pension liabilities.

Hospitals are also trying to recover from a massive hit to their patient volumes in March and April at the onset of the pandemic. The financial crisis has caused systems to preserve any liquidity to keep afloat as patient volumes remain below pre-pandemic levels.

This means that some cash-strapped hospital systems have paused construction projects. Michigan Medicine announced back in May that it will hold off on a $920 million, 12-story hospital construction project, according to the Detroit Free Press.

Hospital system ProHealth Care in Wisconsin suspended construction back in April of a new hospital in Mukwonago in the state. The hospital was supposed to be opened this summer.

Hospitals aren't just struggling with how to move forward with infrastructure projects.

Throughout the pandemic, systems have faced higher costs for PPE and other supplies as demand has surged to unprecedented levels.

Moody's report said that COVID-19 is likely to accelerate a more fragmented international trade and supply chain. The pandemic caused a major disruption to the overseas supply chain, especially in China where most PPE production is centered and massive delays occurred.

Some U.S. lawmakers have called for more production to shift to domestic manufacturers. Premier and 15 U.S. health systems invested in domestic PPE manufacturer Prestige Ameritech.

This trend likely means supply chains will get shorter as production moves to more local and domestic markets.

"A shift away from globalization has the potential to reshape or even reverse the build-up of production bases concentrated in China and other emerging markets," Moody's said.

However, any adjustments are going to require new costs like building new factories and training workers.

"A greater focus on local production would likely increase inventories, raise costs and lower margin s," Moody's said.

These realignment costs will likely be passed on to hospitals.

"Higher production costs and more fragmented supply chains will increase costs for hospitals and procurement teams sourcing essential medical supplies," Moody's said.

fiercehealthcare.com

by Robert King | Oct 28, 2020 3:05pm

CUSIP Global Services Links Environmental, Social and Governance (ESG) Data with Municipal Bond Identifiers in Two New Mapping Files.

Partnership Pairs CUSIP Identifier with ACRe Data's Municipal ESG Scores to Provide Quick Reference Snapshot of Values-Based Data for Investors

NEW YORK, Oct. 28, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced a partnership with ACRe Data Inc. (ACRe) to provide two new mapping files that link municipal CUSIP identifiers with ACRe's environmental, social and governance (ESG) scores and other geographic and socioeconomic data relevant to each municipal bond issuer. By pairing the CUSIP ID with ACRe's localized ESG scoring data, the new data files will give institutional and retail investors a clearer perspective on ESG risk assessments of their municipal bond portfolios.

The CUSIP is a nine-character alphanumeric security identifier that captures the unique attributes of issuers and their financial instruments throughout the U.S. and Canada. In the municipal bond market, the CUSIP is used by investors to uniquely identify and track municipal securities and link them with the underlying issuing entity (e.g. a municipal water treatment facility or a school system). Through this partnership, CGS will link to geographic, socioeconomic and other regional data, along with ACRe's ESG scoring related to each municipal ID.

Under the partnership, CGS and ACRe will link the first six characters of the unique CUSIP ID for each municipal issue with the geographic identifier (GEOID) hierarchy for the issuer, including state, county, city and school district level detail. The GEOID is a unique geographic identifier assigned by the U.S. Census Bureau to administrative/legal and statistical geographic areas. That GEOID-level detail is then paired with ACRe's proprietary ESG scoring rubric, giving market participants insight into what level of exposure their municipal securities have to certain ESG attributes.

"This new capability addresses a longstanding issue in the U.S. municipal bond market, where interested parties could not easily make the link between underlying issuer and related census, socioeconomic, climate change and crime data," said Scott Preiss, Managing Director and Global Head of CUSIP Global Services. "Through this partnership with ACRe, we are able to deliver even more transparency into the municipal bond market, facilitating links to data that can be used to inform risk models and values-based investment strategies. We are honored to be in a position to support the municipal market in a way that will benefit both institutional and retail markets."

Initially, CGS will provide two new data files augmented with ACRe data:

- **CGSACRe:** This data file will link the first six characters of the CUSIP ID to the GEOID hierarchy for the issuer, supporting the mapping of state, county, city and census tract-level socioeconomic, climate risk, environmental and crime data to the underlying municipal bond issuer.
- **CGSACReESG:** This data file will include all of the information provided in the CGSACRe file, along with ACRe's proprietary ESG scoring data, giving investors a direct link between underlying municipal issuer and ESG exposure.

"We're thrilled to be working with CGS to start the process of embedding of vital ESG metrics into the foundational infrastructure of financial markets," said John McLean, Managing Director of ACRe Data Inc. "We believe this standardized approach to ESG scoring and reporting will help market participants incorporate ESG into their workflows and speed the adoption of values-based investment strategies in the municipal bond market."

For more information on the two new mapping files, please visit: https://acredata.com/cusip-%2--geoid-file

About ACRe Data Inc.

ACRe Data Inc. is the largest provider of ESG Scoring, rankings, and underlying datasets for the U.S. Municipal Bond marketplace. ACRe was created in 2015 in response to the need for Alternative Data, and socioeconomic data for the universe of over 50,000 issuers of Municipal Debt in America. ACRe ESG scores and datasets cover all Cities. Counties, School Districts, and States. As of Q2 2020, ACRe utilizes seventy differing datasets for its calculation of ESG Scoring for the U.S. Municipal marketplace. For more information, visit www.acredata.com

About CUSIP Global Services

The financial services industry relies on CGS' unrivaled experience in uniquely identifying instruments and entities to support efficient global capital markets. Its extensive focus on standardization over the past 50 years has helped CGS earn its reputation as a trusted originator of quality identifiers and descriptive data, ensuring that essential front- and back-office functions run smoothly. Relied upon worldwide as the industry standard provider of reliable, timely reference data, CGS is also a founding member and co-operates the Association of National Numbering Agencies (ANNA) Service Bureau, a global security and entity identifier database for over 34 million public and privately traded instruments, contributed by 116 national numbering agencies providing ISIN coverage across more than 200 jurisdictions.. CGS is managed on behalf of the American Bankers Association (ABA) by S&P Global Market Intelligence, with a Board of Trustees that represents the voices of leading financial institutions. For more information, visit www.cusip.com.

About The American Bankers Association

The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $13 trillion banking industry and its 2 million employees. Learn more at www.aba.com.

For More Information:

Farhan Husain
farhan.husain@spglobal.com
212-438-3271

[Treasury Publishes Updated FAQs – Coronavirus Relief Fund Payments for State, Local, and Tribal Governments - Ballard Spahr]

The U.S. Department of the Treasury (Treasury) recently updated its [frequently asked questions] (FAQ) related to the CARES Act. Treasury published the [Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments] (Guidance) originally on April 22, 2020, and updated the Guidance on September 2, 2020, for recipients of direct payments from the $150 billion Coronavirus Relief Fund (Fund). The Guidance sets forth Treasury's interpretations on the permissible use of payments from the Fund (Fund Payments). Treasury published the FAQ concerning the Fund to supplement the Guidance on May 4, 2020, and has updated it several times through October 19, 2020. The FAQ provides additional guidance regarding eligible expenditures and the administration of Fund Payments.

The Act was signed into law by President Trump on March 27, 2020. The Act established the Fund, through which Treasury will make direct payments to each state, eligible units of local government, the District of Columbia, U.S. Territories (the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands), and Tribal Governments. The direct payments can be used this year to help with state and local government expenses incurred in connection with the COVID-19 pandemic. Eligible state, territorial, local, and tribal governments were required to apply for direct payments from the Fund by April 17, 2020. According to a recent survey of 42 states and territories published by the National Governor's Association, nearly 90% of the Fund Payments have been allocated and approximately 62% of the Fund Payments have already been obligated. The survey respondents indicated that they are on target to spend all of the Fund Payments by the CARES Act deadline of December 30, 2020.

The CARES Act only permits direct payments from the Fund to cover those costs that are necessary expenditures incurred due to the public health emergency with respect to COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020 (the date the CARES Act was enacted) for the government entity; and were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020. The Guidance offers Treasury's interpretation of these limits and provides nonexclusive lists of examples of both eligible and ineligible expenditures. The FAQ clarifies that governments are responsible for determining what expenses are necessary and will not need to submit expenditures for Treasury's approval. The FAQ also provides answers to specific questions relating to Treasury's lists of eligible and ineligible expenditures in the Guidance.

Treasury provided additional guidance on the following topics, among others, in the FAQ:

- **Safe reopening of schools** – Fund Payments may be used to cover costs with providing distance learning or for in-person learning. As an administrative convenience, Treasury will presume that expenses of up to $500 per elementary and secondary student are eligible expenses and schools do not need to document the specific use of funds up to that amount. The FAQ provides examples of permissible costs and illustrations of the $500 expense presumption.
- **Public health infrastructure** – Fund Payments may be used to upgrade public health infrastructure, such as providing access to running water to help reduce further spread of the virus. Upgrades must be incurred by December 30, 2020.
- **Public university student refunds** – If the responsible government official determines that expenses incurred to refund higher education expenses (such as tuition, meal plans, and activities fees) to students are necessary and are incurred due to the public health emergency, then such expenses are eligible uses of the Fund Payments. Fund Payments may not be used for expenses that have been or will be reimbursed by another federal program (including the Higher Education Emergency Relief Fund administered by the Department of Education).
- **PPP or EIDL Loan** – A unit of government may use the Fund Payments to give a grant to a small business that has also received a Small Business Administration (SBA) Payment Protection Program (PPP) loan or an Economic Injury Disaster Loan (EIDL). However, the receipt of such loans would need to be taken into account when assessing whether the business' need for further assistance from Fund Payments. If the grant from Fund Payments is provided to assist with particular expenditures, the business must not have used the PPP loan or EIDL for those expenditures.
- **Types of employees whose payroll may be covered by Fund Payments** – A state, territorial, local, or tribal government may presume that payroll costs for public health and public safety employees are payments for services "substantially dedicated" to mitigating or responding to the COVID-19 public health emergency.
- **Transfers of Fund Payments to other government units** – States receiving payments may transfer funds to a local government if it qualifies as a necessary expenditure incurred due to a public health emergency and meets other statutory requirements. Since local governments with populations of 500,000 or less were not eligible for direct payments from the Fund, states should transfer a portion of the Fund Payments they received to such local governments. The FAQ recommends using the per capita allocation formula in the CARES Act, under which a state should distribute 45% of the Fund Payments it received to local governments within the state with a population of 500,000 or less. States may impose restrictions on transfers of funds to local governments to the extent such restrictions facilitate the state's compliance with the requirements in section 601(d) of the Social Security Act. Restrictions that do not directly concern the use of funds, such as restrictions on reopening, are not permissible.
- **Ability to use Fund Payments in conjunction with other CARES Act funding or federal funding for COVID-19 relief** – Expenses that have been or will be reimbursed under any federal program (including reimbursement pursuant to the CARES Act of contributions by states to state unemployment funds), are not eligible uses of Fund payments.
- **Use of Fund Payments to support unemployment insurance funds and costs** – States may use Fund Payments to support unemployment insurance funds separate and apart from the State's obligation to the unemployment insurance fund as an employer to the extent costs incurred by the unemployment insurance fund are incurred due to COVID-19, and may also use Fund Payments for unemployment insurance costs incurred by the State as an employer if such costs will not be reimbursed by the federal government otherwise under another program.
- **Inability of governments to use Fund Payments for government revenue replacement or capital improvement projects** – Fund Payments may not be used for government revenue replacement, including meeting tax obligations or paying unpaid utility fees, or for capital

improvement projects if they are not necessary expenditures incurred due to COVID-19. However, a government could provide grants to electricity account holders facing economic hardship to allow them to pay their utility fees and continue to receive essential services, if the government determined this to be a necessary expenditure.

- **Return of unspent Fund Payments to Treasury** – Recipients must return to Treasury unspent Fund Payments or amounts received from the Fund that have not been used in a manner consistent with the Guidance and section 601(d) of the Social Security Act. If Fund Payments are not used in a manner consistent with the Guidance and/or section 601(d) of the Social Security Act, Treasury would seek to recoup the funds from the government that received the Fund Payment from Treasury. Accordingly, governments that transfer a portion of their Fund Payments should ensure that the recipient government uses the Fund Payments appropriately.
- **Deposit of Fund Payments in interest bearing accounts** – Permitted as long as the recipient uses the interest earned or other proceeds of the investment only to cover expenditures incurred in accordance with the Guidance and section 601(d) of the Social Security Act.
- **Retention and disposition of assets purchased with Fund Payments** – Governments may retain assets purchased with Fund Payments if the purchase was consistent with the Guidance and section 601(d) of the Social Security Act. If the assets are disposed of before December 30, 2020, the proceeds are subject to the restrictions on the eligible use of Fund Payments.
- **Audits** – Fund Payments may be used to cover the expenses of an audit conducted under the Single Audit Act, subject to the limitations in the Uniform Guidance. Fund Payments are considered "other financial assistance" under the Uniform Guidance (2 C.F.R. Part 200) rather than grants. The Catalog of Federal Domestic Assistance (CFDA) number for the Fund is 21.019, pending completion of registration.

October 29, 2020

by the Public Finance Group

www.ballardspahr.com

S&P: Mounting Pressures Threaten Stability Of 20 Largest U.S. Cities' Pension Funding

Key Takeaways

- The 20 largest U.S. cities' pension funded levels and medians were stable entering fiscal 2020, but we expect mounting economic pressures to negatively affect funded ratios over the next few years.
- Despite elevated costs, contribution sufficiency for most cities surveyed did not meet our minimum funding progress (MFP) metric, and a handful did not even reach static funding payments necessary to preserve their current funded status. If budgetary pressures persist, funding discipline will worsen in the near term.
- Fixed costs remain elevated for most of the largest cities and are likely to grow as a percentage of expenditures if revenue growth stalls.
- Social risks related to changing demographics and service needs could further pressure budgets as costs grow.

Continue reading.

26 Oct, 2020

[S&P U.S. Public Finance Report Card: What A Difference A Decade Makes: Housing Finance Agency Rating Stability In Uncertain Times]

Key Takeaways

- State HFA issuer credit ratings remained strong and stable from 2019 through the first 10 months of 2020
- Of the 23 state HFAs we rate, 21 are rated 'AA-' or higher
- Ratios in 2019 show mixed performance, but mostly positive trends with equity and assets at decade-long highs
- We expect 2020 financial ratios to deteriorate somewhat due to the COVID-19 pandemic, with higher delinquencies overall and stressed liquidity for some
- HFA management teams have prioritized equity preservation and built intrinsic liquidity for when they need it most; that time may be now.

Continue reading.

27 Oct, 2020

Infrastructure After COVID-19: Risk Of Another Lost Decade Of U.S. State Government Capital Investment

Key Takeaways

- If state and local government infrastructure investment had continued at the rate prior to the Great Recession, $1.5 trillion more in infrastructure spending would have occurred in 2009-2019.
- In the decade following the Great Recession, state governments devoted significantly less of their budgets to capital spending and reduced their overall debt burden.
- As COVID-19 restricts consumer travel, billions of transportation activity-derived revenues that fund capital projects are at risk.
- Federal stimulus was vital following the Great Recession to prevent steeper declines in capital spending, but there is no agreement on a new comprehensive infrastructure spending plan.

Continue reading.

29 Oct, 2020

S&P: U.S. Not-For-Profit Senior Living Sector Showed Pre-Pandemic Stability In 2019 But Rating Pressures Loom

Key Takeaways

- The U.S. not-for-profit senior living sector demonstrated consistent occupancy, solid investment income, and improved balance sheet metrics in 2019 that allowed most of our rated organizations to enter the pandemic in a position of strength.
- Rating distributions shifted slightly, although rating actions and outlook changes are infrequent, suggesting consistent credit profiles.
- Macroeconomic trends have a moderate to high influence on the sector, with favorable industry demographics helping to partially offset recessionary pressures.
- The pandemic's effect on our rated U.S. not-for-profit CCRC entities is predominantly neutral to date, although challenges persist.

Continue reading.

29 Oct, 2020

COVID-19 Activity In U.S. Public Finance as of 10/30/20

Read the S&P Report.

S&P Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions

Read the S&P Report.

S&P Extreme Weather Events: How We Evaluate The Credit Impacts In U.S. Public Finance

Acute physical risks, caused by extreme weather events such as hurricanes, wildfires, and tornadoes can materialize at any time, and can cause significant physical damage and disruption. Across U.S. public finance (USPF), these events can have greatly varied credit impacts. Leading up to and immediately after the event, management teams are focused on emergency responses, public health and safety, and supporting the general welfare of residents. But while they are engaged in fulfilling their immediate responsibilities, credit market participants want to understand the potential short- and long-term impacts on credit. S&P Global Ratings strives to relay any such impact in our ratings.

(The most unanticipated event of 2020, thus far, has been the COVID-19 pandemic, which we view as a social event through its impact on health and safety. For a reference to our coverage of the credit effects of the pandemic, see "COVID-19 Activity In U.S. Public Finance.")

However, this report focuses on extreme weather events that have occurred recently and the potential credit implications. It summarizes our process and considerations for analyzing and updating the market about our ratings across our USPF sectors during and after an extreme weather event. We also highlight sector-specific issues that we view as key credit considerations during these events.

[Continue reading.](#)

2 Nov, 2020

[Clean Water Initiatives Are Vital for Infrastructure ETFs.](#)

Commodities don't have the panache of most equities but it's an opportunity investors can consider when it comes to investing in needs versus wants. In the case of water, something the world obviously needs, clean water initiatives can be vital for exchange-traded funds (ETFs) that focus on infrastructure.

Today's contentious times amid the pandemic stress the importance of ensuring water resources are untainted. One mechanism for this water is the S&P Global Water Index, which tracks 50 of the largest publicly traded companies involved in water-related business activities.

"As these demands for clean water increase, companies involved in water-related business activities stand to grow in the coming years," wrote Tianyin Cheng, Senior Director, Strategy and Volatility Indices at S&P Dow Jones Indices. "Allocation to water can be systematically captured by rules-based, transparent index construction. Market participants could utilize index-linked water strategies to gain exposure to water, manage water risk, express their sustainability views, or allocate as part of a broader natural resource theme."

[Continue reading.](#)

ETF TRENDS

by BEN HERNANDEZ on NOVEMBER 2, 2020

[CARES ACT - Coronavirus Relief Fund: The Prime Recipient Perspective - GFOA](#)

Analysis | Case Studies

The impact of the COVID-19 public health emergency has stretched beyond any global catastrophe experienced in the past century. With cases of the virus increasing at an astounding rate in the month of March, President Trump declared a national emergency. This set off a chain of events culminating in an extraordinary spike in unemployment rates amid a crashing economy which put immense pressure on State and local governments to continue providing public services through the turbulence of rapidly decreasing revenues. Congress was pushed to take urgent action to address the landslide of challenges that erupted as the country fell into a deadlock, and on March 27th, the $ 2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law.

The Coronavirus Relief Fund

Title V of the CARES Act established the Coronavirus Relief Fund (CRF). Under the fund, $150 billion was allocated to State and local governments with populations over 500,000 to be used for costs meeting the following conditions:

1. Costs must be necessary expenditures incurred due to the COVID-19 public health emergency.
2. Costs must not have been accounted for in the budget most recently approved as of March 27th for the State or government.
3. Costs must have been incurred during the period of March 1 – December 30, 2020.

Continue reading.

BDA and Greenwich Associates Partner on Research Report – Fixed Income in an Unprecedented Year

A new research report completed by Greenwich Associates through a partnership with BDA, on bond trading and dealer adaptability in 2020.

Read the Report.

Bond Dealers of America

October 28, 2020

Fitch: Federal Aid, Local Markets Drive Uneven NFP Hospital Financials

Fitch Ratings-New York-30 October 2020: Not-for profit (NFP) hospitals that treated more coronavirus patients in the spring and received high-impact funding under the Coronavirus Aid, Relief and Economic Security (CARES) Act have generally seen stronger YTD financials than non-coronavirus hot-spot hospitals that had lower patient volumes earlier in the year, Fitch Ratings says. These disparities should dissipate in 2H20 as most hospital volume has rebounded throughout the country, although full-year 2020 financials will continue to be marked by uneven results in 1H20. The targeted supplemental aid, which particularly benefited large hospitals in the northeast, and management's ability to quickly flex labor costs, contributed in part to the disparity noted by Fitch in financial results through the end of June and July.

Timing and eligibility criteria for the targeted high-impact funding distributions favored larger hospitals due to the required caseload threshold. The first allocation totalled $12 billion for 395 hospitals in May, providing $76,975 per COVID-19 patient. The second distribution, totalling $10 billion in July, went to 695 hospitals and provided $50,000 per COVID-19 patient. These funds were in addition to payor reimbursement for COVID-19 patients and general CARES Act stimulus funds. Infections subsequently increased in areas not initially hard hit, but there has been no additional high-impact funding since the July distribution covering COVID-19 admissions through June 10.

High-impact funding was provided as part of the Provider Relief Fund, allocating $175 billion to hospitals and healthcare providers under the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act. Over $120 billion has already been distributed, and providers are currently applying for the next $20 billion allocation as part of the phase 3 general distribution.

Hospitals in current surge areas will not likely see the level of targeted hot-spot funding that was initially distributed to hospitals in the first few months of the pandemic, and will instead need to manage their COVID-19 cases while remaining operational for their non-COVID-19 volume.

Providers should be able to recover some portion, but not all, of their coronavirus-related losses with the phase 3 distribution. Other future funding would also help, although any additional federal aid beyond the current $175 billion program would need Congressional approval.

Besides high-impact funding, labor and geographic location also contribute to uneven financial results among hospitals. With current volumes settling around 95% of previously expected volumes, hospitals with greater labor flexibility are expected to report higher operating results as they better align cost structures to new lower revenue expectations. Staffing is a critical consideration during the pandemic, and many hospitals did not reduce staff in anticipation of an increase in coronavirus cases or because they operate in competitive markets where layoffs would endanger future recruiting and retention. Hospitals with a significant union presence may also have less flexibility to respond to changing staffing needs during the pandemic.

In terms of location, providers with a robust local market to sustain demand for services have done better during the pandemic than those that rely on out-migration from other areas or international referrals, as travel has been disrupted. The sudden but temporary dislocation in residential patterns in high-cost, compact urban markets due to mostly younger residents and families riding out the pandemic in other locations has also contributed to market shifts. These factors highlight the impact of a hospital's local payor mix, which could deteriorate longer term if the high number of unemployed transition to Medicaid or uninsured status.

Contact:

Olga Beck
Senior Director, US Public Finance
+1 212 908-0772
Fitch Ratings
Hearst Tower
300 W. 57th Street
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

---

Introducing the Fitch Analytical Comparative Tool (FACT) D-Trend for U.S. State Demographic and Economic Analysis (Description and User Guide)

Read the Fitch Report.

Thu 29 Oct, 2020 – 11:16 AM ET

Fitch: Coronavirus Pressures Ratings for Some U.S. Toll Roads

Fitch Ratings-New York-28 October 2020: Fitch Ratings expects most U.S. toll roads have enough financial flexibility to weather the global coronavirus pandemic provided that economic conditions continue to improve. However, the Fitch peer review report shows that some issuers with tighter financial metrics at their rating levels or weaker regional conditions are more likely to be downgraded due to the coronavirus pandemic.

Since Fitch's peer review last year, Fitch upgraded two toll road systems prior to the onset of the pandemic and downgraded two others. Additionally, Fitch revised the Rating Outlook on eight toll road systems to Negative but has since returned the Outlook to Stable for two issuers who implemented measures including toll increases to counteract pandemic-related losses.

Already weighed down by legal uncertainty surrounding its governance structure, Fitch downgraded Miami-Dade County Expressway (MDX) back in February. Making matters worse over time will be MDX's exposure to coronavirus-related traffic and revenue losses. "MDX could face legal and political challenges in implementing countervailing measures such as toll rate hikes until a final judicial decision is rendered," said Director Anne Tricerri.

Toll roads already feeling more acute effects of the pandemic include Dulles Greenway, which Fitch downgraded in April reflecting weaker revenues caused in part by the coronavirus crisis. "Resolution of the Negative Outlook for Dulles Greenway will depend on near-term traffic and operational performance in conjunction with clarity into near-term toll increases necessary to maintain adequate coverage levels and financial flexibility while meeting near-term capital needs," said Tricerri.

Fitch has also launched its 2020 update to the interactive peer study for U.S. toll roads, the Fitch Analytical Comparative Tool, or FACT, concurrently with the release of today's peer review.

Fitch's 2020 U.S. Toll Road FACT, contains comparative financial data for a portfolio of 42 publicly rated operating U.S. toll road issuers and enables graphical plotting of key metrics by region, facility type, asset type and rating. The database includes five years of data, providing a comprehensive base for historical trend analysis specific to individual issuers or within the peer group at large.

Fitch's latest 'Peer Review of U.S. Toll Roads' and the '2020 Fitch Analytical Comparative Tool – U.S. Toll Roads' are available at 'www.fitchratings.com'.

Contact:

Anne Tricerri
Director
+1 646 582-4676
Fitch Ratings, Inc.
300 W 57th St.
New York, NY 10019

Scott Monroe
Senior Director
+1 415 732-5618

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

[Fitch: US Higher Education Revenue Pressures Accelerated by Coronavirus]

Fitch Ratings-New York/Chicago-28 October 2020: The coronavirus has heightened enrollment and revenue pressures that higher education faced prior to the pandemic, Fitch Ratings says. Universities already navigating demographic changes, tuition affordability concerns, discounting pressures, and state funding declines have less flexibility to manage the pandemic revenue hit to operating budgets. We anticipate rating changes will remain predominantly negative into 2021.

We expect more highly selective and flagship research universities to weather these challenges due to stronger demand profiles and greater revenue diversity. Some smaller, rural campuses that preserved or even grew enrollment are also bright spots, likely benefitting from the perceived safety and institutional trust of their student base. However, other private colleges with limited financial strength may face steep budget cuts and outsized use of reserves, and have borne the brunt of most negative rating actions to date in 2020.

According to preliminary National Center for Education Statistics data, enrollment across the US higher education sector fell 3% in fall 2020 over last year, better than Fitch's initial expectations for a 5%-10% decline, with significant variability by institution type. Undergraduate enrollment fell 4% overall, with a 2% decline at four-year non-profit private institutions. First-time students declined 16 %, accounting for nearly 70% of the undergraduate decline. Public two-year/community college enrollment fell by 9.4% yoy, and international enrollment saw a sharp 13% drop following several years of milder, consistent declines.

Continue reading.

[Muni Sales Surge 22% Past Old Record in Rush to Beat Election.]

- **Monthly sales hit $71.2 billion, far more than 2017 peak**
- **Governments seize on low rates, calm in the bond market**

America's state and local governments unleashed a record-setting torrent of bond sales this month.

Racing to seize on low interest rates and financial-market calm ahead of the presidential election, public officials sold more than $71 billion of debt this month, according to data compiled by Bloomberg. That's 22% more than the previous record in December 2017, when governments hurried to borrow before President Donald Trump's tax-law yanked the subsidies from a major refinancing technique.

The borrowing surge reflects the unpredictability associated with the election and a surging pandemic that is threatening to leave governments contending with deepening financial strains as shutdowns hit tax collections.

"Because of the uncertainty tied to the election outcome you are looking at a lot of issuers rushing to market," said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which has about $40 billion in muni assets under management. "Issuers who have come to market in the month of October have enjoyed very strong market access."

The October surge was easily absorbed by the market, where yields barely budged and governments have had little trouble raising money despite the toll of the pandemic. It's unclear, however, how the financial markets will respond to the outcome of next week's election, given than President Donald Trump's surprise victory four years ago triggered a bond-market selloff that temporarily sent yields surging.

The pace of debt sales is anticipated to slow dramatically since so many deals were moved up into September and October. Citigroup Inc. analysts said in a note Friday that they expect new offering to plunge by 70% in November due to the election and Thanksgiving holiday.

Buyers have scooped up municipal debt amid indications that the pipeline of new deals will slow in the last two months of the year, leaving 10-year benchmark yields at about 0.92%, up only slightly from 0.83% at the start of the month. The volume of municipal debt sales so far scheduled for next month stands at about $11 billion, almost one-third what it was in mid-October, according to data compiled by Bloomberg.

During the recent "burst of supply," muni bonds "are holding in," said Kathleen McNamara, senior municipal strategist for UBS Financial Services.

Bloomberg Markets

By Shruti Singh

October 30, 2020, 10:44 AM PDT

Investors Demand More Transparent Green Munis.

Investors are demanding more transparency around green municipal bonds as the bonds grow in popularity, according to Amy Hauter, partner, portfolio manager and head of sustainable fixed income at Brown Advisory, a global investment firm based in Baltimore.

Investors want additional information about whether sustainable municipal bonds are successful in fulfilling their pro-environment missions, Hauter said in a recent interview. Brown Advisory's sustainable fixed-income strategies include its Sustainable Core, Tax-Exempt Sustainable and Sustainable Short Duration composites.

"Municipal bonds are sometimes overlooked by investors when they are considering sustainability, but these bonds can fund sustainable projects" that help the community, she said. In particular, the pandemic has highlighted the need for sustainable projects, particularly for underserved populations. "The pandemic has highlighted the need for such things as affordable housing and mental health facilities and services."

Brown Advisory adheres to the International Capital Market Association's guidelines for sustainable investing, which means the proceeds of the bonds are to be used exclusively for green and social projects, according to the website for ICMA, a not-for-profit membership association with offices in Zurich, London, Paris and Hong Kong that includes private and public sector bond issuers.

Since the pandemic hit, the sale of green bonds has grown, as has the transparency, Hauter said, but the amount of transparency can vary from one project to the next.

“Increasing transparency is where investor engagement comes in,” Hauter said. Issuers need to be more engaged with the buyers” to provide information on what guidelines the project developers are adhering to. Definitions for what is considered a green or sustainable bond vary and more clarity is needed, she said.

In addition to the growth in sustainable bonds, the pandemic brought to light the need for projects that serve underserved populations, Hauter added. “The types of projects are changing. For instance, colleges and universities are issuing bonds to include students who may not have the internet access or the technology they need,” she said.

To further sustainable causes, Brown Advisory favors bonds in the university and college sector, for hospitals that are addressing health-care disparities, public transit and water and power utilities. Public transportation ridership is rebounding from a low during the first and second quarters, she said.

“You would think people would have pulled back from sustainable investing, including investing in green munis, this year as they focus on other more immediate things,” Hauter said. “But that did not happen.”

Because there is more interest in green municipal bonds, regulatory pressure probably is going to increase around what it means to issue green and sustainable bonds, she predicted.

FINANCIAL ADVISOR

NOVEMBER 2, 2020 • KAREN DEMASTERS

Will the Lack of Federal Financial Support Impact Municipal Financing?

In the run-up to the presidential election, BrandeisNOW asked faculty to provide analysis and insight into some of the most pressing issues facing the country. This is part of the series. Dan Bergstresser is an associate professor of finance at Brandeis International Business School.

The COVID-19 pandemic and resulting economic disruptions have cost the United States more than 200,000 lives and led to the steepest drop in gross domestic product (GDP) in history.

The effect of this crisis on state and local budgets has been particularly sharp and has come at a time during which the need for services provided by state and local governments is greater than ever.

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act, also known as the “CARES Act.” It included $150 billion in direct support to state and local governments, but it was still not sufficient to help states and localities avoid steep cuts in services.

An additional stimulus bill, the Health and Economic Recovery Omnibus Emergency Solutions Act (the “HEROES Act”) has been introduced in the House of Representatives. It includes an additional $ 400 billion in assistance to state and local governments, but the chances of passage appear very cloudy at the moment.

Although the federal government will employ deficit spending to smooth the effect of temporary economic disruptions, states and localities generally do not employ deficit spending to cover cyclical gaps in operating budgets.

Without more federal support for states and localities job losses and cuts in services will be inevitable. These cuts will compound the economic disruption for people who depend on their services, in particular families with school-age children and especially lower-income families.

The extent to which states and localities have been affected by the pandemic and recession depends to some degree on how they generate revenues to fund their budgets.

Typically, about a third of state revenues come from the federal government. The rest mainly comes through state-imposed taxes on income, business and retail sales. At the local level, about a third of revenue comes from transfers from states to localities, with the bulk of the remainder coming from property taxes.

But there are differences across the states, with states like Oregon and New York being particularly reliant on income taxes for revenue, while Florida and Texas are particularly reliant on sales taxes.

These differences in revenue sources and the unusual nature of this pandemic-driven recession make their impact on state and local budgets different from place to place.

The impact on retail sales and sales taxes have so far been greater than the impact on personal income, so the effect of this recession on state and local budgets will be larger in places that are more dependent on sales taxes and in places where sales and income tax receipts have been more affected by the pandemic.

For example, the Colorado legislature is now forecasting a 20 percent decline in revenue in 2021, while in Idaho the state is now forecasting a 1 percent decline.

Investing in our families and school-age children is one of the most important and highest return investments that our society can make. Cuts to these services will affect our country for years to come.

brandeis.edu

By Dan Bergstresser

Oct. 28, 2020

Why a Blue Wave Could Boost the Municipal Bond Market.

The $3.9 trillion municipal bond market could be a big winner if Democrats sweep the White House and both houses of Congress. Such a “blue wave” scenario is now given odds of better than 50% in betting markets.

The muni market would benefit in multiple ways. Financially strapped state and local governments could be expected to get relief from a stimulus bill along the lines of the $2.2 trillion bill that passed the House of Representatives, providing about $436 billion to them.

“A Democratic sweep is a grand slam for state and local governments,” says Dan Clifton, head of policy research for Strategas. He points to a stimulus bill and the prospect of additional federal Medicaid funding for states, as well as the potential reinstatement of full deductibility of state and local taxes.

Such a move could curb the flight of wealthy residents from high-tax states like California, New York, and New Jersey to places like Florida and Texas, which have no income taxes.

Joe Biden wants to raise the top federal income-tax rate back to 39.6% from 37%, and that would enhance the allure of munis for individuals. Biden also wants to raise the corporate tax rate to 28% from 21%, and that would probably increase demand from corporations for muni debt.

“If we get a blue wave, it’s likely that tax-exempt bonds would do very well,” says Peter Hayes, head of the municipal bond group at BlackRock. “Munis are very cheap and are not factoring in higher tax rates.”

Triple-A-rated 10-year munis now yield about 0.95%, 110% of the yield on the 10-year Treasury note, now at 0.85%. That is a high percentage relative to the past 20 years. It has usually been below 10 0%.

The yield on the 10-year muni is up from a low of 0.55% in August but is historically low, dampening demand from individual investors. Hayes sees a favorable backdrop for the rest of the year.

Muni issuance was heavy in October, at about $70 billion, although a growing chunk of that—now about 30%—is in the taxable muni market. Muni supply is expected to fall in November, and that could bolster the market.

While state and local governments are apt to get more financial relief from a Democratic-controlled Washington, long-term fiscal challenge stemming from the pandemic are likely to persist. Barron’s highlighted this risk in a cover story in August.

“There’s an enormous loss of revenue going on, and we don’t know how long it will last,” Richard Ravitch told Barron’s at that time. Ravitch is the former Metropolitan Transportation Authority chairman who helped pull New York City back from the brink of bankruptcy in the mid-1970s. He is now director of the Volcker Alliance, a nonprofit group that advises on effective government.

The metropolitan New York area has been hard hit economically by Covid-19. Moody’s Investors Service recently downgraded the credit ratings of New York City, New York state, and the Metropolitan Transportation Authority, which operates the city’s subways, buses, and commuter rail networks.

The city and state remain highly rated at double-A2, while the MTA, which faces a grave financial outlook because of sharp declines in ridership, has a still-solid investment-grade rating of single-A3.

Reflecting fears about the region’s outlook, long-term New York City debt yields about 2.5% and MTA debt yields 4%. That compares with a yield of about 1.75% on top-grade long-term munis.

Investors, however, may want to steer clear of MTA bonds, given the agency’s high debt load of $44 billion, large projected deficits in the coming years, and a need for federal financial help.

Barron’s

By Andrew Bary

Updated November 1, 2020 / Original October 30, 2020

What’s at Stake for Local Governments in the Presidential Election.

For all the years Donald Trump has lived in Manhattan, he’s cast American cities as the enemy during his presidency.

Big cities—in particular those run by Democratic mayors—earned particular vitriol from the president, who has deemed them “rodent infested,” “disgusting” places sieged by violence “worse than Afghanistan.” He’s sent federal agents in to crack down on protests against the wishes of local leaders, threatened to withhold federal funding from “anarchist” and “sanctuary” cities, and castigated local leaders when they fight his policies.

The antagonistic relationship has many in local government banking on a reprieve if former Vice President Joe Biden ousts Trump on Election Day.

“The Trump administration has a hostile relationship with local government,” said Mitch Landrieu, the Democrat mayor of New Orleans from 2010 to 2018 and former president of the U.S. Conference of Mayors. “There has never been a level of hostility that exists today in previous administrations.”

But the animosity hasn’t undercut all of the Republican president’s relationships with local government—Trump received a standing ovation when he spoke at the National Association of Counties conference in March and promised to continue to be a “friend, partner, ally and resource” to local governments. It was the first time a sitting president had addressed the NACO conference, which includes both rural and urban county leaders, a symbol some Republican officials say reflects the Trump administration’s accessibility to local government officials.

“The president and his directors have been available,” said Ron Wesen, a commissioner in Skagit County, Washington and the past president of the National Conference of Republican County Officials. “It was really impressive to me the outreach the administration had.”

The clear partisan split isn’t as evident when it comes to the most pressing crisis that local governments currently face: the coronavirus pandemic. Lobbying groups for counties and cities agree that much more federal assistance is needed, both to pay for the Covid-19 response and help governments deal with budget shortfalls that have already resulted in furloughs and layoffs.

This spring, Trump at times signaled a willingness to consider more direct aid for state and local governments than was included in the CARES Act package approved in March. But that sentiment has since largely evaporated. More recently, the president has echoed Senate Republicans who’ve said they don’t want to “bail out” Democratic cities and states they describe as poorly run.

That means the outcome of the election could be a determining factor in whether states and localities get more aid. The Democratic-led House passed legislation in May that would have provided nearly $1 trillion in direct aid to state and local governments. On Thursday, House Speaker Nancy Pelosi described state and local assistance as one of the key sticking points in working out a new deal.

While Senate Republican resistance means a Democratic takeover of the Senate is probably a necessary condition for a sizable new package, Biden is vowing to help and has promised local leaders direct access to the White House.

“We should have a local emergency fund that drives resources straight to you, expand your health infrastructure, reimburses overtime pay for the essential workers and first responders,” Biden said during an address to the U.S. Conference of Mayors in late September. “Whatever your community needs the most.”

Cooperation with Biden

Political observers say there is plenty of reason to believe a Biden administration would approach relationships with local governments differently than Trump. Biden has a strong record of engaging local leaders and taking the time to understand how local government works, said Frank Shafroth, the director of the Center for State and Local Government Leadership at George Mason University.

In particular, Shafroth points to Biden’s role as vice president working with the city of Detroit after the city filed for bankruptcy in 2013. Detroit’s was the largest municipal bankruptcy filing in U.S. history. Under President Obama, Biden helped the city secure federal transportation funding for several projects and was credited as advocating for the city’s needs throughout the process.

“It shows he has experience and that he appreciates those cities,” Shafroth said of Biden’s interactions with city leaders. “He listened and had he not listened, I don’t know if Detroit would exist as a city today.”

It’s that willingness to listen and get involved at the local level that Debbie Goettel, chairwoman of the National Democratic County Officials, said would be beneficial in helping to get local governments back on track as they emerge from the coronavirus pandemic. Collaborating with the Trump administration on infrastructure projects, the type of investments that could help revive local economies post-pandemic, has been slow going, Goettel said. She placed the blame on the departure of federal employees with experience working with local governments, including many who have not been replaced.

“It’s been harder and it’s been slower,” said Goettel, a commissioner in Hennepin County, Minnesota, specifically citing delays on a light rail project that only recently received grant funding from the Federal Transit Administration.

She believes a Biden administration would take requests from local governments more seriously.

“Trump is listening at a much higher level. Biden would really get down to a local level and really listen to us,” Goettel said.

Last month, Biden told local government leaders that improving relationships with them would be a goal of his administration should he win.

“Whether your city is red or blue, I’m going to be there,” Biden said during the mayors’ conference. “Every American community deserves the full support of the American president. The worst thing that a president can do is drive wedges that make your job tougher because he thinks it benefits him or stirs up chaos in your communities.”

Trump’s Open Door

Despite Trump’s public brawls with big-city mayors, some Republican local leaders said they have found his administration to be particularly accessible.

The “back channels were always open” when it came to discussions between the administration and state and local governments about increased federal funding as part of a coronavirus stimulus bill, said Bryan Barnett, the Republican mayor of Rochester Hills, Michigan and past president of the U.S. Conference of Mayors.

"We found at times an ally in the White House, at times an obstacle," Barnett said of the still unsuccessful discussions. "We were always talking about numbers we thought that could work."

The Trump campaign did not return a request for comment inquiring about his record on working with cities.

Trump has prioritized "law and order" on the campaign trail and the U.S. Department of Justice has provided federal resources and pushed efforts to crack down on violent crime in a handful of Midwestern cities. Trump continues to have high support among police and sheriffs.

However, when local government leaders have balked at enforcing Trump's policies, the president has tried to counter by taking away federal money.

Early on in Trump's tenure, the Justice Department sought to link the award of law enforcement grants to local and state cooperation with federal immigration authorities as part of the president's bid to crack down on illegal immigration and "sanctuary cities." But the policy has been stymied, as three of four federal appellate courts have ruled against Trump's sanctuary city policies.

More recently, Trump tried a similar tactic when he announced an executive order that would seek to limit federal grants to "anarchist" jurisdictions that he said did not do enough to contain violence during national protests this summer against police brutality. Among the grants the White House has considered targeting for cuts are millions of dollars for coronavirus relief, as well as support for HIV treatment and health screenings for newborns, Politico reported this month.

"We have other cities that are out of control; they're like warzones," Trump said during a press conference over the summer. "We're not going to put up with that."

Cities' Needs Don't Change

No matter who is declared the winner of the presidential election next month, the most pressing challenges facing cities will remain the same, Barnett said.

"Mayors are going to get up on Nov. 4 and continue to have to lead their cities," he said.

Because so many pandemic-related challenges—from reopening schools to help with distribution of any future Covid-19 vaccine—are local responsibilities, it will be important for the winner to forge strong working relationships with local governments, political observers said.

"This country is made of local, state, and federal governments," said Wesen, the Washington state county official. "Our taxpayers expect us to work together."

Route Fifty

By Andrea Noble,
Staff Correspondent

OCTOBER 29, 2020

[Fitch 2020 State Liability Report.]

This week Fitch published the [2020 State Liability Report] – an annual survey of state direct debt and pension liabilities. State long-term liability burdens continued to decline in fiscal 2019, the last full year of the long economic expansion that followed the Great Recession.

Five states continue to carry elevated long-term liability burdens above 20% of personal income in fiscal 2019, including Illinois (at 27% of personal income), Connecticut, New Jersey, Hawaii and Alaska. For all of them, pensions remain the driver of elevated liabilities. Conversely, 37 states carried burdens below 10% of personal income, which Fitch views as low.

Fitch: Employment Growth Slows for U.S. States as COVID-19 Cases Rise

Fitch Ratings-New York-02 November 2020: The pace of job recovery continues to slow for most U.S. states with COVID-19 cases and hospitalization rates increasing throughout much of the country, according to Fitch Ratings in a new report.

“States by and large saw continued improvement in jobs recovery in September, although the pace has slowed since the summer, we expect the economic recovery to continue slowing this quarter.” said Senior Director Olu Sonola. Median jobs recovery (gain in non-farm payrolls) improved to 55% in September from 51% in August. Fitch considers most states are well-positioned to deal with resulting budget volatility at current rating levels, though economic contraction could compound revenue declines that erode states’ gap-closing abilities.

New York, Alaska, Illinois, Nevada, New Jersey and Kentucky all saw the steepest employment declines in the first three months of the pandemic and have seen slower employment recovery in recent months. Additionally, nine states lost jobs in September with Hawaii topping the list. Fitch downgraded Hawaii to ‘AA’ and revised the Rating Outlook to Stable last month, noting the outsized impact of the coronavirus pandemic on Hawaii’s economy and workforce, particularly its large leisure and hospitality sector.

Conversely, the employment picture improved dramatically for states like Massachusetts in September. Massachusetts’ official unemployment rate improved to 9.6% in September from 11.4% in August with the Fitch-adjusted unemployment rate also falling to 10.8% from 18.9%. “Massachusetts has seen a notable uptick of hiring in the education and health services sector, which drives a large portion of their economy,” said Sonola.

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

Contact:

Olu Sonola, CFA
Senior Director
+1 212 908 0583
Fitch Ratings, Inc.
300 W. 57th St.
New York, NY 10019

Arthur Tildesley, CFA
Associate Director
+1 646 582 4749

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

U.S. States Face Biggest Cash Crisis Since the Great Depression.

The drop in tax revenue has led to a total shortfall expected in the hundreds of billions of dollars—greater than 2019's K-12 education budget for every state combined, or more than twice the amount spent that year on state roads and other transportation infrastructure.

Connecticut acted fast. Social distancing, lockdowns and testing slashed Covid-19 cases in the spring.

But when Comptroller Kevin Lembo opened an email from his budget director on April 15, it was clear the state's quick action to contain the pandemic hadn't insulated its finances.

"We hit the brakes so quickly on the economy that we went through the windshield," his deputy wrote.

Continue reading.

The Wall Street Journal

By Heather Gillers and Gunjan Banerji

Oct. 28, 2020 2:45 pm ET

Pandemic's Impact on State Revenues Less Than Earlier Expected But Still Severe.

The pandemic's impact on state revenues this spring was smaller than the historical record predicted. Nevertheless, states, localities, tribal nations, and U.S. territories like Puerto Rico still face large shortfalls for this fiscal year and the next in funding schools, health care, and other basic public services. They desperately need more federal aid to avoid more layoffs and other cuts that would further weaken the economy, increase hardship, and worsen racial and class inequities.

State and local revenues have fallen as the pandemic has forced businesses to close or scale back, costing millions of jobs. Sales taxes, a major revenue source for states and, to a lesser extent, localities, have fallen especially sharply. Income taxes — states' other primary revenue source — are also down, as are revenues from gasoline taxes and other lesser sources.

As a result, states and localities have furloughed or laid off 1.2 million workers to date, far more than the 750,000 that lost their jobs during the Great Recession.[1] They've also imposed spending cuts that diminish the reach and quality of public services. Georgia, for example, cut K-12 funding by nearly $1 billion,[2] and California cut higher education by roughly the same amount.[3] Because many states are operating under budgets they know are unrealistic, more cuts — likely leading to more layoffs, tuition hikes, and reductions in public services — are coming unless the federal government steps up.[4]

Continue reading.

CBPP.ORG

BY MICHAEL LEACHMAN & ELIZABETH MCNICHOL

OCTOBER 30, 2020

Reauthorize The Fed's Muni Lending Powers Or Risk Another Market Crisis.

As Senate Republicans continue blocking state and city budget aid in a new stimulus package, progressive advocates want the Federal Reserve to be a much more active municipal lender. But the immediate risk to the municipal finance market—and thus to state and city budgets— is the scheduled expiration of the Municipal Liquidity Facility (MLF) at the end of 2020, which could threaten a repeat of this spring's market liquidity crisis. So the MLF needs to be extended now.

Remember the MLF was created in response to spring's sudden liquidity crisis in municipal finance. Investors pulled back from the muni market, forcing a selloff to cover their withdrawals. The cascading selloff in turn quickly drove up interest rates for billions of dollars in muni bonds approaching 10% in some cases, threatening a seizing-up of the entire market.

Continue reading.

Forbes

by Richard McGahey

Oct 30, 2020

City And State Budget Squeeze Could Drag Down Muni Market, Putting New Pressure On The Fed.

The failure to pass another Covid stimulus package because of Senate Republican resistance is increasing the budget squeeze on cities and states and raising cautions in the municipal bond market. Although Joe Biden and the Democrats want significant new spending aid, post-election gridlock could hurt cities, states, and the public finance market and also damage the economic recovery. That in turn will increase calls for aggressive new Federal Reserve powers and actions that could dramatically affect the muni market.

State and city revenues remain under water, and the sputtering economic recovery isn't likely to bail them out. According the Center on Budget and Policy Priorities, "state tax collections for March through July 2020 were 7.5% less than in the same months of 2019." And in September, Moody's MCO 0.0% said its improved baseline economic forecast would still mean that "the fiscal consequences…for states and local governments would be the worst since the Great Depression."

Chicago illustrates the problem. With revenues pummeled by the ongoing recession and no relief from a troubled state or a gridlocked federal government, the city plans to refinance existing debt at lower interest rates to generate short-term savings, and also stretching out the period for repayment.

Continue reading.

Forbes

by Richard McGahey

Oct 27, 2020,06:00am EDT

These Bonds Could Benefit From a Democratic Sweep.

Hint: They tend to attract more buyers when taxes rise.

The results of the 2020 election could have a dramatic impact on the municipal bond market.

If Joe Biden wins the presidency and if the Democrats take control of the Senate, marginal tax rates for the wealthiest Americans could rise, increasing demand for munis, whose interest payments are exempt from federal income taxes and from state taxes for residents of the issuing state.

Under Biden's tax plan, individual taxpayers earning more than $400,000 annually would be taxed at 39.6%, up from 37% currently, and subject to an additional 12.4% Social Security tax on wages split equally with their employer. If they itemize deductions (which Biden's plan caps at 28%) and live in a high-tax state like California, their total tax burden would be close to 60%, providing them a tax-equivalent yield of 5.625% on a California muni yielding 2.25%.

A Democratic sweep could also help shore up the finances of state and local governments, which would support muni credits. Congress then would be more likely to pass an economic aid package that would provide billions of dollars for state and local governments, which has been a key sticking point in recent stimulus negotiations between Republicans and Democrats. Those talks have so far failed to develop a compromise plan. Moreover, If the pandemic worsens, as it's expected to, the financial needs of state and local governments will increase.

James DiChiaro, senior portfolio manager at Insight Investment, said financial markets are now pricing in a higher probability of a Democratic sweep and probability of stimulus, which is why interest rates have been rising in the past week. The 10-year Treasury yield on Friday topped 0.85% in intraday trading on Friday, its level since June.

"Solid fund flows [for muni bonds] through the fall" also suggest that investors expect a blue wave in the upcoming election, said Rabasco. He explained that higher tax rates for wealthier individuals coupled with higher tax rates on corporations — Biden plans to raise corporate tax rates from 21% to 28% — also boost support for muni bonds.

Corporations, saddled with higher tax rates could also be attracted to the tax-exempt income that muni bonds provide. Banks and property and casualty insurers especially would tend to be attracted to munis, according to AllianceBernstein.

Even if there is no Democratic sweep in the upcoming election and the federal government remains divided, demand for munis will still be strong because the limits on state and local tax (SALT) deductions will remain. Those limits, set by the 2017 tax overhaul, "drove a lot of demand in the marketplace," said Rabasco, adding that there has been "solid fund flows" for munis through the fall.

He expects state and local governments will adopt austerity measures and debt financing if there is no strong federal support for their finances.

On the opposite end of the bond market outlook post election is the Commercial Mortgage Backed Securities (CMBS) market, which supports commercial real estate. "I would feel a lot more comfortable investing in CMBS if I was working out of an office building now," said DiChiaro.

He said it was a "bit early to go heavily into CMBS right now" because of the impact the pandemic is having on commercial real estate hough data warehouse credits have attractive values.

ThinkAdvisor

By Bernice Napach | October 26, 2020 at 11:28 AM

Voters Will Consider $45 Billion of Bond Proposals in Election.

- **School bonds make up more than half of 10 largest proposals**
- **LA $7 billion bond would help post-Covid learning environment**

U.S. voters will decide on an estimated $45 billion of bond sales this election as municipalities across the country seek funding for projects ranging from hospital improvements to school infrastructure.

More than half of the 10 largest ballot measures would fund school improvements, and if approved, some of that money would help districts grappling with educating students during a pandemic, including enhanced internet access and resources to prevent the spread of Covid-19. Other deals would pay for water and sewer projects, libraries and other infrastructure.

It's the lowest amount of borrowing on U.S. ballots during a presidential year since 2012, according to preliminary data compiled by IHS Markit, which has updated its tally from a previous estimate that cited a higher amount of bond measures. The economic collapse caused by the pandemic stalled plans to borrow as municipalities and taxpayers face increasing financial uncertainty.

"Covid-19 by far has really thrown the global economy for a loop, let alone the municipal market," said Christopher Brigati, head of municipal trading at Advisors Asset Management.

The borrowing slump comes at an unprecedented moment for state and local finances. Despite low interest rates, borrowers are contending with uncertainties over the outcome of the election and the prospect of credit downgrades as the coronavirus pandemic upends the economy.

The largest proposed borrowing, a $7 billion bond for the Los Angeles Unified School District, would pay for an ongoing project to upgrade accessibility and earthquake safety, as well as "address facilities needs to adapt to a post-Covid-19 learning environment," according to a press release.

The Dallas Independent School District in Texas is weighing $3.7 billion of bonds to pay for enhanced internet access for students and teachers and facility renovations, including adding family resource centers in four historically redlined areas to address racial equity. A school district in Maricopa County, Arizona, is seeking approval of $75 million in bonds in part to help prevent and fight the spread of Covid-19.

In Portland, Oregon, voters will decide on a $1.2 billion offering that would upgrade the area's high schools without raising taxes. Jefferson High School, which predominantly serves students of color, is slated to receive the lion's share of the proceeds.

“Portland public schools historically has not served black students well,” said Julia Brim-Edwards, bond campaign chair for Portland Public Schools. “We made a decision to prioritize Jefferson High School.” It’s the largest school bonds in the state’s history, Brim-Edwards said.

The San Antonio Independent School District in Texas called for a $1.3 billion bond on the ballot that would finance school renovations and technology. Taxpayers would not see a rate increase from the bond, according to district projections.

King County, Washington will seek approval for a $1.7 billion bond that would fund improvements and increase critical surge capacity at Harborview Medical Center, a hospital facing rapid population growth that treated some of the first known Covid-19 cases in the U.S.

Fairfax County, Virginia is asking voters to approve four bonds, including $160 million that would be used for the county’s contribution to Metro’s capital improvement program. Funds would be used to buy new railcars and buses and construct a new bus garage.

California and New Mexico are the only ballots with state bond questions. California has a $5.5 billion measure that would authorize borrowing for stem cell and other medical research, and New Mexico collectively has about $200 million in measures that would fund schools, senior facilities and library improvements. California is also the largest issuer, with about twice as much bonding on the ballot as Texas, the second largest.

Bloomberg Politics

By Nic Querolo

October 30, 2020, 10:39 AM PDT

Lawsuits Over Protest Brutality Pile Up, Adding to Cities’ Police Costs.

An ACLU case against New York City is the latest to allege that cities responded to demonstrations with brutality.

U.S. cities are facing a growing number of lawsuits alleging excessive force against protesters this year.

The New York branch of the American Civil Liberties Union and the Legal Aid Society on Monday sued New York City, Mayor Bill de Blasio and police leadership and officers over their response to summer protests sparked by the police killing of George Floyd. The suit claims the New York City Police Department violated protesters’ First Amendment rights with brutal force.

This marks the latest such allegation against a city government, joining cases in Omaha, Nebraska; Los Angeles; New York; and Minneapolis, the focal point of the protests. The growing list shows that departments are not fixing the issues that land them in court, said Joanna Schwartz, a professor at the UCLA School of Law who specializes in police accountability. The costs of such claims add up, forcing cities to spend more on police.

This week’s lawsuit alleges the NYPD unnecessarily used tools like batons and pepper spray on demonstrators and deployed tactics like kettling, in which police surround and trap a group in a location. These tactics resulted in injuries, including a broken arm for one of the 11 plaintiffs, according to the suit, which also alleges false imprisonment.

“What everybody saw in the aftermath of George Floyd’s murder was egregious police misconduct and violations of protesters’ rights across the country but particularly in New York City,” said Daniel Lambright, an ACLU attorney working on the case. “We don’t think there was a ‘bad apple’ problem. We think these were part of policies and practices endorsed by the mayor and the commissioner.”

The mayor’s office declined to comment further on the lawsuit, but de Blasio addressed it in part during a Monday news conference. “From what I’ve heard of the lawsuit’s allegation, it doesn’t sound right at all to me,” he said. “You know, there’s been a conscious effort for seven years now to change the relationship between the NYPD and communities.”

Schwartz, the law professor, said it would be in cities’ economic interest to address the underlying problems that lead to conflict with protesters and allegations of brutality, rather than spending resources on settlements and court battles.

The coronavirus pandemic has left state and local governments facing a projected $467 billion decline in revenue between 2020 and 2022, according to the Brookings Institution. At the same time, governments across the U.S. are facing questions about public safety spending; one rallying cry among protesters this year was to “defund police.”

In some localities, public safety already exceeds a third of general fund spending. Louisville, Kentucky, where Breonna Taylor was killed by police in March, spends 29% of its general fund budget on police. In Minnesota and Omaha, it’s 35% and 36%, respectively. New York City spends nearly 6% of its vast general fund on police, which comes out to more than $5 billion. Misconduct payouts are a further way departments pull on city purse strings.

Moody’s Investors Service, the credit ratings agency, said reform efforts that lead to fewer legal settlements are good for local governments’ financial standing. These costs aren’t always crippling for municipalities, but they can crowd out other vital spending. Chicago paid $757 million in settlements between 2014 and 2018, New York City paid $220 million in fiscal 2019, and Louisville recently paid $12 million to Taylor’s family.

“There are simple economic reasons to try to learn from these suits,” Schwartz said. “It is a really distressing sign of our times that police departments are sometimes responding to what has been an unprecedented outcry against police misconduct with more misconduct, and sometimes even more blatant misconduct and excessive force than we’ve seen in the past.”

Bloomberg CityLab

By Fola Akinnibi

October 28, 2020, 9:08 AM PDT

Tlaib, Ocasio-Cortez Offer Bill to Create National Public Banking System.

Democratic Reps. Alexandria Ocasio-Cortez (N.Y.) and Rashida Tlaib (Mich.) on Friday introduced a bill to create a federally chartered and supported public banking system.

Called the Public Banking Act, the bill would develop a system through which the Federal Reserve

System and Treasury Department would recognize, offer grants and open credit facilities for nonprofit banks. These banks would be intended to compete with the commercial banking industry and would be barred from charging fees on checking or savings accounts, requiring minimum balances and levying interest rates of more than 15 percent.

Tlaib and Ocasio-Cortez said the bill is intended to expand access to financial services in areas where a large portion of the population is unable to afford conventional banking services. Nearly 30 percent of those without bank accounts cited an inability to meet minimum balance requirements as the main reason they did not use a bank, according to a June 2019 survey conducted by the Federal Deposit Insurance Corp., and nearly 49 percent said it was at least a contributing factor.

“From overdraft fees to charging for having a checking account period, Wall Street-run banks put key financial services out of reach for many of my residents who are struggling to make ends meet,” Tlaib said in a statement

“It’s long past time to open doors for people who have been systematically shut out and provide a better option for those grappling with the costs of simply trying to participate in an economy they have every right to—but has been rigged against them.”

Tlaib and Ocasio-Cortez said the bill is also intended to give local governments, community development projects and small businesses easier access to loans and federal financial relief programs as they grapple with the damage wrought by the coronavirus pandemic.

“The creation of public banks will also facilitate the use of public resources to construct a myriad of public goods including affordable housing and local renewable energy projects,” Ocasio-Cortez said in a statement. “Public banks empower states and municipalities to establish new channels of public investment to help solve systemic crises.”

The bill from Tlaib and Ocasio-Cortez, both members of the House Financial Services Committee, is the latest push from progressive Democrats to create federally funded and supported alternatives to the financial sector.

House Financial Services Committee Chairwoman Maxine Waters (D-Calif.) in June introduced a bill that would order banks within the Federal Reserve System to offer “FedAccounts” with similar terms as specified in the Public Banking Act.

A task force set up by Democratic presidential nominee Joe Biden and Sen. Bernie Sanders (I-Vt.) in July also called for the creation of a government-run banking system set up through the Federal Reserve and U.S. Postal Service.

THE HILL

BY SYLVAN LANE – 10/30/20

Shorten Up On Duration With High-Yield Munis.

Summary

- Rising long-end rates are making some income investors nervous about the impact of growing deficits and inflationary dynamics on their portfolios.

- Short-duration high-yield municipal bonds provide an attractive combination of yield, historical drawdown dynamics and a muted sensitivity to rising rates.
- Within the sector we like NVHAX due to its modest leverage use, attractive yield and strong historical returns.

Continue reading.

Seeking Alpha

Oct. 28, 2020

Assessing the Impact of COVID-19 on the Municipal Debt Market.

The municipal bond market was in great shape prior to the COVID-19 outbreak. After the passage of the Tax Cuts and Jobs Act in 2017, the combination of strong investor demand for yield and a limited supply of tax-exempt issues led to a compression in quality and sector spreads. Of course, the COVID-19 outbreak led to a sudden disruption of financial markets, including muni markets.

COVID-19's Impact on Munis

The U.S. COVID-19 outbreak in March sparked a rapid sell-off across financial assets. In the municipal bond market, $40 billion in redemptions in just three weeks caused a severe liquidity crisis, particularly as leveraged funds were forced to sell. Quality and sector spreads also widened as investors sought out safe-haven assets, such as general obligation bonds.

Continue reading.

dividend.com

Oct 28, 2020

US State Liability Burdens Fall to 5%; Five States Top 20% Driven by Pensions - Fitch

Fitch Ratings-New York-26 October 2020: Long-term liabilities burdens fell for a fourth straight year for U.S. states and hit a notable threshold last fiscal year, according to Fitch Ratings in its latest annual survey of state direct debt and pension liabilities.

Long-term liabilities relative to personal income declined to 5% in fiscal 2019, from 6% in fiscal 2016. "The downward trend does not necessarily reflect an enduring drop in state burdens, especially for pensions," said Senior Director Doug Offerman. "Instead, robust economic growth up to the coronavirus pandemic drove faster gains in personal income than in debt and pensions."

Over that time, median personal income by state grew 4.1% annually. Direct debt, which constitutes about 40% of long-term liabilities, remained relatively flat, at 2.1% of personal income in fiscal 2019, vs. 2.3% in fiscal 2016. State debt is carefully managed, including through various limits on authorization, issuance and debt service.

By contrast, net pension liabilities, adjusted by Fitch to a 6% investment return assumption, fell to 2.7% in fiscal 2019, from 3.1% in fiscal 2016, and has been volatile, driven by shifting market values for pension assets.

States have tightened pension management over the last decade, trimming benefits, lowering return targets and raising contributions, but only a few states have seen lower pension burdens. This is because falling investment return assumptions raise liabilities, more than offsetting the incremental gains from lower benefits, higher contributions and other assumption changes.

Five states continue to carry elevated long-term liability burdens above 20% of personal income in fiscal 2019, including Illinois (at 27% of personal income), Connecticut, New Jersey, Hawaii and Alaska. For all of them, pensions remain the driver of elevated liabilities. Conversely, 37 states carried burdens below 10% of personal income, which Fitch views as low.

Fitch's '2020 State Liability Report' is available at 'www.fitchratings.com'.

Contact:

Douglas Offerman
Senior Director
+ 1-212-908-0889
Fitch Ratings, Inc.
300 W. 57th St.
New York, NY 10019

Eric Kim
Senior Director
+ 1 212 908-0241

Arlene Bohner
Managing Director
+1 212 908-0554

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch Ratings Launches Comparative Tool for U.S. State & Local Government.

Fitch Ratings-New York-22 October 2020: Fitch Ratings has launched its first Fitch Analytical Comparative Tool (FACT) for U.S. state and local governments.

The Excel-based tool provides an easy-to-use, interactive platform with clear graphics to provide market participants with a deeper understanding of the credit profiles of U.S state and local governments. FACT allows for multi-dimensional comparisons of demographic data, financial metrics, and key rating drivers for over 850 Issuer Default Ratings, including states, counties, cities and school districts. Users can create customised charts and peer groups to gain credit insights and support credit analysis. FACT currently presents information for fiscal years 2016 – 2019, and Fitch anticipates quarterly updates as new financial and economic data is released.

Ratings Summary
FACT includes a comprehensive view of the portfolio’s rating distribution and transition tables to track rating movements from 2015 through 2019. A summary of key rating driver assessments is provided by unit of government and rating level.

Peer Group Selector & Median Analysis
FACT’s peer group selection function allows the user to select a customized peer group of any size and compare key rating driver assessments, demographic trends and the performance of various financial metrics from fiscal years 2016 through 2019. Users are offered various cross-sections of the data; dynamic visualizations allow for intuitive analysis of peer group medians and time series.

Issuer Analysis
The Issuer Analysis section of the tool allows users to take an in-depth look at a single issuer of interest, through the lens of Fitch’s Key Rating Drivers. For a selection of financial and demographic metrics, issuers can be compared to various peer groups or the portfolio.

Contact:

Mike Rinaldi
Senior Director, Local Governments
+1 212 908 0833
Fitch Ratings, Inc.
300 W 57th St.
New York, NY 10019

Eric Kim
Senior Director, State Governments
+1 212 908 0241

Arlene Bohner
Managing Director
+1 212 908 0554

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

State Websites Offer Fiscal Data on Local Governments.

Practices and platforms vary, but dashboards provide insight and enhance transparency

Most states require local governments to submit financial data—typically on an annual basis—and at least 38 now present that local fiscal data on easily accessible online platforms to give the public access to important information on their cities, towns, and counties.

The various state websites, which promote transparency by allowing a glimpse into local government finances, offer a range of features. Some enable users to compare localities, for example, while others let people create graphic visualizations of historical trends on local taxes and spending.

Among the states with such dashboards, California, Massachusetts, Michigan, New York, North Carolina, Ohio, and Washington provide assessments of local governments' fiscal health using financial indicators or overall scores to bring additional insights. For example:

Continue reading.

The Pew Charitable Trusts

By: Jeff Chapman & Katy Ascanio

October 20, 2020

Stressed Cities Strike Billions in Debt Plans From Ballots.

- **Bond queries facing voters are down nearly $20 billion**
- **Pandemic isn't time to ask voters to approve loans: officials**

Local governments are scuttling borrowing plans that would normally be put before voters on Election Day as financial uncertainty strains municipal budgets and stresses taxpayers that need to sign off on such debt.

State and local governments will ask voters to weigh in on at least $52 billion worth of bond measures on the Nov. 3 ballot, according to preliminary data from IHS Markit. That's the lowest for a presidential election year since 2012 and nearly $20 billion less than 2016 even as interest costs are well below the rates of four years ago.

"We did not feel it was right or responsible to place further burdens on our residents," said Mayor Linda Anthony of West Lake Hills, Texas, whose town shelved two measures totaling $22 million in what would have been its first ever bond deal. "We don't want our maiden attempt to fall flat on its face, and it didn't seem like the right time to ask residents to vote to increase their taxes, and that's essentially what it would have done."

Ballot measures where residents vote on whether or not to allow a municipality to sell bonds to finance public work projects like new schools, parks or a town hall are getting canceled, showcasing the fiscal anxiety facing U.S. towns and cities. Budgets have been hit hard by the coronavirus pandemic, as shutdowns slash tax revenue and public health costs rise. States and local governments face combined shortfalls of $450 billion through fiscal 2022, according to a September estimate from Moody's Analytics.

It took West Lake Hills officials four years to put together the bonding plan to finance road and drainage improvements and to pay for a new municipal complex. The deal was originally supposed to go on the ballot in May but that election was also postponed amid the pandemic.

Deferring infrastructure projects, which are often financed by bonds, is usually one of the first steps governments take during an economic downturn, according to Christopher Berry, a public policy professor and academic director of the Center for Municipal Finance at the University of Chicago.

"It's easier to push off for a couple of years because they're generally long-term projects that voters won't miss in the short-run," Berry said. "It's a natural response when times are tight to cut things that are less painful in the moment — even if we are just delaying the pain."

Nixed Borrowings

And it's not just towns and cities that are nixing bond-ballot measures this election. New York state pulled a $3 billion environmental bond from the November ballot, citing a dire financial situation stemming from the pandemic.

"It was my proposal. I believe deeply in it, but we need to have financial stability before we do that," Governor Andrew Cuomo said in July.

Texas is normally a boon for municipal deals because of its soaring population and infrastructure needs. But this year Irving, Texas, outside of Dallas, canceled 12 bond ballot measures totaling more than $560 million for projects ranging from parks and recreation improvements to an art project. And further south, in Killeen, Texas, the school board canceled a proposed $265 million bond.

"The Covid crunch and its effect on the economy in the state of Texas just appears to be unbearable," said Corbett Lawler, president of Killeen ISD board of trustees, "and with all that unknown we didn't want to saddle our voters with a $200 plus million bond."

'Too Uncertain'

Money from the sale would have constructed four new elementary schools, renovated a high school and improved athletic facilities. Lawler said the district may revisit the bond issue in a year or so. "It's just too uncertain right now."

The West Ada School District near Boise, Idaho, originally planned to ask voters for more than $60 million for campus improvements but postponed the ballot item because of the rapidly climbing unemployment rate and deteriorating economy, said Char Jackson, a district spokesperson. She said the district plans to run the bond in March.

Not all local governments are taking such austerity measures, especially amid near record low borrowing rates. The Los Angeles Unified School District is asking voters for $7 billion in bonds for school construction upgrades, and Dallas Independent School District has a $3.7 billion measure on the ballot, which is believed to be the largest issuance of debt from any local entity in Texas history.

Indefinitely Postponed

Tom Kozlik, head of municipal strategy at Hilltop Securities said it took years for governments to be comfortable issuing debt after the financial crisis. Governments were concerned about having one more thing to pay for, he said. Similar discussions in statehouses and city council meetings are happening now.

"Even though the money is near the cheapest it's ever been, you need to have the revenue to pay it back and there's a lot of other expenditures grabbing at that money right now," Kozlik said.

In South Carolina, the Rock Hill School board indefinitely postponed a $295 million bond measure. The decision whether or not to reapply to voters depends on the education needs in a post-Covid world, said Helena Miller, chairman of the board.

"The needs before and after Covid are very different," she said. "We may have to go back to the drawing table to see what the needs in our community really are."

Bloomberg Economics

By Danielle Moran

October 23, 2020, 6:30 AM PDT

— With assistance by Nic Querolo

Muni Bond Insurers See Demand Grow Amid Pandemic Worries.

- The two active municipal bond insurers — Assured Guaranty (AGO +2.4%) and Build America Mutual — are seeing opportunity in the erosion in local government creditworthiness.
- That's leading both municipal bond issuers and some investors to insure the debt against municipality to defaults. The share of newly issued muni debt carrying insurance increased to 7.13% in Q2 and was 6.8% in Q3 vs. an average of 4.72% in the 10 years before the pandemic, the Wall Street Journal reports, citing Municipal Market Analytics data.
- For muni bond issuers, insuring the debt helps to keep borrowing costs down.

Continue reading.

Seeking Alpha

By: Liz Kiesche, SA News Editor

Oct. 22, 2020
