Bond Insurance Returns to the Muni Market in a Big Way.

Build America Mutual and Assured Guaranty see opportunity with the drop in local government creditworthiness

The decimated municipal-bond insurance industry is having a renaissance.

Weakened by Covid-19, state and local borrowers are using insurance at their highest rates in more than a decade. This type of upfront protection offers a promise from insurance companies to pay investors if the municipality defaults. Overall, the share of newly issued muni debt carrying insurance reached 7.13% in the second quarter and was 6.8% in the third quarter, up from an average of 4.72% in the decade before the pandemic, according to Municipal Market Analytics data.

Fueling the trend is a drop in local government creditworthiness that has left public officials looking for ways to keep down borrowing costs. That dynamic has spelled opportunity for the two active municipal bond insurers, Build America Mutual and Assured Guaranty Ltd., and helped the muni market run smoothly, despite significant stress.

For investors, however, the increased need for insurance is a growing concern, especially since insurance firms are only willing to back certain types of bonds.

"The bond insurers are only underwriting policies for bonds they believe are not going to default," said Nicholos Venditti, senior portfolio manager at Wells Fargo Asset Management.

Most governments continue to borrow without insurance and the risk of default remains low, limiting how much buy-and-hold investors benefit from the sacrifice in yield that comes with insurance. Out of an estimated 50,000 issuers in the roughly $4 trillion municipal market, there have been only about 50 new defaults since the pandemic began.

Among recent issuers, Oregon State University used bond insurance to secure lower interest rates on about $300 million in taxable long-term bonds issued this month to help pay for capital projects and manage the pandemic's financial impact, said spokesman Steve Clark.

The school didn't attach insurance to its last two pre-pandemic bond issues, but revenues from housing, dining and athletics have fallen as a result of Covid-19 as has international student enrollment. The majority of prospective investors preferred an insured bond issue, Mr. Clark said, and the rate the school was able to get fell by 0.08 percentage points after adding insurance.

Mr. Clark said the decision to use insurance wasn't based on the pandemic or its impacts on the school but on investor feedback and a desire to lower borrowing costs.

A recent stress test by Merritt Research Services found that if universities lost a quarter of their revenues, 44% of public schools and 39% of private schools would exhaust any available financial cushion unless they made cuts. In the same scenario, about a fifth of hospitals would run out of cash, the firm found.

“In a sector like higher education where all credits tend to get painted with a negative brush…to some degree putting insurance on top of it is attractive to some investors who then don’t have to do all the research,” said Dan Hartman, managing director at PFM Financial Advisors LLC, which counsels government borrowers.

Mr. Hartman estimated that an A-rated borrower might pay $500,000 for insurance that would lower rates on a $100 million 20-year bond issue by 0.05 to 0.1 percentage points after factoring in the cost of insurance. The savings in that scenario could amount to roughly half a million present-day dollars, stretched out over the life of the bond, he said.

Issuers aren’t the only ones buying more insurance; investors are also choosing to add protection to their uninsured holdings.

Asset manager Lord Abbett this spring bought insurance on some of its munis after ratings firms placed negative outlooks on the issuers, said partner and director Daniel Solender. The extra protection will enable the bonds to remain in the firm’s high-grade portfolios in the event of a downgrade or help the firm find buyers if it chooses to sell, Mr. Solender said.

The return of significant insurance to the muni market comes more than a decade after that industry was decimated in the financial crisis.

Extra Protection

Bond insurance is more popular than at anytime since the last recession but remains farbelow pre-crisis levels.

In the wake of the crisis, bond insurance firms that had sold protection on residential mortgage-backed securities lost their AAA credit ratings, creating a host of problems for the state and local borrowers they insured.

Build America Mutual and Assured Guaranty said they are well positioned to weather pandemic-related downgrades or losses. Both firms have increased prices on some insurance products, according to people familiar with the matter.

S&P Global Ratings credit analyst David Veno said Build America Mutual and Assured Guaranty each have enough capital to cover the insurance payout scenarios resulting from the pandemic and maintain their financial stability. Both are rated AA by S&P.

Build America Mutual, which started in 2012, sticks to government-backed bonds and steers clear of nonprofit hospitals and private universities, which also issue debt in the municipal market.

“We sort of have stuck to our knitting all along, so that’s the backdrop of why we are less concerned about the severity of loss in our portfolio going forward,” said Chief Executive Seán McCarthy.

Mr. McCarthy said that while he believes the likelihood of default on this type of debt is very low, it isn’t zero, creating a benefit even for buy-and-hold investors.

“When you take out a life insurance policy, you don’t think you’re dying next year,” he said.

Assured Guaranty, the only insurance firm from the financial crisis to remain active, now has a portfolio comprising 96% municipal debt and insures about $232 billion, less than half the amount it did before the crisis. “We believe our insured portfolio is in good shape to weather this economic disruption,” said Robert Tucker, a spokesman.

It remains to be seen in what shape insurers will emerge from the pandemic, said Josh Esterov, a senior insurance analyst at CreditSights. Any gains from the increase in business could be eroded by payment delinquencies on bonds in the insured portfolio.

“Is this good or bad? It’s going to depend on the level of delinquencies,” Mr. Esterov said.

The Wall Street Journal

By Heather Gillers

Oct. 22, 2020 5:30 am ET

Fitch Ratings Updates Airports Rating Criteria.

Fitch Ratings-New York-22 October 2020: Fitch Ratings has published an updated version of its “Airports Rating Criteria,” initially published on March 24, 2020. The primary changes improve alignment with the Infrastructure and Project Finance Rating Criteria (March 2020) in the areas of debt structure, infrastructure development/renewal and financial metric definitions.

“Airports Rating Criteria” is available at ‘www.fitchratings.com’.

Contact:

Seth Lehman
Senior Director
+1-212-908-0755.
Fitch Ratings, Inc.
300 W 57th St.
New York, NY 10019

Jeffrey Lack
Director
+1-312-368-3171

Bruno Pahl
Senior Director
+1-312-368-3112

Shyamali Rajivan
Director
+44 20 3530 1733

Sajal Kishore
Senior Director
+65 6796 7095

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 Proposed U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (Exposure Draft Frequently Asked Questions (FAQs))]

[Read the Special Report.]

20 OCT, 2020

[Fitch U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (Summary of Exposure Draft)]

[Read the Exposure Draft.]

[Fitch Project Financing in the U.S. Higher Education Sector (Debt Structure and University Relationship Determine Criteria Application)]

This report details Fitch Ratings' approach to determining the primary criteria when rating projects at or in the vicinity of U.S.-based, not-for-profit private and public colleges and universities (institutions). Projects can range from student housing, parking and mixed-use to energy and utility projects, or a combination thereof. Fitch's approach to higher education project financings can include the U.S. Public Finance College and University Rating Criteria, the Infrastructure and Project Finance Rating Criteria or the U.S. Affordable Housing Rating Criteria. The coronavirus pandemic resulted in fiscal challenges at institutions and virtual learning dampened housing demand, but Fitch anticipates an increase in project financings and public private partnerships (PPPs) over the medium term as institutions look to expand housing and repurpose assets. Debt Structure and University Involvement Determine Primary Criteria Determining which criteria will anchor the analysis depends on debt structure, repayment, affiliation with the institution, and exposure to completion and cost risk. While anchoring its analysis on one criteria, Fitch will look to the other criteria to inform its assessment of the key rating drivers in a higher education setting.

[ACCESS REPORT]

Tue 20 Oct, 2020 – 9:54 AM ET

[Empty Dorms Put Squeeze on Colleges to Bail Out Billions in Debt.]

- **Some schools may be on hook to help struggling private dorms**
- **As virus spread continues, campus reopening prospects dim**

Empty dorms are putting pressure on U.S. colleges to help investors in the approximately $14 billion student housing debt market, adding to the strain on schools already reeling from the pandemic.

West Virginia State University, already hit with a 10% enrollment drop, plans to give money to a school foundation so it can meet its bond covenants for residence hall debt. A community college in Ohio is using part of a $1.5 million donation for a financially-strapped student housing project. And officials at New Jersey City University, which serves largely first-generation and lower-income students and has recorded years of deficits, are prepared to shore up a dorm there.

The squeeze on university finances arrives at the worst possible time. Some debt sold for student housing requires the schools to assist. Other colleges are chipping in even without that requirement to ensure dorms are available when campuses fully reopen. On top of that, enrollments are dwindling and cash flow from athletics, dining halls and parking has disappeared.

“The limiting factor is some of these schools themselves are facing uncertainty with many of their revenue streams,” S&P Global Ratings analyst Amber Schafer said in an interview. “It’s a matter of not only willingness, but if they’re able to support the project.”

Shrinking Enrollment

Investors have billions of dollars relying on the outcome. Typically, privatized student housing debt is paid off by the revenue generated by the dorms — meaning there’s little recourse for bondholders if things go south. With fewer students on campus, options are limited. The number of first-year undergraduate students enrolled dropped 16% this semester, the National Student Clearinghouse Research Center said in a report last week.

The constraints facing student housing could worsen as the coronavirus continues to spread across the U.S., making it harder for colleges to reopen. Since March, S&P has downgraded 15 student housing borrowers in a universe of the about 60 borrowers that it rates, while Moody’s Investors Service has slashed the rating on five considered public-private partnerships.

Nine student housing projects have become impaired in 2020, the most since 2009, according to Municipal Market Analytics, which tracks actions by municipal borrowers like defaults, reserve withdrawals, and technical defaults.

Borrowers have begun revealing how empty residence halls are as the pandemic spurs many campuses to keep classes online. West Virginia State University’s dorm is 71% full, putting it about 20 percentage points from where it needs to be to satisfy debt covenants, according to the school foundation that sold the debt. Other privatized student housing projects, like two on Howard University’s campus, are virtually empty due to online-only instruction there.

On the Hook

Privatized dorms are struggling the most given that they weren’t structured to withstand 20% to 30% drops in occupancy — or no students at all.

West Virginia State University may have to step in to help student housing bonds at risk of violating a debt service coverage ratio, Moody’s warned this month. The historically-black college faces “considerable” challenges in backstopping the bonds, Moody’s said.

The nearly 290-bed residence hall with rents of $3,881 per semester was just 71% occupied this fall, while it needed to be about 92% occupied, said Patricia Schumann, president of the university foundation that sold the debt. Schumann said the university is projected to provide a $75,000 payment in January. In the meantime, she said the school was working to bolster its financial position and boost recruitment and donations.

“We’re not standing still,” she said.

Ohio’s Terra State Community College, which has more than 2,100 students, was downgraded deeper into junk over the risk posed by a dorm owned by a nonprofit, given that the school “appears to provide an unconditional guarantee” to meet the debt obligations, Moody’s said. The project was financed through a bank note.

The dorm’s occupancy fell to 62%, and the college is using a previously-received donation to cover a shortfall in project revenue amounting between $500,000 to $600,000, the ratings company said in a report this month.

At New Jersey City University, a student housing project financed though a separate entity will likely miss a required debt service coverage ratio. The public school having to step in to help the bonds would be a challenge, but a surmountable one, said Jodi Bailey, the university’s associate vice president for student affairs. The student housing bonds aren’t a debt of the university, so the school would be choosing to provide financial support, according to bond documents.

The school is working to cut expenses related to the dorm. “Is it a harder year? Most definitely,” she said.

The student housing bonds, issued by West Campus Housing LLC in 2015, were slashed deeper into junk in September by S&P, which said in a report that residence halls’ occupancy there had fallen to 56% so the school could accommodate social-distancing guidelines.

Helping Out

To provide relief, some universities have deferred lease payments that are owed if student housing projects meet certain debt service coverage levels, said Debra Lockwood, senior adviser and former president of Provident Resources Group, a nonprofit that finances, owns and operates student housing projects.

Provident’s deals, which are sold by separate entities, are structured as project finance deals that rely on the site’s revenue, meaning that typically Provident and the related college aren’t legally obligated to step in to support debt repayment, Lockwood said.

Dorms at Howard University in Washington, D.C., financed through a Provident-affiliated entity, were virtually empty at the end of August after the college moved classes online, according to a regulatory filing. It’s likely that the borrower will use surplus funds to make bond payments in 2020, according to S&P, which slashed the debt further into junk in August.

Provident’s Lockwood said there is a great deal of uncertainty around reopening plans in the spring and that her team was working to model different scenarios on its projects. She said colleges could be incentivized to go back given that so-called auxiliary revenue from sources outside tuition — like dorms — is hurting.

“We just don’t know,” she said.

Bloomberg Markets

By Amanda Albright

October 20, 2020, 6:10 AM PDT

Police Rethink Policies as Cities Pay Millions to Settle Misconduct Claims.

Municipalities with 20 largest police departments paid over $2 billion since 2015 for alleged wrongdoings and civil rights violations

The 20 U.S. cities and counties with the biggest police departments have paid over $2 billion since 2015 for alleged misconduct and civil rights violations, according to a Wall Street Journal analysis.

The payments have settled allegations of excessive force, wrongful detention and other abuses that sometimes stretch back decades and in extreme cases resulted in death or permanent injury.

New York City, the nation's largest police department, has rung up more than $1.1 billion in payouts since 2015, followed by Chicago at about $253 million, according to data gathered by the Journal through public-records requests. Los Angeles County paid out more than $238 million since fiscal year 2015.

Continue reading.

The Wall Street Journal

By Scott Calvert and Dan Frosch

Updated Oct. 22, 2020 11:26 am ET

The Covid-19 Crisis Is Starting To Hurt State Bond Ratings. What Does This Mean For Your Investments?

Investors are losing trust in the Land of Lincoln.

Illinois, the fifth largest state economy in the United States, is being forced to pay sky-high interest rates on its general obligation municipal bonds to compensate investors for the risk of lending the state money. The three largest credit rating agencies have not only classified Illinois debt as on the brink of junk, but they've also issued negative outlooks to boot.

The Prairie State has plenty of company in this regard. Moody's recently lowered the credit ratings of both New York State and New York City. New Jersey, despite being known as the state with the most millionaires per capita in the U.S., is considered a problematic bet—two credit rating agencies have it on negative outlook.

Continue reading.

Forbes

by Taylor Tepper

Oct 23, 2020

Election 2020: A Win-Win For The Municipal Bond Market?

Summary

- We expect that stimulus will be passed (although probably not until early 2021) and that it will include state and local government assistance.
- In the run-up to the election, the municipal sector may see higher volatility given uncertainty on a second round of fiscal stimulus.
- But we believe that either election result bodes well for municipal bonds.

Continue reading.

Seeking Alpha

Oct. 21, 2020

Should Congress Destroy the Municipal Bond Market?

A little-noticed provision of the revised Heroes Act which passed the House on Oct. 1 might destroy the U.S. municipal bond market. Although this may be a desirable outcome to proponents who would like to free state and local government from the costs and constraints associated with issuing bonds, such a radical change at least merits a debate.

The legislation threatens to eliminate the municipal bond market by expanding the Federal Reserve's Municipal Liquidity Facility. The MLF was created by the Federal Reserve as an emergency backstop when the municipal bond market temporarily froze up at the start of the COVID-19 crisis in March. Under its current rules, MLF offers government borrowers financing for up to three years at varying interest rates that depend on the entity's bond rating. For most municipal market borrowers, interest rates quoted by the Fed are higher than market yields. As a result, only two relatively distressed borrowers, the State of Illinois and the New York Metropolitan Transportation Authority have taken advantage of MLF thus far.

The municipal market regained its footing in late March and has met the needs of most other public sector borrowers at near record low rates.

Section 801 of the new Heroes Act (HR 925) would increase the maximum borrowing term to ten years and lower the interest rate for all government borrowers to 0.25 percent — regardless of credit rating. Since no state or local government can borrow for ten years at such a low rate, the rational choice for them would be to abandon the municipal bond market and rely exclusively on the Fed while the liberalized MLF remains in effect. Although many governments issue bonds for terms longer than ten years, for most it would make sense to borrow from the Fed and then refinance in 2030 or 2031.

In considering the potential impact of Section 801, it is worth noting that its provisions would only be in effect until Feb. 1, 2021 and that HR 925 is unlikely to become law in its current form given resistance from Senate Republicans.

But if the November elections return a unified Democratic government, language like that in Section

801 could become law, and its provisions could be extended well beyond next February, when — in all likelihood — the COVID-19 crisis will still be with us.

Indeed, like many pieces of crisis legislation, the MLF extension could become permanent. That outcome would be welcome to many advocates who wonder why banks get to borrow from the Federal Reserve at 0.25 percent (the current Federal Funds rate) when states and cities cannot. While it may be reasonable to expect banks and governments to be able to borrow on equal terms, this inequity could be solved by making it harder for banks to access credit at artificially low interest rates rather than making cheap loans more universally available.

Replacing the municipal bond market with Federal Reserve financing means eliminating an institution that has worked reasonably well for over 200 years. Although there have been notable default spikes during the 1840s, after the Civil War and in the Great Depression, the market has been orderly most of the time. Further, the need to attract capital from private investors has imposed discipline on state and local government. Today, municipal debt outstanding is a small fraction of U.S. Treasury securities held by the public.

That said, the municipal bond market is open to valid criticisms. The exemption on municipal bond interest from income taxes can be regarded as a giveaway to the rich. Issuing municipal bonds can be costly — as underwriters, financial advisors, attorneys, and rating agencies all expect fees for their efforts. And municipal bonds, especially those floated by smaller issuers, can be highly illiquid.

But these concerns can be ameliorated by reforming the municipal bond market rather than abolishing it. The tax exemption on municipal bonds could be replaced by federal interest subsidies to bond issuers, turning a tax expenditure into a more transparent form of spending, leveling the playing field for investors in all tax brackets. More states could follow Vermont's example by establishing a bond bank, which issues bonds on behalf of smaller local governments, spreading origination costs across multiple borrowers and providing greater liquidity. Multistate bond banks may also be worth exploring.

Federalizing municipal debt may have undesired outcomes. Ultralow interest rates could lead to increased borrowing and defaults. Unlike private investors, the Fed does not have a strong incentive to take delinquent borrowers to court. The result could be mountains of new state and local debt added to the high and rapidly rising federal debt — with defaults being ultimately eaten by U.S. taxpayers.

But regardless of whether federalizing municipal debt is good or bad public policy, it is a significant change worthy of discussion. Before the Heroes Act or successor legislation makes further progress, Section 801 warrants a healthy debate.

THE HILL

BY MARC JOFFE, OPINION CONTRIBUTOR — 10/24/20 01:30 PM EDT

Muni Market Not Buying Recovery For Airports: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence: stimulus, new issuance, spreads. Hosted by Paul Sweeney and Vonnie Quinn

Listen to audio.

Bloomberg Radio

October 23, 2020 — 10:03 AM PDT

Blue Wave Would Be Bullish For Munis: Federated's Gallo (Radio)

RJ Gallo, Senior Portfolio Manager: Fixed Income and Head of the Municipal Bond Group at Federated Hermes, on bond markets and the election. Hosted by Paul Sweeney and Vonnie Quinn.

Listen to audio.

Bloomberg Radio

October 19, 2020 — 10:12 AM PDT

Treasury Opposes Extending Fed’s Municipal Lending Program.

The U.S. Treasury Department opposes extending the Federal Reserve’s $500 billion municipal lending program beyond the end of 2020 or easing the costly terms that have left it virtually unused.

The Trump administration’s views were laid out in response to questions from the Congressional Oversight Commission, which was created to monitor the central bank lending efforts ushered in by the March economic stimulus bill.

Extending the Fed’s ability to intervene in the $3.9 trillion municipal market improved the confidence of investors and caused prices to rebound from the fear-driven selloff that erupted in March and threatened to severely curtail governments’ ability to raise cash. It has since been almost completely unused, with loans extended only to two borrowers, Illinois and New York’s Metropolitan Transportation Authority, since governments can borrow more cheaply in the public markets.

The lending facility was the subject of a commission report last week that reflected a partisan split on whether it should be expanded. It’s currently set to lapse at the end of December, unless the Fed’s Board of Governors and the Treasury agree to extend it, according to the central bank.

The Treasury currently opposes keeping it in place beyond the end of the year, according to responses to questions included in an Oct. 16 letter to the commission from Frederick Vaughan, an official in the Treasury’s Office of Legislative Affairs. The Treasury is also currently against lowering the pricing of the loans or extending their terms beyond the three-year limit, according to the document.

Local government lobbying groups have urged the Fed and Treasury to loosen the terms of the program and extend it, given that the pandemic continues to hurt municipal budgets and the prospects for a large amount of aid from Washington appear dim for now.

The Treasury said the program succeeded in calming the market by providing a backstop for state and local governments.

“The facility’s low utilization reflects a recovered and functioning municipal securities market,” the document says.

While the program hasn't seen major usage, it helped drive down borrowing costs for states and cities since March. Local government lobbying groups said in the letter last week that support for the market would likely still be needed in 2021 due to the pandemic's fiscal toll.

Bharat Ramamurti, a member of the Congressional Oversight Commission and a former aide to Senator Elizabeth Warren, said in an interview Tuesday that extending the facility into 2021 would be a "bare minimum" change that could help state and local governments.

He said the Treasury Department's position is reflective of Republicans' resistance to helping state and local governments.

"It's quite obvious that the hit that state and local governments are going to take from Covid is going to last beyond the end of this year," he said.

The Treasury Department worked with the Fed on the design of the program and reviewed amendments to it.

Ramamurti said the Treasury's comments show that officials there may be a key obstacle to the Fed expanding the scope of the facility given that the department could veto changes.

He noted that Treasury's resistance to some proposed changes have no legal basis. For example, local government lobbying groups have called for the Fed's Municipal Liquidity Facility to buy longer-term municipal debt. Current purchases are limited to debt maturing in three years or less, which borrowers say is too restrictive.

The Treasury noted in its responses that there's no legal impediment under the Cares Act to making that change, but said it opposed doing so.

Ramamurti said the Treasury is not being aggressive enough in trying to help governments, which the Cares Act called for.

"I'm really disappointed in the responses that we got," Ramamurti said.

Bloomberg Markets

By Amanda Albright

October 20, 2020, 1:16 PM PDT Updated on October 20, 2020, 2:42 PM PDT

[Treasury not Expected to Extend Municipal Liquidity Facility.]

The U.S. Department of Treasury last week responded to written questions from the CARES Act Congressional Oversight panel charged with monitoring the Treasury's stimulus programs, stating that they do not believe that the Municipal Liquidity Facility (MLF) should be extended beyond its current sunset date of December 31, 2020.

These echos recent comments from CARES Act Congressional Oversight Member Senator Pat Toomey (R-PA) calling for the end of the program at years end.

The letter can be viewed [here](#).

In their response, Treasury made the case to end the MLF stating:

"At this time, the Treasury Department does not believe that the Municipal Lending Facility should be extended beyond its current expiration date of December 31, 2020. The Federal Reserve and Treasury continue to monitor market stability and issuer market access in order to determine whether any changes to this expiration date would be warranted," Treasury stated.

In another response, Treasury acknowledged that reduced spending by state and local governments, "could contribute to a short-term decline in GDP" but didn't draw any connection to the Fed municipal facility.

Further, Treasury also said it doesn't expect any losses on a couple of loans made under the program so far:

"While Treasury does not consider taxpayer losses a desirable policy outcome, the incurrence of losses would be acceptable. "

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

Bond Dealers of America

October 21, 2020

[Munis to the MAAX: Getting Tactical With Municipal Bonds](#)

With Election Day right around the corner, fixed income investors have a variety of outcomes to consider. That includes potential impacts for municipal bonds. Investors can improve outcomes and get defensive with the VanEck Vectors Municipal Allocation ETF (Cboe: MAAX).

MAAX, which launched last year, is based off a proprietary model that incorporates momentum, along with both duration and credit risk indicators, to tactically allocate among selected VanEck Vectors Municipal Bond ETFs, which covers the full range of the risk/return spectrum in the muni market and includes five VanEck Vectors Municipal Bond ETF options.

Recent action suggests MAAX positioning could benefit investors into year end.

"Demand for the riskier segments of the municipal bond market faded in September. Demand for high yield municipal bonds was strong leading up to the pandemic and then fell sharply from February to April. Thereafter, demand ticked up from May through August, but fell, once again, in September," according to VanEck research.

Are Safe Haven Bonds that Safe?

It almost seems like "safe haven bonds" has become a misnomer. Some of the safest debt, such as municipal bonds, are now causing issuers to ask for help from the Federal Reserve amid the coronavirus outbreak, and it looks like their pleas will be answered.

Municipal bonds, known simply as munis, are debt obligations issued by government entities. Like other forms of debt, when you purchase a municipal bond, you are loaning money to the issuer in exchange for a set number of interest payments over a predetermined period of time. At the end of that period, the bond reaches its maturity date, and the full amount of your original investment is returned to the investor.

Since muni bond interest is exempt from federal taxes, muni ETFs are a good way for investors seeking tax-exempt income, especially those in higher tax brackets. Due to its tax-exempt status, the asset category is also best utilized in taxable accounts. Current risk trends indicate it could be time to consider MAAX.

“MAAX will continue to seek to balance both the risks and rewards of the asset class. It maintains a 35% allocation to high yield, a 35% allocation to investment grade long duration and a 30% allocation to intermediate-term investment grade. We believe that this allocation should allow MAAX to continue to benefit from attractive after-tax yields relative to what other asset classes are offering,” notes VanEck.

ETF TRENDS

by TOM LYDON on OCTOBER 23, 2020

Rising Sea levels Investment Risks for Municipal Bonds, says Moody Report.

Rising sea levels are a credit risk for investors in coastal states’ infrastructure and municipal bonds.

A recent report by Moody’s Investor Service says that coastal states and local governments of cities face increased investment risk from rising sea levels as frequent and severe flooding threaten their economies and infrastructure.

Moody’s climate speciality affiliate Four Twenty Seven estimates that by 2040, increased sea levels will have a significant impact on every coastal state and over 110 cities with a population of more than 50,000.

According to the National Oceanic and Atmospheric Administration (NOAA), in the last two decades, the Atlantic and Gulf coasts experienced anywhere from a 100-150% increase in annual days of high-tide flooding.

Continue reading.

INDUSTRY LEADERS MAGAZINE

by CHRISTY GREN

OCTOBER 16, 2020

Corporate and Municipal CUSIP Request Volume Surges in September.

Demand for New Municipal Identifiers Rises 18%

NEW YORK, Oct. 14, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for September 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 increase in request volume for new corporate and municipal debt identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian equity and debt totaled 4,816 in September, up 17.4% from last month. On a year-over-year basis, corporate CUSIP requests are up 10.5%. September volumes were driven by an 84.9% monthly increase in requests for corporate debt identifiers and an 18.1% monthly increase in requests for corporate equity identifiers.

Municipal requests also climbed in September. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – surged 18% versus August totals. On an annualized basis, municipal CUSIP identifier request volumes were up 12.6% through September.

“Record low interest rates and lingering fears of a possible liquidity crunch throughout most of this year have not materially slowed the pace of new capital creation in the major fixed income and equity asset classes,” said Gerard Faulkner, Director of Operations for CGS. “While we continue to see month-to-month volatility in CUSIP request volume, the overall direction in U.S. corporate and municipal securities continues to trend positive so far this year.”

Requests for international equity and debt CUSIPs were mixed in September. International equity CUSIP requests were down 29.1% versus August. International debt CUSIPs increased 66.8% on a monthly basis. Syndicated loan requests were up 37.9% on a monthly basis and down 31% year over year.

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

American Airports That Binged on Debt See Travel Slowly Revive.

- **Number of passengers last week most since early in pandemic**
- **Despite industry’s pain, bondholders see long-term recovery**

Americans are slowly starting to fly again, which signals a positive turnaround for owners of the more than $120 billion of municipal debt sold by the nation’s airports.

Some 5.7 million travelers passed through checkpoints in the week ended Oct. 10, the most since the coronavirus pandemic scuttled air travel and halted tourism, according to the Transportation Security Administration. On Sunday alone, the agency counted more than 980,000 travelers, the most since March 16.

The activity is still significantly lower than before the pandemic reached the U.S. and major carriers are idling thousands of employees as a resurgence in the virus threatens to keep travel depressed this year.

But it marks a welcome turn for airports that borrowed tens of billions of dollars in recent years to build new facilities before the coronavirus sent the economy hurtling into the worst recession in modern history. Airport bonds are typically backed by reserves and a combination of fees from passengers, airlines and rental cars or parking.

Jason Appleson, a portfolio manager at PT Asset Management in Chicago, said muni-bond investors anticipate that air travel will eventually return to normal once coronavirus vaccines are developed and widely distributed. Such optimism has allowed airports to continue to borrow easily despite the financial hit dealt to the industry and the deadlock in Washington over further measures to stoke the economy.

Chicago's O'Hare International sold more than $1 billion worth of securities in late September and Hawaii's airport system told $582 million last week. Denver International Airport and Kansas City International Airport are slated to sell a combined $1.5 billion of bonds this week.

"People still need to travel city to city, state to state — I don't think that will be going away," Appleson said. "It may not happen in the next six months, but in a year, or two years, things should come back."

Even so, airport bonds have lagged other municipal securities during the pandemic, with investors anticipating a risk of widespread rating downgrades. They have returned about 1.9% this year, according to Bloomberg Barclays index, less than the 2.9% gain for the broader market.

Bloomberg Markets

By Danielle Moran

October 13, 2020, 10:30 AM PDT

— With assistance by Eric Kazatsky, and Natalia Lenkiewicz

Shaky U.S. Hospitals Risk Bankruptcy in Latest Covid Wave.

- **AHA predicts losses that top $300 billion by year-end**
- **Revenues are down while costs are rising for facilities**

A grim reality is setting in across the U.S. hospital sector: a surge in coronavirus infections is encroaching while most facilities are still recovering from the onset of the pandemic.

The growing number of cases is threatening the very survival of hospitals just when the country needs them most. Hundreds were already in shaky circumstances before the virus remade the world, and the impact of caring for Covid patients has put hundreds more in jeopardy.

The new coronavirus sidelined profitable elective procedures and pushed up costs to keep patients and staff safe. Meanwhile, hospitals are losing the privately insured patients they depend on as millions of Americans lose their jobs and employer-sponsored coverage.

"It sort of all comes together as essentially a triple whammy," Aaron Wesolowski, vice president for policy research, analytics and strategy at the trade group American Hospital Association, said in an interview.

More than 215,000 Americans have now died from the novel coronavirus and 7.8 million have had confirmed infections, numbers that set the U.S. apart on the world stage. Though new virus cases fell last month after a summer spike, Covid-19 is again on the rise, especially in the Midwest. Thirty-eight states are now considered hot spots, according to the Kaiser Family Foundation, which considers rising cases, test-positivity rates and new daily cases per million population in its analysis.

The AHA has estimated the pandemic will cost U.S. hospitals more than $323 billion through the end of this year. U.S. hospital revenue totaled about $1.1 trillion in 2018, according to the most recent AHA data available. The industry group is asking Congress for an additional $100 billion and full forgiveness of loans made under Medicare's accelerated payment program, among other requests for relief.

As many as half of hospitals could be losing money by year end, Wesolowski said, citing a report it released in July from Kaufman, Hall and Associates. That's up from about a third that were operating at a loss ahead of the pandemic.

More than three dozen hospitals have already entered bankruptcy this year, adding to a similar number last year, according to data compiled by Bloomberg. More than a dozen in rural areas have also shut their doors, according to the Cecil G. Sheps Center for Health Services Research at the University of North Carolina. The AHA put the total U.S. hospital count at 6,146 in its most recent report, a decrease of 64 from the previous year.

The financial pain has flowed through to Wall Street. Many of the hospitals that entered bankruptcy this year were part of Quorum Health Corp.'s Chapter 11 filing in April. Quorum's 24 hospitals and other facilities struggled under the demands of treating coronavirus patients. In late June, a judge approved the company's exit plan, which wiped out shareholders and handed the chain to creditors.

Returns on junk-rated hospital municipal bonds are down nearly 4% this year, recovering after losing 10% in March. As the pandemic set in, Wall Street banks saw a rush of hospitals draw down existing credit lines and were inundated with requests for new or expanded financing. Junk-rated munis have since rallied and are overall little changed this year as investors seek higher-yielding securities.

Shuttered Hospitals

Across the U.S., hospitals are struggling to balance their books and in some cases, already shutting their doors.

"Rural hospitals are closing down right and left," Bert Cunningham, city manager of Bowie, Texas, said in an interview.

Central Hospital of Bowie closed in February and its owners filed for bankruptcy two months later, debilitated by years of red ink, Cunningham said. Now the property is up for sale for any use, potentially leaving the 10,000 residents in its service area — many of whom are elderly — 30 miles from the nearest acute-care emergency room, he said.

The hospital's closing could prompt a broader business exodus from the area. "I've had local industry tell us they would consider cutting staff or closing down," only adding to the area's uninsured, he said.

The pain, though, spreads far beyond smaller communities to larger facilities treating some of those most at risk for serious illness.

Nearly a thousand miles from Bowie, Loretto Hospital on Chicago's West Side was also coping with its own challenges. Even before the pandemic, life expectancy in the city's Austin neighborhood was just 68.2 years — 20 years shorter than a few miles away downtown, according to Chief Executive Officer George Miller. A full three-quarters of Loretto's patients have no insurance or Medicaid, with the latter reimbursing Loretto at about 25 to 30 cents on the dollar, Miller said. Medicare, which represents just 12% of patients, pays about 50 cents.

The hospital received two rounds of CARES Act money, most recently for $500,000, but with $100 million of annual hospital expenses, Miller says it's not nearly enough. The hospital has spent well over a $1 million on goods to protect its workers. When hospitals throughout the country were scrambling for supplies, he managed to procure personal protective equipment through connections with old fraternity brothers.

Larger hospitals hit by later waves of cases learned how to isolate Covid patients and convince others to come in for some elective surgery — the more profitable procedures that pay the bills, said Sanjay Saxena, co-leader of The Boston Consulting Group's Center for U.S. Health Care Reform and Evolution. But disparity between the leading facilities and the rest is getting starker, he said.

Millions of new job losses mean a cut in the number of Americans with private insurance — a critical component for hospitals since federal payments don't cover the bills. In an April report, Saxena said almost two-thirds of U.S. hospitals face "material financial risk" — compared with 20% pre-pandemic — with options extremely limited for the 25 to 30% at the very bottom.

"There's not a logical savior for that group," he said. "No one's running to go buy hospitals and certainly not those."

Over the years, Bowie, Texas, coped with declining federal payments and residents using its emergency room for free primary care. Now, with layoffs mounting amid virus-induced closures, yet another stream of income is dwindling. "If someone loses their health care they had through work," Cunningham said, "Who picks up the tab?"

In Chicago, Miller says his facility is carefully managing cash and expenses, sometimes through delayed payments to certain vendors, and thankfully has no debt. "Candidly, we rob Peter to pay Paul," Miller said.

Loretto did get some good news recently, learning that Merck & Co. had selected it as a site for clinical trials of its coronavirus vaccine, Miller said.

Meanwhile Mercy Hospital & Medical Center on the South Side, the oldest in the city and one that treated patients from the great fire in 1871, has announced it's closing next year. Says Miller, "Nobody rushes into the inner city, the West Side of Chicago to build a hospital."

Bloomberg Markets

By Lauren Coleman-Lochner

October 14, 2020, 6:34 AM PDT Updated on October 14, 2020, 7:37 AM PDT

— With assistance by Emma Court, and Elizabeth Campbell

S&P U.S. Public Finance Report Card: The Not-So-Secret Sauce In State Housing Finance Agency Programs' Stability

Key Takeaways

- The creditworthiness of HFA single-family and multifamily programs remains strong and stable despite ongoing economic challenges for some borrowers.

- Historic changes in market indicators point to increased housing demand in 2020.
- The median parity ratio among rated single-family programs is about 123%, while programs with a majority of MBS, and with less frequent bond issues, tend to have higher parity ratios.
- Among rated multifamily programs, the median parity is about 124%, with some of the larger programs driving an average total loan balance among the rated portfolios to nearly $1.1 billion.

Continue reading.

15 Oct, 2020 | 17:16

S&P Pension Brief: POBs See Increasing Activity In Low-Interest-Rate Environment

With record low interest rates, pension plan sponsors are increasingly turning to pension obligation bonds (POBs) for a variety of reasons. At S&P Global Ratings, we understand the importance of monitoring not only expected interest savings, but also the risks associated with market volatility. (See Related Research for links to other articles with our views on pension-related obligation bonds.)

Between Jan. 1, 2018, and Oct. 1, 2020, S&P Global Ratings has rated 25 new POB issuances in the public sector totaling nearly $3 billion–22 by cities and three by fire districts.

Continue reading.

14 Oct, 2020

The Fiscal Future of American Cities Beyond 2020.

As we are nearing the end of calendar-year 2020, contrary to earlier expectations and political promises, the COVID-19 cases are back on the rise throughout the United States (U.S), local and state governments are being forced to bring back their strict restrictions and the unemployment numbers are still high with low consumer sentiment to revive the economy.

Furthermore, the national civil unrest and natural disasters on both coasts are further exacerbating the issues for all forms of government throughout the U.S.

In this article, we will take a closer look at ways cities and other local governments are able to weather the storms.

Continue reading.

municipalbonds.com

by Jayden Sangha

Oct 14, 2020

COVID-19 Puts Universities' Use of P3s to the Test: Nossaman

Universities have utilized public-private partnerships (P3s) in recent years to facilitate various types of campus construction projects, including campus housing, specialized facilities, utility systems and even overall campus expansions. Utilizing P3s for campus improvements has allowed universities to deliver important projects and leverage private industry expertise while shifting capital cost investments to the private sector.

Despite the growing trend of using P3s to deliver projects, the COVID-19 pandemic may impact universities' interest in utilizing P3 models for campus improvements in the near future. Two interrelated factors that could affect the attractiveness and feasibility of university P3s are potential revenue reductions and declines in demand for the facilities constructed. The uncertainty of potential shutdowns, limitations on normal student activities and travel restrictions have caused schools to worry that some students may not return to classes this fall, negatively impacting revenues. Significant decreases in the number of out-of-state and international students for public universities could especially impact university budgets. Furthermore, a recent Moody's report predicted a slow-down in the student housing P3 sector, in part due to concerns about on-campus housing demand softening, as COVID-19 forces many students to continue to learn off-campus.

However, even in the face of such uncertainty, P3 project delivery could allow universities to leverage the flexibility afforded by P3 models to continue progressing campus projects in the midst of these challenging times. One advantage of P3 project delivery is that it can allow owners to defray or shift certain capital cost investments. With tighter budgets, universities may seek to engage the private sector to fund or finance capital outlays, especially for larger capital projects that may not be sensitive to short-term enrollment declines. For projects that may not generate significant revenue through operations, universities can utilize availability payment P3 models to spread payment obligations over a longer period. An example of a project delivered with availability payments is the University of California Merced 2020 Campus Expansion Project, completed in June of this year, which delivered student housing, classrooms, recreational facilities and research buildings, as well as the underlying infrastructure to support these new facilities. Utility infrastructure projects, similar to the University of Iowa's utility P3 project, may also be particularly attractive, as these projects often include large upfront payments to universities that are later repaid through fees paid to developers over the life of the project.

Furthermore, even in light of potential challenges for student housing P3s, some universities have forged ahead with projects, such as South Dakota University, which recently issued an RFP for a student housing project and the University of Oregon, which reached financial close for a student housing P3 near its Eugene campus.

Though the COVID-19 pandemic will certainly disrupt how universities approach and plan for campus building projects, the flexibility afforded by P3s may allow for universities to continue to progress campus improvements despite short-term uncertainties over revenues and demand.

Nossaman LLP

By Josh Burke on 09.29.2020

[Fitch Ratings Updates the Ports Criteria.]

Fitch Ratings-New York/Sao Paulo-15 October 2020: Fitch Ratings has published an [updated version] of its "Ports Rating Criteria," initially published on March 24, 2020. The primary changes improve alignment with the Infrastructure and Project Finance Rating Criteria (March 2020) in the areas of debt structure, infrastructure development/renewal and financial metric definitions.

Contact:
Isabella Magalhaes
Director
+55 11 4504-2208

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

Stacey Mawson
Director
+1 212 908 0678

Shyamali Rajivan
Director
+44 20 3530 1733

James Hodges
Associate Director
+61 2 8256 0377

Media Relations: Jaqueline Carvalho, Rio de Janeiro, Tel: +55 21 4503 2623, Email: jaqueline.carvalho@thefitchgroup.com
Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

[What The Election, Pandemic May Mean For Municipal Bond Investors.]

Tax-exempt municipal bonds continue to trade favorably to Government Bonds as the Federal Reserve and Treasury support most fixed income markets with the exception of municipals.

Unless, of course, you count the little used $500 billion Municipal Liquidity Facility (MLF) created by the Federal Reserve Board in conjunction with resources provided in the CARES Act at the beginning of the pandemic. New York Metropolitan Transit and the State of Illinois are the only two issuers to participate to date in the MLF. So, even though interest rates are at historically low rates, municipals are offering an incremental yield advantage with the bonus of tax-exemption when compared to Treasurys and Agencies as a consequence of the Federal Reserve Board's unprecedented intervention in the fixed income markets.

Even if Congress doesn't act to assist state and local governments with additional fiscal aid, we should expect to see many types of municipals continue to outperform Treasurys and Agencies. Keep in mind however that tax-exempt bonds financing convention centers, transit facilities, senior living, private post secondary education, and economic development have been most affected by the economic contraction caused by the pandemic. Property tax supported general obligation bonds and essential fee for service revenue bonds consequently have been the strongest muni assets through the pandemic.

As Congress has stalled in its attempts to pass additional support for state and local governments through either the Democrats' HEROES Act ($3 trillion) or the Republicans' HEALS Act ($1 trillion), issuers and investors are looking to the November 3rd election to provide guidance on future fiscal policy relief. And with presidential and vice presidential debates and a Supreme Court justice appointment confirmation hearings absorbing most of Washington's oxygen, it isn't likely Congress will act anytime soon on state and local government fiscal relief.

Municipal bond investors have much at stake in this election. Financial matters are very much in play as both parties are promoting shifting policy emphasis on taxes, trade, monetary intervention, fiscal legislation, and social justice. The direction our economy and society take as a consequence of this election will long be felt.

Most importantly, keep in mind that all other things being equal, increasing federal or state taxes will make tax-exempts more valuable while trade and immigration policies will influence local economic development and expansion or contraction. In the absence of fiscal relief it will become even more challenging to evaluate municipal credits in a timely manner. And don't lose sight of the fact the Fed will eventually have to adjust monetary policy to account for the aggressive intervention exercised during the pandemic.

There is no precedent for the level of government involvement in today's fixed income markets. The consequences of this election and the policy steps taken in 2021 will have a powerful influence on both investor returns and issuer borrowing costs. Investors and issuers can however find safe harbor in the fundamental security of what municipal bonds finance – streets, clean water, schools, public safety – knowing these fundamentals will persist while rewarding investors with predictable, though perhaps unsatisfying absolute, rates of return and offering state and local government issuers historically low costs of borrowing.

Tom Lockard is the co-founder, head of originations at 280 CapMarkets, a fixed income fintech organization supporting execution by providing access, clarity and confidence via BondNav its cloud-native platform.

FINANCIAL ADVISOR MAGAZINE

OCTOBER 15, 2020 | TOM LOCKARD

Muni Bond Perspectives On The 2020 Election.

Summary

- In years with presidential elections, we take a deeper dive into how the national election could impact state and local governments.
- Political risk is also an important component of our analysis, as the political party makeup of the executive and legislative branches can have a large impact on municipal bonds.
- We think it is unlikely we'll see any additional aid ahead of the election, but post-election we think

the potential rises, particularly if Democratic nominee Joe Biden wins in the US presidential race.
- Regardless of the November election outcome, we are prepared to take advantage of any changes to the muni bond market where we see potential investment opportunities.

Continue reading.

Seeking Alpha

Oct. 14, 2020

Municipal Bond Market Update - October Edition

In a widely expected move, Federal Open Market Committee (FOMC) members voted to hold interest rates near zero during September's meeting.

Projections released by the Central Bank signal that interest rates are expected to remain unchanged for several years. The latest dot plot shows thirteen of seventeen officials projecting rates on hold through 2023, one member projecting a rate hike in 2022, and three seeing rates above zero in 2023. The Federal Reserve does not expect inflation to reach the two percent level until 2023. Officials also expect the unemployment rate to extend its decline, with median projections calling for an unemployment rate of 4 percent by 2023.

Continue reading.

municipalbonds.com

by Corey Boller

Oct 13, 2020

Fitch: Post-Coronavirus "Next Phase" Key for Public Finance & Infrastructure

Related Fitch Ratings Content: The Next Phase: How Coronavirus-Related Changes Could Permanently Alter the Global Public Finance and Infrastructure Landscape

Fitch Ratings-New York-07 October 2020: Four areas of change brought on or accelerated by the coronavirus pandemic could have an outsized impact on both public finance and infrastructure throughout the world, according to Fitch Ratings in a new report.

The past nine months have seen changes to personal, corporate and government behavior of unprecedented rapidity and scope, according to Laura Porter, Fitch's Global Head of Public Finance and Infrastructure. 'In many ways, the coronavirus outbreak seems to have accelerated shifts that were already under way,' said Porter. 'However, the extent to which the landscape has fundamentally changed can only be truly discerned once pandemic conditions have passed.'

The trends that are key to watch, particularly once pandemic conditions have passed, are:

–Work-from-home;

–Residential preference shifts;
–Virtual delivery of both goods and services;
–Globalization trends.

Local and regional governments, along with certain transportation assets are exposed to the largest number of potential permanent changes, although the severity of impact for specific risks could be higher for other sectors.

Working from home has become the norm on a much grander scale during the pandemic. Whether this leads to vastly changing residential preferences remains to be seen. For example, suburban or more rural areas with larger living spaces may have become fundamentally more competitive versus high-density cities.

Though increasing in prominence for many years, e-commerce and the virtual provision of services has grown dramatically due to the coronavirus. Government tax systems, supply and distribution chains and brick and mortar retailers have already adjusted their business models to accommodate this trend to varying degrees. 'Virtual offerings provide an additional delivery option that is likely to further reduce traditional demand, making a complete return to pre-pandemic behaviors highly unlikely,' said Senior Director James Batterman.

'The Next Phase: How Coronavirus-Related Changes Could Permanently Alter the Global Public Finance and Infrastructure Landscape' is available at 'www.fitchratings.com'.

Contact:

Laura Porter
Managing Director, Global Head of Public Finance & Infrastructure
+1 212 908-0575
Fitch Ratings, Inc.
300 W 57th St
New York, NY 10019

James Batterman, CFA
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

The Democratic Municipal Bond Market.

***In response to a Barron's story from September 22, 2020**

In "'You're Cornered if You're a City.' How Concentration in the Municipal Bond Market Is Raising Borrowing Costs" (Barron's, September 22, 2020), Garphil Julien tries to make the case that a "concentration of power" among banks and securities firms in the municipal bond market harms state and local governments. Unfortunately, the author does not have a clear understanding of the market and made several factual misstatements. Further, the author never explains the concentration of the municipal bond market or how the purported concentration increases borrowing costs.

The municipal bond market is the opposite of concentrated. It is instead the most democratic sector of our capital markets.

A defining characteristic of the municipal market is its breadth and diversity. There are 15,000 states, cities, towns, school districts, water and sewer authorities and numerous other categories of issuers who access the market and more than one million individual municipal securities outstanding. Most deals in the municipal market are small—the average new issuance last year was just $37 million. The diverse and small nature of the market drives its structure. Most big Wall Street firms focus on big transactions and simply are not interested in the hundreds of small deals sold every year.

The diverse nature of the market means those who serve the market are also diverse. Look at the 2019 "league tables," the market share rankings for municipal bond underwriters. Big Wall Street firms certainly feature prominently among the nation's top 20 underwriters. But so do "Main Street" regional underwriters in places like Minneapolis, Dallas, Chicago, and Great Falls, Montana. Due in part to decades of effort by local governments around the country to engage women and minority owned firms in their transactions, several MWBE underwriters are also in the top 20 municipal underwriters.

These smaller regional companies serve their clients well. But they are hardly Wall Street powerhouses, and their success demonstrates the lack of concentration in the market.

The diverse nature of the market makes it possible for small towns and school districts to borrow at low fixed rates for terms up to 30 years and longer. The municipal market is an extraordinary product of our federal system of government and is the envy of other countries.

There are other issues with the piece. The author seems to conflate two widely used municipal pricing benchmarks, the Refinitiv MMD Scales and the SIFMA Municipal Swap Index. The two benchmarks are used quite differently. MMD is an estimated yield curve generally used to price new municipal bond issues. The SIFMA Swap Index, on the other hand, is compiled from re-marketings of certain variable rate municipal bonds and was designed as a means to set rates for municipal interest rate swaps. We are aware of no controversies surrounding the SIFMA Index.

In addition, the author quotes a source referring to local governments saying "You have no choice but to turn to financial markets, and they are well-positioned to extract high interest rates." This is perhaps the most misleading point in the piece. High grade municipal issuers today can sell bonds at the lowest rates since the 1940s. Where are these "high interest rates" that underwriters are ostensibly extracting?

Without identifying municipal market concentration or how that purported concentration leads to higher borrowing costs, the author argues that state bond banks may be a solution to the phantom "concentration of power". Bond banks can be an effective financing tool, but they do not change the nature of the issuance process or the relationship between the issuer and the market.

Instead of, say, a school district accessing the market on its own, the state serves as issuer and re-lends the proceeds of the sale to the relevant borrowers. But the issuance process is the same. The bond issuer still negotiates with underwriters on deal pricing, and investor demand still drives the rates that issuers pay. Moreover, unlike direct bond issuance by the school district, the bond bank transaction is more likely to be underwritten by Wall Street firms that the author seems to think are at the heart of the “problem” in the municipal bond market. Bond banks are not a magic bullet for anything.

One point where we agree with Mr. Julien is that state and local governments are in a fiscal crisis. Governors have told Congress that states need $500 billion of federal help in order to maintain state and local government employment and services as the economy recovers from the pandemic and shutdown.

Bond banks will not fill the gap. Only Congress can address this problem.

Michael Nicholas
Chief Executive Officer
Bond Dealers of America

Bond Dealers of America

October 7, 2020

[San Francisco Utility to Test Euro Interest in Muni Bonds.]

- **London Stock Exchange listing to be first by U.S. muni issuer**
- **Utility wants to grow investor base with European listing**

San Francisco’s water and power utility will test European appetite for U.S. municipal green bonds with an inaugural listing on the London Stock Exchange.

The Public Utilities Commission of the City and County of San Francisco, which provides water, wastewater treatment, and hydroelectric and solar power, is scheduled to sell $665.4 million in taxable bonds on Oct. 7. A $341.9 million slice of that will be designated as green bonds and listed on the London exchange, making the utility the first U.S. municipal issuer to do so.

Green bonds are a growing segment of fixed-income markets, with $258 billion of debt and loans issued in 2019, up from $171 billion the year before, according to the Climate Bonds Initiative. The growth was led by the broader European market, which accounted for 45% of the total, the CBI said. Sales of sustainable municipals have also been on the rise, with $9.9 billion sold this year, a 46% increase from 2019, according to data compiled by Bloomberg.

“A lot of European investors are restricted to green bonds that are listed on a European exchange,” Mike Brown, the utility’s environmental finance manager, said in an interview. “Our goal is to help grow our investor base and also grow the U.S. muni-green bond investor base.”

International investors have been an increasingly bigger presence in the municipal-bond market that normally caters to retail and institutional buyers within the U.S. Holdings of state and local government debt by overseas buyers jumped to $107.3 billion as of the second quarter, according to Federal Reserve data. It was the biggest quarterly increase in a decade.

Municipal bonds can appeal to buyers in Europe and Asia because they’re high-quality assets that have a good amount of yield and are less risky than corporate bonds, said Jeffrey Burger, a portfolio manager at Mellon Investments Corp. Mellon has a municipal bond fund in Ireland specifically targeted to European buyers. Burger said he’s been fielding an “unequivocally” higher volume of calls from investors in Europe and Asia interested in municipals.

Proceeds from the San Francisco sale will be used to refinance debt sold for projects relating to improving water supply and drought preparedness, restoring habitats and protecting the water supply against seismic activity, among other environmental projects.

Once the sale has closed, the London exchange is expected to officially list the bonds by late October, Brown said.

The utility explored multiple European exchanges for the listing, but settled on London mainly because it could maintain the same disclosure process used for U.S. investors, said Vishal Mawkin, an attorney with Norton Rose Fulbright, bond counsel for the deal.

“We were keen to ensure that we didn’t need to include additional disclosure,” Mawkin said.

If interest is strong and the deal is successful, this could be the first of many taxable green bond sales into Europe for the commission, Brown said.

Bloomberg Finance

By Fola Akinnibi and Danielle Moran

October 5, 2020, 2:00 AM PDT Updated on October 5, 2020, 6:53 AM PDT

— With assistance by Romy Varghese

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

Read the Report.

October 9, 2020

S&P: U.S. State Casino Gaming Tax Revenues Start Long Road To Recovery Following Spring Closures

Key Takeaways

- States relying on in-person casino gaming activity collected nearly no related taxes from April through June.
- Nevada, the state most reliant on gaming activity, saw some gains in June and July as casinos began to reopen, but faces headwinds from a disrupted travel industry and canceled conventions.
- In the Northeast, casino tax collections varied widely from March to August with New Jersey’s revenue decline only 23% compared to 78% for New York State, due to New York’s casinos being closed for nearly the entire period.
- Future sports betting revenue growth remains uncertain as events are canceled or scaled back, but some states may look to it as new source of incremental revenue.

Continue reading.

7 Oct, 2020

Fitch Ratings Updates US Public Finance College and University Rating Criteria.

Related Fitch Ratings Content: U.S. Public Finance College and University Rating Criteria

Fitch Ratings-Chicago-07 October 2020: Fitch Ratings has made minor updates to its “U.S. Public Finance College and University Rating Criteria” as part of the routine criteria review process.

Primary revisions to the criteria are: minor editorial changes; recharacterization of test score data as a qualitative rather than scaled consideration to reflect the sector’s shift in their use; clarification of adjusted cash flow margin to explicitly incorporate non-cash Other Postretirement Benefit Obligation (OPEB) expense to be consistent with now-universal reporting standards; shifted pension treatment section to an appendix; and aligned operating lease language to reflect changes in FASB guidance and support cross-sector criteria consistency.

There is no impact on existing ratings from this update.

This report replaces the criteria report of the same name dated March 26, 2020.

Contact:

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

Tipper Austin
Director
+1-212-908-9199

Raj Sanghvi
Senior Analyst
+1-212-908-0746

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

Additional information is available on www.fitchratings.com

Electoral Uncertainty Weighs on Muni ETFs.

Municipal bond investors are anxiously awaiting the outcome of the upcoming Election Day and that was evident last month as the iShares National Muni Bond ETF (NYSEArca: MUB) posted a modest decline.

MUB, the largest municipal bond exchange traded fund, 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.

"The municipal market was nearly stagnant in September, with the S&P Municipal Bond Index returning just 0.02% for the month," according to BlackRock research. "Uncertainty around fiscal policy and the pending U.S. presidential election left investors reluctant to put their cash to work in the muni market. Performance was relatively strong in muni bonds with short and intermediate duration (i.e., low to medium levels of interest rate risk) and barbell credit strategies (i.e., exposure to both low- and high-quality bonds). Year-to-date, the asset class has gained 3.18%."

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 more high-tax states. The tax law also diminished supply due to new limits on when governments can issue tax-exempt debt.

Munis: Still Worth a Hard Look

Some market observers believe that if election results weigh on municipal bonds over the near-term, that could be a buying opportunity with the asset class.

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.

"Fund flows remained positive but decelerated over the month, mostly in long-term and high yield funds," according to BlackRock. "Waning demand was also evident in the new-issue market, which saw lower overall subscription rates and better investor discipline among credits with increased idiosyncratic risks. However, as fiscal stimulus negotiations re-intensify and Democrats expand their lead in the polls, the focus on fundamentals may soon shift toward expectations for higher taxes and increased need for tax-exempt income."

ETF TRENDS

by TOM LYDON on OCTOBER 9, 2020

Muni Bonds Turn Toward The Election.

Summary

- While most polls have Vice-President Biden ahead by 6-7% points, we know the race has the potential to be much closer.
- A higher marginal rate should also flatten the muni yield curve over time as the demand for longer-dated paper increases because of the benefits it provides on a taxable equivalent yield.
- More fiscal stimulus, more deficits, and an immediate infrastructure program are all strong possibilities if we get the Blue Wave that sweeps the White House, House, and Senate all into the

Democratic column.

[Continue reading.](#)

Seeking Alpha

by David Kotok

Oct. 7, 2020

[BlackRock, Wells See Muni-Sales Surge, Election Shattering Calm.](#)

- **Bond sales jump as governments rush ahead of the election**
- **Uncertainty about economy, risks of acceleration in pandemic**

Analysts who track the $3.9 trillion municipal-bond market, where prices have barely budged since late August, are bracing for a return of volatility.

The presidential race, a failure to enact another economic stimulus bill and a potential spike in Covid-19 cases during flu season could bring price swings back to the muni market, Wells Fargo Securities analyst George Huang said in an Oct. 7 note. That echoes the view of analysts at BlackRock Inc., the world's biggest asset manager, who said they're expecting heightened volatility as local governments rush to sell new debt before the election.

It would mark a departure from the calm that's characterized the market since it recovered from a record selloff in March. That has persisted even as states, cities and transit agencies have been upended by the pandemic's financial toll, with yields holding effectively unchanged during all of August before ticking up slightly this month.

"We recommend investors be nimble with execution and prepare for potential of en masse exodus again if COVID cases spike more rapidly, if White House infections worsen, and if more meaningful stimulus talks break down yet again," Wells Fargo's Huang said in the note.

Muni market has calmed since March's record price swings

The muni market has seen yields slowly climb, with those on 30-year debt rising about 15 basis points since the start of last week, according to Bloomberg BVAL. Investors last week pulled cash out of municipal-debt mutual funds for the first time in 20 weeks, according to Refinitiv Lipper US Fund Flows data. And the market is facing added headwinds from a surge in debt issuance by states and cities as well as uncertainty around whether Congress will extend aid to help governments replace the tax revenue lost because of the pandemic shutdowns.

"People were waiting and seeing if something would come through, and now there's more skepticism about that," Huang said in an interview. He said the firm is recommending that investors move to higher-quality debt.

For investors, higher yields could mark a buying opportunity. BlackRock said in a note that the stepped up pace of issuance this month may do just that.

"We anticipate increased volatility in the coming months, and a pull-forward of issuance ahead of the U.S. election that is similar in magnitude to the pull-forward experienced in December 2017 ahead of tax reform," they said in a note.

Jeffrey Burger, senior portfolio manager at Mellon, said he was positioning defensively by moving to higher-quality municipal debt given the risk of volatility ahead of the election. "What we want to do is be positioned opportunistically to take advantage of that," he said.

Bloomberg Economics

By Amanda Albright

October 8, 2020, 10:41 AM PDT

[Potential Impacts of Political Shift in the United States.]()

From the widespread Coronavirus pandemic to the worldwide economic halt, 2020 also happens to be the presidential election year in the United States.

Contrary to previous presidential elections, the incumbent and former Vice President Joe Biden couldn't be more polar opposite on issues related to economy, disease control and reviving job growth in the U.S. If elected president, Biden has vowed to reverse things like the tax reform implemented by President Trump, which can bring a significant change to how investors will look to shift their investment holdings to seek tax shelter and capital security.

In this article, we'll take a closer look at the impacts of the potential political shift and how it can transform the capital markets in the U.S.

Continue reading.

municipalbonds.com

by Jayden Sangha

Oct 05, 2020

BDA: 2020 Electoral Outlook

Tax Policy and Municipal Bonds

As the only DC-based advocate for US focused bond dealers, the BDA has produced the linked document – 2020 Electoral Outlook: Tax Policy and Municipal Bonds.

The brief discusses both Presidential and Congressional predictions, along with comparisons of Committee priorities and potential Leadership and how the potential outcomes will affect tax policy and municipal bonds.

The BDA continues to work to expand the breadth of its policy products provided to membership. This new policy analysis series includes deep policy dives into both legislative and regulatory issues that directly effect the U.S. fixed income markets including policy briefs on: infrastructure and GSE reform.

Bond Dealers of America

October 7, 2020

Clash Over Municipal Loan Program Delays Stimulus Report.

Political disagreements have prevented a congressional commission from releasing a monthly report about how federal stimulus aid is being spent.

WASHINGTON — An oversight panel responsible for monitoring $500 billion in federal aid has become stymied by disagreements about a program to prop up struggling state and local governments and has failed to send a legally mandated report to Congress for weeks.

The standoff over the Municipal Lending Facility, which is operated by the Federal Reserve and supported by the Treasury Department, comes as talks between Congress and the Trump administration over additional stimulus have stalled. Those talks have run aground largely because lawmakers disagree about whether the federal government ought to provide more money to states and municipalities, with Democrats arguing for it and Republicans against it.

The $2.2 trillion stimulus law passed in March created a Congressional Oversight Commission, which includes two Republicans and two Democrats, to keep tabs on some of that spending. By law, it must issue a report to Congress each month.

While the passage of the stimulus legislation was overwhelmingly bipartisan, the oversight commission’s work has become politically charged. A Democrat on the commission recently accused his Republican colleagues of stonewalling its work.

The dispute centers on whether the Fed’s lending program could be doing more to help lower borrowing costs for states, cities and other local governments.

“The commission has a legal obligation to issue monthly reports,” said Bharat Ramamurti, the Democratic commissioner and a former aide to Senator Elizabeth Warren of Massachusetts. “I’m disappointed that Republican foot-dragging has caused us to delay the release of the September report, which reflects broad support for expanding the Fed’s state and local lending program — including from one of the Republicans’ own witnesses at our recent hearing.”

The Fed announced in early April that it would set up a program to buy municipal debt using its emergency lending powers, and the Treasury Department agreed to insure the program against defaults. The central bank hired Kent Hiteshew, an expert on municipal debt, to help devise the program, which is run on a day-to-day basis by the Federal Reserve Bank of New York.

The program was set up as a last-ditch option for local governments that could not borrow money as they usually do by selling bonds. While it has been expanded several times to make more borrowers eligible, the program offers loans at relatively high interest rates, making it an expensive option for all but the hardest-hit states and localities. So far, only Illinois and the Metropolitan Transportation Authority, which operates New York City’s subway system, have used it, borrowing a total of $1.65 billion.

Democrats and some economists have argued that the Fed and Treasury should be more generous, offering lower rates and longer payback terms.

The Fed, for its part, has pointed out that the mere existence of the program has helped calm the market for municipal debt, so that states and localities have been able to sell bonds at extremely low interest rates. The Fed is not supposed to supplant willing private lenders, according to the legislation that enabled its emergency powers.

“Our mandate is to serve as a backstop lender to accomplish these objectives — not as a first stop that replaces private capital,” Mr. Hiteshew said last month at the oversight commission’s hearing. The program “has contributed to a strong and rapid recovery in municipal securities markets.”

He added that state and local governments and other municipal bond issuers could issue securities with interest rates that are “at or near historic lows.”

Democrats counter that the Fed is doing more to help lower the interest rates at which corporations borrow money than it is for state and local governments.

One of the Fed’s corporate programs buys bonds directly and is akin to the municipal program. It, too, charges high interest rates, and, partly as a result, has never been used. But the central bank has a second program that buys corporate debt that has already been issued, either through exchange-traded funds or according to a preset index.

That program was announced early in the pandemic, when the corporate bond market was struggling. But it has bought bonds in the months since, even after borrowing costs for businesses dropped sharply — something officials characterized as follow-through on their promise. The purchases have slowed to a trickle in recent months.

The Fed and Treasury never established a similar program to buy up existing municipal bonds. If one had been, it might have lowered already-low borrowing costs in the municipal market, but that might not do much to help governments that are facing the most stress because their revenues have tumbled or they are legally prohibited from running budget deficits.

According to a summary of a draft of the September report reviewed by The New York Times, some members of the commission planned to call for the existing municipal program to be broadened, offering loans with lower interest rates that can be repaid over longer periods. Another proposal would grant state and local governments more flexibility so that the money could be used for capital infrastructure projects, not just for certain cash flow purposes.

The report is expected to be structured in a way that offers views of expert witnesses who testified at last month’s commission hearing. Republicans intended to offer dissenting views of many of the recommendations that called for making the program more generous.

The municipal bond program, like most of the Fed’s facilities, expires at the end of the year. Treasury Secretary Steven Mnuchin and the Fed chair, Jerome H. Powell, could choose to renew any or all of them, but have not said whether they intend to do so.

Senator Patrick J. Toomey of Pennsylvania, one of the Republicans on the commission, has supported winding down the municipal program, saying that it has served its purpose.

The unfinished September oversight report has been languishing in Mr. Toomey’s office. A spokesman for Mr. Toomey, Steve Kelly, said that he hoped the report would be released “soon” but offered no timeline.

“The reports written by the oversight commission require significant collaboration and compromise,” Mr. Kelly said. “Right now, the members and their staffs are working through some differences of opinion.”

The New York Times

By Alan Rappeport and Jeanna Smialek

Oct. 9, 2020

Brian Chappatta on Fed’s Stimulus Option (Podcast)

Bloomberg Opinion columnist Brian Chappatta presents a column explaining that with Congressional leadership unable to reach an agreement on providing aid to state and local governments, the Fed should immediately extend its Municipal Liquidity Facility by a year and consider reducing its interest rates once again.

Listen to Podcast.

Bloomberg

October 9, 2020 — 7:15 AM PDT

America’s Cities Fret as Stimulus Talks Collapse.

- **Absent aid, states and cities warn of spending cuts, tax hikes**
- **Nuveen’s Miller says delay not major concern for muni market**

President Donald Trump’s decision to halt coronavirus stimulus talks with Congress means America’s pandemic-stricken states and cities aren’t likely to get any financial help soon, virtually ensuring additional rounds of spending cuts, layoffs and tax increases that will deal a fresh hit to any economic recovery.

Trump on Tuesday abruptly announced on Twitter that he was calling off talks with Democrats until after the election amid a dispute over how much aid should be given to state and local governments, which saw revenue plummet this year as the pandemic shuttered large swaths of the economy.

“America’s cities, towns and villages are reeling from the financial impact of the pandemic while continuing to expend significant resources to combat ongoing cases of COVID-19, recover from natural disasters and provide essentials services to their residents,” Clarence Anthony, chief executive officer of the National League of Cities, said in a statement. “We can expect severe economic consequences from the failed negotiations, including more businesses closing and more public and private sector layoffs.”

Trump said if he wins reelection he’ll bring a new stimulus proposal forward. If Joe Biden wins the White House, states and cities would have to wait until he takes office toward the end of January before he could offer up his plan to Congress, though Democrats would likely extend a large amount of aid.

Pittsburgh, Pennsylvania, is facing a $100 million deficit — after depleting its reserves — that it must close during the fiscal year starting in January. Mayor William Peduto said in an emailed statement on Tuesday that the lack of aid this fall is “devastating” for cities like his.

“It is forcing us to look at layoffs and cuts to city services at a time when we’re already spread dangerously thin, and our residents need our help more than ever,” he said in a statement.

Economic Drag

The president has mischaracterized the effort to mitigate the tax loss caused by the worst recession since World War II as a bailout for mismanaged cities and states run by Democrats, echoing a line of political attack used by Tea Party-backed Republicans after the downturn caused by the housing market crash.

Lobbying groups including the National Governors Association have pressed for a bipartisan agreement on stimulus package, saying the failure to provide enough aid to states and local governments after the Great Recession slowed the nation’s growth for a decade.

A group of Democratic governors on Tuesday criticized the president, saying that every state needs help.

“This is not an attempt to ‘bail out’ any state,” the governors said in a statement through the Democratic Governors Association. “The pandemic has done untold damage to budgets in both red and blue states. This is money needed to boost the economy, maintain critical services, and beat back the virus.”

New York’s Metropolitan Transportation Authority, the nation’s largest mass-transit system, has warned for months that it will be forced to cut service, fire workers and boost planned fare hikes if the agency failed to receive $12 billion to cover budget shortfalls this year and next. Those changes could result in a nearly $100 billion loss of economic activity in the region and affect about 350,000 jobs, based on preliminary analysis, Pat Foye, MTA’s chief executive officer, said last month.

“This decision is an insulting slap in the face to our heroic transit workers who continue to show up during this once-in-a-hundred year pandemic to keep the economy moving,” Foye said in a statement Tuesday. “We urge the President to return to the negotiating table and deliver relief for the country.”

Signs that Wall Street was becoming increasingly concerned that stimulus talks would falter were already materializing before Trump’s surprise move. The $3.9 trillion municipal market, where states and local governments raise funds, has seen yields edge up amid concerns over a stimulus package, with the 10-year benchmark rising about 10 basis points since the start of last week.

Delaying the talks until after the election is a “temporary setback” for stimulus talks rather than the death knell for the next package, said John Miller, head of municipals at Nuveen, which had $188 billion in municipal assets under management as of June 30.

The delay is “not too concerning” because budgetary gaps have been smaller than forecast earlier this year, Miller said. He also said the Federal Reserve’s $500 billion Municipal Liquidity Facility has “plenty of capacity available” to make loans to cash-strapped borrowers.

“Even before the announcement, it felt like the odds were against passage of another stimulus package this year,” said John Ceffalio, municipal credit research analyst at AllianceBernstein, which has about $50 billion in municipal securities under management.

Bloomberg Markets

By Amanda Albright and Shruti Singh

October 6, 2020, 3:43 PM PDT Updated on October 7, 2020, 8:12 AM PDT

— With assistance by Fola Akinnibi, Danielle Moran, Michelle Kaske, and Romy Varghese

---

The Fed Has a Not-So-Secret Weapon to Fill Stimulus Void.

A borrowing facility for states and cities should be extended for another year and provide more affordable financing.

It's abundantly clear that U.S. lawmakers aren't going to agree on the amount of aid to send to state and local governments. President Donald Trump has made such support into something of an "us versus them" issue ahead of Election Day, claiming House Speaker "Nancy Pelosi is asking for $2.4 Trillion Dollars to bailout poorly run, high crime, Democrat States, money that is in no way related to COVID-19," in a tweet on Tuesday that called off fiscal stimulus negotiations.

In reality, the two sides weren't even that far apart. Republicans, led by Senate Majority Leader Mitch McConnell, said they would be willing to give states and cities $250 billion in federal aid, up from an earlier $150 billion, while Democrats wanted about $436 billion, down from an initial $1 trillion. Whom to blame for the inability to bridge that gap most likely depends on your political leanings.

Then there's more technocratic Federal Reserve. It's no secret that Chair Jerome Powell has been pushing Congress for more fiscal aid, noting just hours before Trump's tweet that "the risks of overdoing it seem, for now, to be smaller. Even if policy actions ultimately prove to be greater than needed, they will not go to waste." This wasn't directly about providing funds for states and municipalities, but it doesn't take much of a leap to read it that way. Is it truly such a tragedy if governors and mayors have some leftover cash to retain employees, maintain public services and shore up pensions to ensure payments to retired teachers, firefighters and police officers?

And yet, on the same day that Powell was making his case for congressional action, the Fed posted this deadline regarding its Municipal Liquidity Facility, which can extend loans to state and local governments:

Any Eligible Issuer that wishes to issue Eligible Notes to the [Municipal Liquidity Facility] must submit an [Notice of Interest] no later than 30 calendar days before the Facility's stated termination date. The present termination date of the MLF is December 31, 2020, unless the Board of Governors and the Treasury Department extend it.

Given the state of stimulus negotiations, Powell and Treasury Secretary Steven Mnuchin should extend the termination date immediately, perhaps taking a cue from legislation passed by House Democrats earlier this year that would keep the MLF running until the end of 2021. There's simply too much uncertainty around what the coronavirus pandemic will look like in the coming months to even think about removing this backstop for states and cities.

Besides, given how the facility is structured, it's practically a costless exercise. The MLF has an impressive $500 billion in potential firepower to deploy in the $3.9 trillion municipal market, yet so far the Fed has extended only two loans worth a combined $1.65 billion. New York’s Suffolk County might become the third borrower, Bloomberg News’s Amanda Albright reported this week, and New Jersey has also floated the option of tapping the central bank’s program.

Still, this effort falls far short of the “whatever it takes” mantra that Powell brandishes when asked about the central bank’s other initiatives, such as buying corporate bonds and exchange-traded funds in the secondary market and increasing the Fed’s balance sheet by $3 trillion in just three months. I’ve written practically since its inception that the MLF pricing scale is simply too punishing for all but the most desperate borrowers.

Some Fed watchers say this is exactly what central bankers intended. As my Bloomberg Opinion colleague Tim Duy put it on Twitter, “The Fed views it as fiscal policy; if Congress wanted to help munis, it would. Arguably, the Fed would be going against the will of Congress if it just opened the floodgates.” Meanwhile, others argue, “market conditions for municipal securities have improved significantly,” so an overwhelming majority of states and cities can simply go through the traditional debt market to raise money. Top-rated two-year munis yield just 0.16%, while single-A revenue bonds due in two years yield just 0.44%, Bloomberg data show.

All of this has been true for months. And yet, in mid-August, the Fed announced it would cut borrowing costs by 50 basis points in the MLF anyway. At the time, I said this was evidence that central bankers realized their attempts to jawbone congressional leadership into action had failed, even though a compromise was still an option at that point. It was more of a gentle reminder to Congress that the financial health of state and local governments would be crucial to any rebound from the coronavirus crisis while also tiptoeing toward a more active role in the municipal-bond market.

Now that negotiations are over, it’s time for the Fed to take to take a more forceful stand. In addition to extending the MLF for at least another year, the central bank should take another hard look at its pricing scale and make it more affordable for a broader swath of states and cities.

At this point, I’ve already proposed more than one pricing scale. In fact, the yield I suggested in June for borrowers on the brink of junk turned out to match the Fed’s adjusted rates in August. But that was just smoothing out the otherwise haphazard differences between certain credit ratings. It wasn’t meant to be overtly stimulative.

The most drastic action the Fed could take would be to adopt the guidelines from the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, which would “ensure that any purchases made are at an interest rate equal to the discount window primary credit interest rate” of 0.25%, regardless of credit grades. That’s probably too far for the Fed — lower-rated states, cities and agencies might rush to max out their credit lines under those conditions.

So here’s another proposal: Start the pricing scale for triple-A issuers at the discount window primary credit interest rate. Top-rated three-year muni yields haven’t exceeded 0.25% since mid-July anyway, and there’s virtually zero risk that a state holding such a pristine grade would default in the coming years (or would want to take on a pile of new debt and risk a downgrade). Create a more uniform scale from there. Here are two ways that might look:

The first option could encourage more higher-rated states and cities to use the Fed’s facility, which may or may not be what the central bank wants. The second would disproportionately benefit triple-B rated municipalities, which are more in need of cheap funding. Either way, the MLF would be far more likely to put money in the hands of governors and mayors who are trying to balance their budgets, either directly or by strong-arming muni-bond buyers into accepting lower yields.

While it’s understandable that the Fed would want to avoid getting caught in political crossfire, is that enough reason to jeopardize an economic recovery? It’s possible that Powell sees preserving the central bank’s independence as crucial. But a persistent onslaught of criticism from the president before the coronavirus crisis already threw that into doubt.

Making affordable loans to states and cities — even if they turn out to be primarily led by Democrats — is rooted in pragmatism, not politics. That’s why Congress failed. And it’s why the Fed must do more.

Bloomberg Finance

By Brian Chappatta

October 7, 2020, 10:50 AM PDT

Some States See Better than Expected Revenues, But Budget Outlook is Still Tough.

Evaporating federal aid and uncertainty over what will happen next with the virus and the economic recovery are casting a long shadow over states’ finances.

In some states, the steep tax revenue declines predicted in the early months of the coronavirus outbreak haven’t materialized, with officials in recent weeks saying state budgets for this year appear more promising than initially expected.

But even states where the outlook has improved are confronting the likelihood of significant financial pressure and uncharted fiscal terrain in the months ahead. And states and local governments remain on track to face billions of dollars in shortfalls and the need for spending cuts as they seek to balance their budgets over the next couple years.

Continue reading.

Rout Fifty

by Bill Lucia

OCTOBER 10, 2020 02:44 PM ET

Fitch: Differences in US States’ Employment Recovery Persist; HI, NY, MA Lag

Fitch Ratings-New York-06 October 2020: The vast majority of US states experienced continued improvement in employment recovery in August, although the pace of recovery was slower than it was in July, and a few states have seen declines in recoveries, Fitch Ratings says. The median employment recovery, or gain in non-farm payrolls since the April trough, improved to 51% in August from 45% in July.

Those states in the lower left quadrant in the chart below experienced the steepest declines in employment in the first three months of the pandemic and have seen lower overall employment recovery in the following three months. Of those states where job losses at the height of the pandemic exceeded the state median of 13%, most have seen total employment recoveries of 45% or more. The pace of recovery is slowing somewhat with a median increase in employment recovery in August of 7 percentage points (pp) from the prior month versus 8pp in July.

Of those states with severe peak-to-trough job losses close to 20%, Hawaii, New York and Massachusetts are the only states with recoveries still below 40%. Put another way, these states have the largest gap between February and August employment levels. New York was the epicenter of the pandemic in the spring and bore considerable economic consequences as a result. Massachusetts has been significantly affected by job losses in the leisure and hospitality (L&H) and education and health services sectors.

Continue reading.

States, Localities Need Federal Aid to Restore Jobs, Avoid More Layoffs.

As President Trump sends mixed signals about his support for a new economic relief bill, states and localities urgently need additional fiscal aid so they can both rehire workers they laid off or furloughed this spring and avoid additional layoffs and budget cuts that they will likely otherwise make to balance their budgets this fiscal year.

After COVID-19 struck this spring, states and localities laid off or furloughed over 1 million workers, more than the 750,000 that they laid off over the full course of the Great Recession of about a decade ago.

Only a modest portion of those jobs have returned. There were still 1.2 million fewer state and local employees in September than February, after adjusting for normal seasonal variations, according to new Bureau of Labor Statistics data. Compared to September of last year, there were 1.1 million fewer state and local jobs this September. That large decline compared to last year has been apparent for months now. (See chart.)

Continue reading.

Center on Budget and Policy Priorities

OCTOBER 8, 2020 AT 1:15 PM

The Washington Weekly – COVID Upends Washington

In what can only be described as a wild and unprecedented few weeks in Washington, President Trump and multiple members of his Administration tested positive for COVID-19 along with many sitting U.S. Senators-an October surprise like none seen before.

After learning that multiple Members of his Caucus have tested positive, Senate Majority Leader Mitch McConnell put the Senate into recess through at least October 19th, likely sidelining all stimulus and Supreme Court deliberations for at least a few weeks.

Continue reading.

Bond Dealers of America

October 9, 2020

How the Muni Market is Responding to Uncertainty.

Yahoo Finance's Alexis Christoforous and Brian Sozzi speak with Sylvia Yeh, Co-Head of Municipal Fixed Income at Goldman Sachs Asset Management, about the state of the municipal bond market.

Video Transcript

ALEXIS CHRISTOFOROUS: One of the key sticking points in stimulus talks continues to be money to help state and local governments which could face severe funding shortfalls if Washington doesn't step in to help, and that could trickle down to the municipal bond market. With us now to talk about it is Sylvia Yeh, Co-Head of Municipal Fixed Income at Goldman Sachs Asset Management. Sylvia, good to have you here. So look, investors were withdrawing from their municipal bonds pretty aggressively at the height of the virus in mid-March. Has that calmed down now?

SYLVIA YEH: You know, good morning. Yeah, if you look back to March and consider where we are today– excuse me– some would think, did March ever really happen? What, we've rallied back in rates. We've rallied in credit. We had wide distribution with respect to investors in our marketplace. The market is open for business, both in two way secondary flow and new issue market is thriving. So market has come back, cautious, but coming back in action and, you know, excited for what is ahead.

BRIAN SOZZI: Sylvia, we've seen a lot, to your point, a lot of new issuance come to the market. What states are leading in terms of new issuance?

SYLVIA YEH: Yeah, I think they're spread all over the place, and it's not only from a state perspective, but sector and in particular taxable versus tax exempt, which I think is probably the bigger play. But the big states like New York, obviously, California, obviously, Illinois, there are lots of states that need, you know, flexibility in cash in different degrees and their assets in the market, big and small.

ALEXIS CHRISTOFOROUS: Sylvia, we've seen some state specific funds run in to problems during this pandemic. Just in the past few weeks or so, we've had Vanguard, Federated Hermes, and Bank of New York Mellon closing smaller at risk state specific funds. What's the larger implication to the muni market because of that?

SYLVIA YEH: Yeah, you know, sometimes when– well, first of all, I think have to look at the current environment that we're in and the interest rate environment that we're in, and it's very hard to get invested at these absolute low yields in particular for those states. So closing those funds doesn't necessarily need to be a negative perception for the market as we're seeing more cash go into the bigger better distributed and better diversified national funds. So I don't take that as a negative sign, just of repositioning and better opportunity.

ALEXIS CHRISTOFOROUS: OK, let's talk about those opportunities, because now we've got fewer state money market funds, so where can investors go for tax free ways to invest their cash during this time?

SYLVIA YEH: Yep, and it’s funny. When we talk about investing in the muni markets, still very popular are the traditional mutual funds and money market funds. What we don’t talk about a lot are the separately managed accounts where individuals are allowed to build their own portfolios. So investors have different ways to access the muni market, whether in fund format or individual portfolio format. The opportunity also comes in a bunch of different flavors. Typically, two levers that we can pull. It’s going to be duration and credit. We have a third this year with the mix of supply.

From a duration perspective, if you look at the steepness of the yield curve right now, you can tell everyone is hanging out in the front end, because it’s safer, it’s easier, you can be more nimble, and by the way, we’re going to be here for a bit. Let’s be nimble for some opportunity that could come up. If you just dip a little bit further out on the yield curve going from, let’s say, five years to a 10 or 11 year space, you’re being compensated pretty significantly to extend. And if we had the Fed telling us that we’re going to be here for a while, why not take a little bit and be compensated for it? So duration and a slight extension of something that we’re discussing with clients, one of those levers.

The other lever can be credit, and it is credit. We talked about March to today, and I said that credit has rallied tremendously. Yes, and the high quality portion of our market, the triple As and double As, those strong quality names were the first to rebound. And then the high yield market, completely separate, a little bit tougher and struggled. But we had that triple B, and I would say single A area, that kind of was slow, because it was a bit of a tweener, and that mix actually provided and still provides extra yield and opportunity for clients too without a tremendous amount of risk. So from credit just dipping a little bit below the traditional high grade.

And then finally, what I think is interesting that we have this year that we haven’t had in years past or for a long time are taxable munis. Issuance is up 230% ish, give or take, year over year. So that additional supply in our marketplace as it looks to get distributed as we look for that long term buyer base is going to take time to settle. And at the end of the day, it’s what you take home as an investor that counts. So after you do your math, all things equal, tax exempt muni, taxable muni of the same flavor, you want to walk away with as many basis points as you can. That’s been an interesting mix so that the key here in the message is to be flexible from now through the end of the year and as this mix continues to develop.

ALEXIS CHRISTOFOROUS: Sylvia, real quick before we let you go, the Fed has done its part to prop up the muni market. Jerome Powell speaking later this morning. Do you expect, do you want to see even more support from the fed for the muni market?

SYLVIA YEH: You know, I got to say, munis get a bad rap, and this market has shown how resilient it really can be. The muni market has tools made available to them through the Fed, the MLF in particular. It is there. It is the borrower of last resort, and a handful of issuers have tapped it. There were probably a few more who will tap it. Is additional fiscal stimulus important to the marketplace? In so capacity, I’m sure, but the Fed and others have done what this market needs in order to function. By the way, look at the market. It’s functioning.

ALEXIS CHRISTOFOROUS: There you have it. Sylvia Yeh, Co-Head of Municipal Fixed Income at Goldman Sachs Asset Management, good to have you here this morning.

SYLVIA YEH: Thank you. Take care. Stay well.

Yahoo Finance

Tue, October 6, 2020, 6:58 AM PDT

[Muni Market Inflows Show Higher Taxes Coming: Kazatsky (Radio)]

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence: Illinois taps Fed funds, and stimulus still up in the air. Hosted by Paul Sweeney and Vonnie Quinn.

[Listen to audio.]

Bloomberg Radio

October 9, 2020

[Coronavirus Pandemic Hastens the Demise of at-Risk Municipal Money Funds.]

Vanguard, Federated Hermes and Bank of New York Mellon's Dreyfus shutter state-focused funds

The pandemic is putting a nail in the coffin of the most vulnerable municipal money funds, taking away tax-free investment options from some mom-and-pop investors.

In September, Vanguard Group told investors it would shutter New Jersey and Pennsylvania-focused funds. Bank of New York Mellon's Dreyfus liquidated one state-specific fund last month and in August, Federated Hermes said it would wind four down in February.

These muni money funds invest in the ultrasafe, short-term debt of states and local governments.

In the past six months, assets in tax-exempt money funds shrank nearly 10% to about $130 billion across about 180 funds in August, according to Crane Data. At their height 12 years ago, they held almost four times the amount they do now—and there were more than twice as many.

"The Covid storm revealed these evolutionary changes that had been taking place," said Patrick Luby, a municipal strategist at research firm CreditSights. "You don't know your roof has a hole in it until it rains."

The pandemic accelerated a decline in yields after the Fed pledged to keep rates near zero. The drop in yields is squeezing money fund manager profits, shrinking investor returns and dissuading debt-issuing governments from short-term securities.

"In the current low yield environment, the demand from clients for state-specific municipal funds has decreased significantly," said Stephanie Pierce, CEO of BNY Mellon Investment Management Cash Investment Strategies.

With fewer state money-market funds, individual investors are left with fewer tax-free ways to invest their cash. A New Jersey resident who uses a Vanguard money fund to avoid state taxes on her short-term investment income, for instance, could opt for a different money manager but her overall pool of choices is shrinking.

From individuals to corporations, many investors use different types of money funds as a safe place to hold cash while earning some income. Money funds that hold municipal debt are a small corner of the industry, offering a way for investors to earn interest exempt from federal income taxes. If the debt comes from municipalities within a specific state, local investors can usually also avoid income taxes there.

When tax rates fell for corporations as part of the 2017 tax law overhaul, many companies' interest in muni investments waned. However, individual investors piled into the muni market after seeing their tax bills rise from a separate tax law provision that capped state and local tax deductions. As a result, there were fewer other types of investors waiting to pick up the slack when the March upheaval prompted some individuals to dump their holdings.

In March, BNY injected money to prop up its New Jersey money fund after the value of its assets plunged during the liquidity crunch. The firm told investors this summer it was liquidating the fund.

The pandemic also sent shock waves across the more than $4 trillion money fund industry prompting a Federal Reserve rescue in March. It was the second since 2008, sparking questions from regulators last week about whether rules made after the last crisis have fallen short.

Money managers are now struggling to find enough municipal securities in some markets for their funds to invest in. With interest rates near zero, municipal governments are taking advantage of cheap long-term financing, shifting away from short-term debt and floating-rate bonds that reset at short-term rates. Some municipalities are refinancing floating-rate debt at fixed rates to avoid a repeat of March when short-term rates shot up, costing them dearly, said people familiar with the matter.

"People saw what transpired and started to ask themselves whether this was the right type of debt for them to be in," said Hazim Taib, chief financial officer of the Connecticut Housing Finance Authority. The authority briefly paid between 5% and 7.5% for AAA-rated short-term debt.

Last year, Vanguard monitored how tighter supplies in Pennsylvania and New Jersey affected its money funds. The firm debated steering the two funds beyond their specific state focus, but decided against wiping out local investors' tax benefits at the time, said a person familiar with the matter. After its latest fund review this year, Vanguard decided that there weren't enough municipal securities to warrant stand-alone funds. The firm already had to shoulder some expenses borne by investors in its Pennsylvania muni money fund to prevent yields from falling below zero. Dreyfus also cited limited availability of securities in its decision to liquidate a New Jersey fund.

Deteriorating government finances could further shrink debt supplies that meet money funds' high thresholds for creditworthiness if cash-strapped governments get downgraded or issue less debt.

Federated Hermes plans to close funds focused on Massachusetts, Pennsylvania, Georgia and Virginia around February 2021, saying the moves were in investors' best interest. The firm doesn't see supply across muni money funds as a problem and expects states to issue more debt, according to an October note.

Supply is stronger for funds focused on large states like New York and California, where there are many governments issuing many types of debt, as well as for multistate funds aimed at avoiding federal taxes. Closures of smaller state-specific funds could steer investor dollars into remaining funds, helping the strongest.

"It's not a stampede," said Pete Crane, president of Crane Data. "If anyone does exit, it leaves more of the pie."

The Wall Street Journal

By Dawn Lim and Heather Gillers

Oct. 6, 2020 5:30 am ET

Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers.

Fitch Ratings-New York-01 October 2020: Fitch Ratings has updated the assumptions that underpin its scenario analysis to reflect the company's refreshed view of the nation's path to recovery from the coronavirus pandemic. Informed by Fitch's "Global Economic Outlook – September 2020" and "Fitch Ratings Coronavirus Scenarios: Baselines and Downside Cases – Update," the revised scenarios reflect recent slightly stronger economic activity to date than anticipated, and expectations for a slower recovery from 4Q20 onward.

Revised baseline GDP assumptions for the FAST States & Locals – Fitch Analytical Stress Test Model (FAST) model are for a 4.6% decline in year one, followed by growth of 4.0% and 3.0% in years two and three, respectively. In the new baseline scenario, real GDP does not recover to 4Q19 levels until at least 4Q21. Inflation assumptions remain zero in year one, and 2% in years two and three. Scenario analysis informs Fitch's assessment of state and local governments' financial resilience.

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 renewed lockdown measures, coupled with extended periods of voluntary social distancing that cause a second, smaller decline in GDP. The interpretation of the downside scenario for state and local governments was developed in consultation with Fitch's chief economist and incorporates GDP declines of 4.8% in year one and 0.6% in year two, followed by growth of 3.1% in year three. These assumptions indicate a less severe first-year stress than the prior downside scenario, but a delayed and longer recovery.

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% 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 to 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

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

Here are links to coronavirus-related activity in U.S. public finance.

This file will be updated regularly.

October 2, 2020

Do the Benefits Outweigh the Costs of Impact Bonds?

To conclude this series of policy briefs, this fifth brief considers perhaps the most critical question to evaluate the success of impact bonds: whether, given costs and benefits, impact bonds are an efficient and cost-effective way to contract and finance the delivery of social services.

Since very little concrete data is available on costs and benefits in impact bonds compared to alternative financing mechanisms, the brief explores a set of theoretical assumptions and a thorough analysis of potential costs and benefits to provide a more nuanced analysis than has been in the literature to date.

The brief also identifies four ways to potentially lower the design and implementation costs of impact bonds, as well as makes the case for future research.

Read the full policy brief >>

The Brookings Institution

by Emily Gustafsson-Wright and Sarah Osborne

Wednesday, September 30, 2020

NABL Paper Examines Bond-Financing of Charter Schools.

The National Association of Bond Lawyers has released a new paper on bond financing laws for charter schools that highlights how the enabling laws vary sometimes significantly by state.

Nationally, there are around 7,500 charter schools in 44 states in addition to the District of Columbia, according to the National Alliance for Public Charter Schools.

“I would characterize it as a guide to some big picture items you’d definitely want to keep an eye out for,” said Kareem Spratling, an attorney at Bryant Miller Olive P.A. in Tampa who serves as vice chairman of NABL’s General Law and Practice Committee.

The NABL paper is more of a guide to high level issues that need to be considered rather than a comprehensive checklist of this growing part of the public finance sector.

“It’s for those who perhaps have done other 501(c)3 deals and not done charter school deals,” Spratling said. “It’s a refresher for those people who can look at it and say, ‘I’d better look at this issue or that issue.'”

Charter schools have issued roughly $25 billion in bonds over the last decade compared to around $1 trillion issued by traditional school districts, according to an estimate by the National Alliance for Public Charter Schools.

Only about 17% of charter schools, or fewer than 1,300, have bond ratings.

“Unlike school districts, most charter schools cannot issue tax-exempt debt on their own behalf, and must use a conduit issuer to issue the tax-exempt bonds benefiting the charter school,” the NABL paper said. “Not all conduit issuers have the legislative authority to issue tax-exempt bonds benefiting charter schools, but many states have enacted legislation to establish new entities with the authority to issue tax-exempt bonds to finance charter school facilities or authorize existing entities to issue tax-exempt bonds to finance charter school facilities.”

The vast majority of the rated charter schools — about 1,200 — are rated by S&P Global (SPGI), which has rated around 300 charter operators, some of which have a string of schools they run.

Moody’s Investors Service rates around 58 charter schools and Fitch Ratings only rates eight charter schools.

Leonard Jones, manager of the charter school group at Moody’s, said his agency’s rating methodology was issued in 2016.

S&P Global (SPGI) has been active in the charter school sector much longer.

“There has been a lot of growth in that market, as charter schools have grown as new charter schools have opened,” said Jessica Wood, a senior director at S&P’s U.S. Public Finance Ratings

Group and sector leader for the not-for-profit higher education and charter school groups.

“While charter schools are public schools and rely on public state funding, just like traditional school districts, charter schools do not receive funding for capital plans for building,” Wood said.

S&P has issued only around a dozen charter school ratings this year and another dozen last year compared to other recent years when the number was around 40.

“Ratings for traditional school districts are much higher,” said Wood. “And while both traditional school districts and charter schools both depend on per pupil funding, school districts maintain higher reserves, more funding and can levy taxes.”

S&P also rates about 40 independent private schools which are typically rated much higher than charters.

“Those are some of the very high profile well-known private high schools around the country,” Wood said. “The big difference is that while the private schools don’t get any state funding at all, they depend on fundraising and the much higher cost of tuition.” They also tend to have much stronger reserves and balance sheets as well as significant endowments.

At S&P, charter ratings can be as high as A+, although none are higher than A-minus. In comparison, colleges and universities, independent private schools, and traditional K-12 public schools can be as high as AAA.

The National Alliance for Public Charter Schools says that charter schools are at a disadvantage in trying to finance their facilities even though they operate as tuition-free public schools.

“They do not receive comparable public funds to pay for their facilities and have to use operating funds to pay for capital improvements,” said Mark Medema, managing director of the Charter School Facility Center at the alliance.

“Charter schools also have to borrow at higher rates than their school districts,” Medema said, urging policymakers “to level the playing field for charter schools and their traditional school district counterparts.”

One positive development is that several investment firms have emerged in recent years that either specialize in purchasing charter school bonds or have high yield bond departments that do. Among them: Tortoise Capital Advisors, Greenwich Investment Management, Hamlin Capital Management, ESJ Capital Partners and Equitable Facilities Fund.

Equitable Facilities Fund published a report in mid-2019 pointing to a $357.1 million offering sold by BB&T in December 2018 on behalf of International Leadership of Texas (ILT), a 33 school charter network with more than 18,000 students, as the largest single charter school debt offering to date.

On the downside, the NABL paper points out that some state charter school laws limit, restrict, or forbid charter schools from pledging their revenue stream to pay bondholders.

“There’s a lot of state law and even local diligence to get a deal done,” Spratling said.

However, a number of states have provided mechanisms for debt financing and the schools have used a number of different ways to raise capital, according to a white paper by the Council of Development Financing Authorities.

At the federal level, the Department of Education operates the Credit Enhancement for Charter School Facilities program. The program provides grants to eligible entities, typically nonprofit intermediary community lending entities like CDFIs to help them enhance the credit of charter schools to help gain access to capital.

Arizona charter schools can apply for tax-exempt bond financing from industrial development authorities. Charter schools in South Carolina have access to tax-exempt financing through the South Carolina Jobs-Economic Development Authority. In Georgia, charter schools can use a local county development authority.

The CDFI report also cited examples of charter schools using financing packages that include Tax Increment Financing (TIF), Property Assessed Clean Energy (PACE), the federal New Markets Tax Credit, the federal Historic Preservation Tax Incentives program and even the EB-5 investment program granting a conditional green card to wealthy immigrant investors.

Around 13 states operate Revolving Loan Fund programs to help finance charter schools. Among them: California, Florida, Illinois, Louisiana, Nevada, South Carolina, Utah, and the District of Columbia.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 09/30/20 02:17 PM EDT

How Much is COVID-19 Hurting State and Local Revenues?

State and local governments are significant players in the U.S. economy. Employment by state and local governments represents about 13 percent of total employment in the U.S.—more than the federal government. State and local tax revenues represent about 9 percent of GDP.

And unlike the federal government, state and local governments generally have to balance their operating budgets; they can't borrow to finance large deficits. This Q&A examines the fiscal impact that COVID-19 has had on state and local governments and is drawn from "Fiscal Effects of COVID-19," presented at the Brookings Papers on Economic Activity on September 24, 2020.

HOW HAS COVID-19 AFFECTED STATE AND LOCAL GOVERNMENT FINANCES?
As in other economic downturns, the pandemic has reduced state and local revenues, but this time is different. Declines in income tax revenues are likely to be smaller than projections based on historical experience because employment losses have been unusually concentrated on low-wage workers (who pay less income taxes than higher-wage workers), the stock market has held up so far (sustaining taxes on capital gains), and the federal government has increased and expanded unemployment insurance benefits and grants to business, which will shore up taxable income. On the other hand, declines in sales and other taxes and fees are larger than historical experience would suggest, because consumption has fallen so sharply and people are staying home—meaning that revenues from taxes and fees on hotels, tolls, airports, and motor fuel have plummeted.

We project that state and local government revenues will decline $155 billion in 2020, $167 billion in 2021, and $145 billion in 2022—about 5.5 percent, 5.7 percent, and 4.7 percent, respectively—excluding the declines in fees to hospitals and higher education. Including those fees to hospitals and higher education would bring these totals to $188 billion, $189 billion, and $167 billion.

While federal aid to state and local governments this year has exceeded projected revenue losses, that aid is only one-time, and state and local governments are expected to face shortfalls for many years. Without promises of further aid, these governments are likely to cut spending now to prepare for future imbalances. Furthermore, state and local governments are at the forefront of the response to the pandemic in their communities and will likely need to increase their typical spending to provide crucial public health services and help communities adapt to social distancing guidelines. One lesson from the years following the Great Recession is that cutbacks by state and local government can be a substantial restraint on the vigor of the economic recovery, and so ensuring that state and local governments have enough funding is important both for ensuring that needed services are provided and that the economic recovery is as robust as possible.

HOW HAS COVID AFFECTED STATE AND LOCAL INCOME TAX REVENUES?
We project that state and local income tax revenues will decline 4.7 percent in 2020, 7.5 percent in 2021, and 7.7 percent in 2022— $22 billion, $37 billion, and $40 billion, respectively. These moderate declines— especially relative to the declines that would have been estimated based on past recessions—reflect the low incomes of most of the unemployed and the large, taxable fiscal stimulus mentioned above. In fact, without the CARES Act, income tax revenues would have declined an additional $13 billion in 2020, $8 billion from unemployment insurance and $5 billion from PPP (Paycheck Protection Program).

There is a lot of variation across the states in the income tax revenue losses associated with COVID, due to variation in unemployment rates, the generosity of unemployment insurance benefits, and the importance of non-wage income to the tax base. New Hampshire, California, New Jersey, and New York are projected to record the largest 2020 percentage declines, with income taxes falling 9 percent, 8.5 percent, 8 percent, and 6.7 percent, respectively. In contrast, Illinois, Kansas, Kentucky, North Carolina, and West Virginia are projected to suffer declines of less than 1.5 percent.

HOW HAS COVID AFFECTED REVENUES FROM SALES TAXES?
Forty-six states impose general sales taxes and, on average, these taxes account for about one quarter of state and local tax revenue. Some localities impose their own sales tax on top of or in lieu of the state sales tax. Because the sales tax is based on the dollar value of sales, sales tax revenues move proportionally with consumption of taxed items. But consumer spending during the pandemic was unusual. Much of the decline affected services, such as hairdressing, which are less likely to be taxed than goods. There were large increases in purchases of food at the grocery store, which is typically not subject to the sales tax, and large declines in spending at restaurants and hotels, which are often taxed more heavily than other things.

In aggregate, sales taxes look to decline $49 billion this year, $45 billion next year, and $46 billion in 2022, in part reflecting lower price levels and in part because of changes in demand. Looking across the states, the largest percentage declines are projected in the District of Columbia (18 percent) and Rhode Island (16 percent), while the smallest declines are in Alabama, Idaho, and Arkansas (4 percent, 5 percent, and 6 percent, respectively).

These projections may be too pessimistic. As the effects of social distancing lessen, some lost spending could be made up, particularly after savings have increased from people staying home—cars not purchased and trips not taken may have been delayed, rather than canceled altogether.

WHAT ABOUT TAXES ON CORPORATIONS, PROPERTY TAXES, AND FEES?
State corporate tax collections make up only a small part of state and local revenues but are particularly vulnerable to economic downturns. We project that they will decline $2 billion in 2020, $29 billion in 2021, and $14 billion in 2022. Property taxes make up 22 percent of own-source

revenues (that is, excluding grants from the federal government), but house prices have held up well so far and future declines in property taxes do not appear to be significant.

As people stay home, revenues collected from sources like highway tolls and charges for public parks may fall. Pandemic-related declines in charges and fees will likely account for a loss of $82 billion this year, $55 billion next year, and $45 billion in 2022. These declines disproportionately come from declines in transportation-related revenues, a big difference from prior recessions.

The pandemic could also lower fees to public hospitals and institutions of higher education by $33 billion this year, $22 billion in 2021, and $22 billion in 2022, although these fees are typically rendered in exchange for services paid for by state and local governments. For example, the sharp decline in health expenditures in the spring meant that health care facility revenues plunged. To the extent that public hospitals laid off workers, reduced hiring and hours, or cut back on supplies, these revenue losses may have been offset at least in part by a decline in spending.

WHAT HAS THE FEDERAL GOVERNMENT DONE IN RESPONSE, SO FAR?
States and localities are due to receive over $200 billion in federal aid this year. The largest portion of that aid is $150 billion through the Coronavirus Relief Fund. The CARES Act also provided $25 billion in aid to public transit agencies, $13 billion to K-12 education, and roughly $6.5 billion to public colleges and universities. The CARES Act includes $175 billion in aid to health care providers, $35 billion of which we estimate will go to public hospitals and community health centers. In addition, the Families First Coronavirus Response Act raised the federal share of Medicaid spending by 6.2 percentage points for the duration of the public health emergency. This increase appears to be more than enough to fund states' higher Medicaid expenditures expected as a result of the pandemic, leaving about $24 billion of flexible funding in 2020, $19 billion in 2021, and $9 billion in 2022.

At least for 2020, federal aid seems large enough to offset the revenue losses state and local governments are likely to experience. Should the economy remain depressed in the coming years, however, these governments will need additional aid in order to avoid cutting services or raising taxes and impeding the recovery.

Furthermore, even if state and local governments don't cut back on spending in the aggregate, changes in spending needs brought on by the pandemic could force these governments to confront tough budget choices and perhaps cut essential services. For example, if providing decent virtual education requires hiring more staff and providing equipment to students, or if demand for mental health services or services for the elderly rise as a result of the pandemic, then pre-COVID levels of spending may not be enough.

Different states are also experiencing varying degrees of fiscal stress. States like Nevada, Washington, California, Florida, and New York show the largest revenue declines in 2020, while states like Kansas, New Hampshire, Mississippi, and Wyoming show the smallest. Since the $150 billion Coronavirus Relief Fund gave each state a minimum of $1.25 billion, some states have received more than enough funding to cover their losses while others are likely to face budget shortfalls even without significant increases in COVID-related spending. For example, Vermont received aid (other than for hospitals and higher education) equal to 23 percent of its general own-source revenues; New York, which was much harder hit by the pandemic, received only 6 percent.

In addition, the Federal Reserve established the Municipal Liquidity Facility. The facility aims to ease the cash flow pressures on state and local governments by purchasing short term municipal debt. Although the facility made only two loans, it has contributed to the smooth functioning of the municipal bond market in which states and localities can now borrow at interest rates which are at, or near, historic lows.

WHAT EFFECT DO LOW INTEREST RATES HAVE ON STATE AND LOCAL GOVERNMENTS?
State governments are both borrowers and savers. The saving is mostly in the form of contributions to state and local employee pension funds; the borrowing is through the issuance of municipal debt, mostly to finance long-term capital projects. On net, state and local governments are savers. According to the Census of Governments for 2017, total state and local government debt equaled $3 trillion in 2017, while total financial assets were $6.9 trillion. Low interest rates, then, mean smaller returns to state and local government savings.

The Brookings Institution

by Louise Sheiner and Sophia Campbell

Thursday, September 24, 2020

Stressed U.S. Cities See Slim Shot at Covid Relief After Shutout.

- **Supreme Court fight pushes stimulus to backburner for Congress**
- **East St. Louis trying to avoid payless paydays for workers**

Syracuse, New York, is negotiating with unions to furlough almost all of its more than 300 public-works employees. In Illinois, the town of East St. Louis is trying to stave off payless paydays. Arlington, Texas, might drop trash collection to once a week from twice.

After Covid-19 cratered tax collections, U.S. cities have been cutting, postponing and squeezing. While states and big cities from New York to California are also suffering and have complained loudly, leaders of smaller cities argue they're worse off because they've been left out of direct federal pandemic relief in the first stimulus and are now watching their chances of aid fade as Congress remains at an impasse about a month from the election.

"The days of being cautiously optimistic are gone — in some ways, we've run out of time," said Syracuse Mayor Ben Walsh, an independent. "Our problems aren't going away. They are only getting worse."

Most towns across the U.S. didn't get direct aid in federal stimulus packages earlier this year because their populations fell below a 500,000-person threshold. Out of 19,000 cities, towns and villages in the U.S., only about 36, representing 14% of the nation's population, met that benchmark for direct aid, according to the National League of Cities. Yet as early as April, nearly all municipalities with more than 50,000 residents forecast falling revenue this year, according to the group's survey of 2,463 cities, towns and villages.

Negotiations between the White House and congressional Democrats are at a critical juncture this week. On Monday, House Democrats released their latest plan, a $2.2 trillion package with $436 billion for one year of aid to state and local governments. Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin are in discussions, which will help decide if another package is enacted before the election. Democrats on Wednesday were waiting for a Mnuchin counteroffer.

The plan proposed on Monday includes $179 billion for a coronavirus local relief fund that would help cities, counties and other local governments "to mitigate the fiscal effects stemming from the public health emergency," according to a copy of the bill.

Even though the financial circumstances of U.S. municipalities before Covid-19 varied, most now face similar threats. Syracuse forecasts its revenue to fall $41 million during fiscal years 2020 and 2021 because of hits on sales taxes and reduced state aid. It's making $18 million in cuts in fiscal 2021 such as limited furloughs.

New York City expanded week-long furloughs to more than 9,000 employees to save $21 million starting Oct. 1. Chicago is trying to close a nearly $800 million budget gap that will expand to $1.2 billion next year.

Without fresh aid from Washington, cuts by local governments may weigh on the recovery like they did during the last recession. New York Federal Reserve President John Williams said Tuesday he's "concerned about state and local governments" given requirements to balance budgets led states to "cut back dramatically" on spending following the last downturn.

While some states are struggling, cities, especially the smaller ones, have less control over their own destinies. States often determine key taxing measures applied at the local level. In 2017, state funding made up about 17%, or roughly $83 billion, of local revenue, said Michael Pagano, the director of the Government Finance Research Center at the University of Illinois in Chicago.

Unrestricted state aid to municipalities had been falling before Covid struck — down 3% in the decade through 2017 — but the pandemic may exacerbate that trend, he said. New York's fiscal 2021 budget cut $8.2 billion in aid to localities.

"Cities are in a more vulnerable position than states," said Pagano, one of the authors of the National League of Cities City Fiscal Conditions 2020 report.

The urgency for aid to avoid economic consequences is crucial because states are expecting a $200 billion revenue shortfall from fiscal 2020 through 2022 and local governments of all types about $175 billion during that period, said Dan White, head of fiscal policy research at Moody's Analytics. The firm reduced its estimate for needed state and local aid to as much as $400 billion, down from $500 billion in June.

'Toughest Days'

"Cities across America still have some of the toughest days ahead," said Arlington Mayor Jeff Williams, a Republican. "We are one of the major economic engines of America."

The town nestled in Northern Texas between Dallas and Forth Worth is forecasting its first deficit after five years of surpluses. The local economy had been booming before the pandemic, but sales taxes have plummeted. Williams is worried about a hit next year from property taxes and concerned many small businesses that are barely hanging on will close down.

Arlington is working on cuts from 2% to 12% across its departments. It's delaying infrastructure projects and may drop garbage pickup from twice a week to just once.

'Payless Paydays'

Towns that were in fiscal trouble before the pandemic struck, like East St. Louis, Illinois, are in especially dire straits. Last year, a portion of its tax revenue to be intercepted for its underfunded police and fire pensions. This year, gaming receipts from a casino, one of the main sources of taxes, have fallen to $2.2 million from $6.6 million in the first nine months of 2019, according to data from the city.

City Manager Brooke Smith is delaying overtime payments to police officers and fire fighters to maintain cash, but she worries if federal aid doesn't come through that "payless paydays" could be in East St. Louis' future.

As winter approaches in Dayton, Ohio, Mayor Nan Whaley worries about having enough city snow truck drivers to clear roads quickly enough and whether small businesses can make it when outdoor dining and other activities cease. She has already cut almost 70 employees through layoffs and early retirement.

"I don't think we've seen the bottom," said Whaley, a Democrat and vice president with the U.S. Conference of Mayors who is lobbying Congress for direct aid to cities. "Fourth quarter is make or break."

Bloomberg Politics

By Shruti Singh

September 30, 2020, 6:45 AM PDT

— With assistance by Matthew Boesler, Erik Wasson, and Billy House

---

Citigroup Sees Election as Bullish for Munis No Matter Who Wins.

- **If market sells off, 'back up the truck and load up'**
- **Echoes call to buy during March's record-setting rout**

If the uncertainty surrounding America's presidential election triggers a rout in the municipal-bond market, analysts at Citigroup Inc. said it will be a good time to buy.

The advice echoes the bullish call the bank's analysts made in March, when they suggested investors swoop in as a panic about the coronavirus sent the $3.9 trillion market into its biggest crash on record. That proved prescient: prices rallied back, delivering big gains, after Congress enacted the $2.2 trillion economic stimulus measure and the Federal Reserve moved to ensure the market wouldn't be rattled by another liquidity crisis.

There has been little movement lately, with prices of municipal bonds essentially unchanged over the past month and yields on top-rated securities holding not far from the record lows hit this year as investors continue to pour cash back into mutual funds. But the pace of new debt sales is poised to pick up just as the presidential race enters its final weeks, adding potential headwinds to the market.

Citigroup analysts Vikram Rai, Jack Muller and Vedanta Goenka said in a note Monday that they don't expect to see a selloff in the municipal market and that any downturn would likely be brief. "Municipal underperformance, if any, should be short-lived, and we would view it as a buying opportunity in light of our longer term bullish outlook," they wrote.

Their reason for such optimism: either outcome of the election would likely be positive for the municipal market, though a Democratic sweep would be the most advantageous.

If Joe Biden defeats President Donald Trump and Democrats win control of the Senate, Congress will likely extend a large amount of aid to states reeling from the recession and raise federal tax rates on the highest earners, which would increase the value of owning tax-exempt debt. Yet even if Trump wins a second term and Republicans hold the Senate, that could also boost demand: without a big aid package, states and cities will have to raise taxes to cover the massive budget shortfalls they face — which would also increase the value of tax-exempt securities, Citigroup's analysts said.

"Municipals may weaken post-election on the back of a rates markets sell-off (unlikely) but that sell-off should be fleeting and we expect municipals will outperform in the longer-run," they wrote. "If municipals sell off pre- or post-election, by all means, back up the truck and load up."

Bloomberg Markets

By William Selway

September 28, 2020, 10:51 AM PDT

There's Good Value in Munis, Western Asset's Amodeo Says

Robert Amodeo, Western Asset Management head of municipals, says any aid from the federal government should be viewed as a positive for the municipal bond market. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

September 30th, 2020, 12:18 PM PDT

When Muni Bonds Outside Your State Make Sense.

Falling interest rates and the appeal of diversification are two reasons to look elsewhere.

CHANGES IN INTEREST rates and shaky state and local finances in the wake of the pandemic roiled the municipal bond market earlier this year.

That may give muni bond investors more reasons to look outside of their home state as they seek to diversify their holdings.

Municipal bonds are generally tax-free at the federal level, and residents who buy munis issued in their home state can avoid state and local taxes, which makes them appealing to fixed-income investors, particularly in high-tax states.

Market watchers say there are several reasons to look further afield for muni investments now. Here are some things to consider:

- The muni market dropped in the first quarter.
- Out-of-state muni bonds may be better buys.

- Mutual and exchange-traded funds offer diversity.

The Muni Market Dropped in the First Quarter

The economic shutdown caused by the pandemic hit the muni market hard as state and local governments were suddenly seeing mass unemployment and tax revenues dry up in the first quarter.

"No one knew what the ramifications were going to be with everyone staying home," says Jason Ware, head of institutional trading and one of the founders of 280 CapMarkets. "How would that affect sales tax collections? Income tax collections? Airports not having any traffic?"

To keep stock and debt markets from free-falling and the economy from plunging into a deep recession, the Federal Reserve slashed interest rates to near zero and embarked on quantitative easing. One of the Fed's early measures was to step into the muni bond market to inject liquidity by buying up muni bonds and offering a muni liquidity facility for cash-strapped entities to help them meet obligations. The State of Illinois and New York's Metropolitan Transit Authority took financing at the time.

The muni market has stabilized since then, but the outlook is uncertain as the finances for many state and local governments take a hit from falling tax receipts, says Duane McAllister, managing director and senior portfolio manager at Baird Advisors. There are hopes for another stimulus package from Congress to help local governments, but that may not come until after the presidential election in November, if a stimulus bill passes at all.

Out-of-State Muni Bonds May Be Better Buys

The traditional rationale for why investors may want to buy muni bonds outside of their home state has to do with portfolio diversification and whether or not an investor's home state has a state income tax, Ware says. States without an income tax won't impose taxes on the bond's income, so there's an incentive to look nationally.

Wesly Pate, portfolio manager at Income Research + Management, says it makes sense now more than ever to look out of state with interest rates ultra-low.

"As yields have declined, the value of the tax exemption has declined with it," he says. "The actual tax rates are now less applicable than the actual starting yield."

McAllister agrees that the tax efficiency of in-state muni bonds is lower simply because yields dropped after rates fell.

That means investors should focus more on finding an attractive after-tax yield on the state level rather than worrying about any tax benefits by buying in their state. Pate says investors can speak with their financial advisor about setting their risk parameters as they look to build a diversified muni bond portfolio.

McAllister offers a quick calculation that buyers can use to see what type of after-tax yield they should seek to offset the lack of a tax exemption. For example, in California, the highest marginal income tax rate is 13%. If an in-state bond yield is 1%, the investor can subtract their tax rate from 100 to get 87. Divide the bond yield of 1% by 0.87 to equal 1.15%. If the bond outside of California can earn at least another 15 basis points or more, the buyer "is no worse off by not having the tax exemption," he says.

Investors who go shopping outside of their home state in search of higher-yield bonds also need to examine the credit quality of the issuer, which is more important now than ever because of the financial restraints caused by the pandemic, experts say. High yields often equate with low credit quality, and if a municipality's economic outlook worsens, low-credit-quality entities are at higher risk of default.

The impact of the pandemic may take time to filter through state and local governments, says Michael Wagner, co-founder and chief operating officer of Omnia Family Wealth. In addition to creditworthiness, investors should also consider the source of the bond's revenue. He says revenue bonds that back essential services or infrastructure projects may be more secure than general obligation bonds that are usually backed by property-tax revenue.

Mutual Funds and Bond ETFs Offer Diversification

Steve Azoury, financial advisor and owner of Azoury Financial, says adding muni bond mutual funds and ETFs are a way for retail investors to get exposure to bonds outside of their state. More specifically, Azoury likes offerings from Nuveen for national muni bond funds.

He says one of his favorite muni bond mutual funds is the Nuveen All-American Municipal Bond Fund (ticker: FAARX), which invests mostly in investment-grade debt. He notes that the fund has been around since 1997 and comes with a low annual expense ratio of 0.5%, which means it costs $50 per year for every $10,000 invested. "It's a consistent performer as it's in the top 20% of funds available and is a low-risk investment," he says.

Another selection is the Nuveen Intermediate Duration Municipal Bond Fund (NUVBX), which invests in investment-grade, intermediate-term muni bonds with a targeted weighted average effective duration between 4 1/2 and seven years, he says.

The advantage of buying mutual funds versus owning bonds outright is the diversification aspect, he says. Many funds own hundreds if not thousands of bonds. If there are muni defaults, the impact is lessened by the fact that the default is offset by other holdings.

"Bankruptcies in municipalities are rare, but they do happen," Azoury says.

U.S. News & World Report

By Debbie Carlson, Contributor   Oct. 2, 2020, at 2:58 p.m.

Muni ETFs Aren't Dependent on Electoral Outcomes.

Among fixed income assets, municipal bonds are often sensitive to political conjecture due to the tax treatment of these bonds, bu the VanEck Vectors High-Yield Municipal ETF (CBOE: HYD) could be a solid bet for income investors regardless of what happens on Election Day.

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 more high-tax states. The tax law also diminished supply due to new limits on when governments can issue tax-exempt debt.

Citigroup says if municipal bonds decline following the upcoming election, that pullback could be a buying opportunity.

“The advice echoes the bullish call the bank’s analysts made in March when they suggested investors swoop in as a panic about the coronavirus sent the $3.9 trillion market into its biggest crash on record,” reports William Selway for Bloomberg. “That proved prescient: prices rallied back, delivering big gains after Congress enacted the $2.2 trillion economic stimulus measure and the Federal Reserve moved to ensure the market wouldn’t be rattled by another liquidity crisis.”

Help for HYD
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.

“Municipal underperformance, if any, should be short-lived, and we would view it as a buying opportunity in light of our longer-term bullish outlook,” according to Citigroup analysts.

HYD seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Bloomberg Barclays Municipal Custom High Yield Composite Index, which is intended to track the overall performance of the U.S. dollar-denominated high yield long-term tax-exempt bond market. HYD is expected to pay monthly dividends.

According to Bloomberg: “If Joe Biden defeats President Donald Trump and Democrats win control of the Senate, Congress will likely extend a large amount of aid to states reeling from the recession and raise federal tax rates on the highest earners, which would increase the value of owning tax-exempt debt. Yet even if Trump wins a second term and Republicans hold the Senate, that could also boost demand: without a big aid package, states and cities will have to raise taxes to cover the massive budget shortfalls they face — which would also increase the value of tax-exempt securities, Citigroup’s analysts said.”

ETF TRENDS

by TOM LYDON on SEPTEMBER 30, 2020

SIFMA State-by-State Capital Markets Database.

Explore the companies and municipalities accessing capital markets to drive economic growth in this state-by-state database.

NASBO FY2021 Proposed & Enacted Budget Summaries.

View the Budget Summaries.

MERS Plan Changes for Municipal Employees.

The Municipal Employees' Retirement System ("MERS") offers participating municipalities a variety of retirement benefit plans that they may provide on behalf of their eligible employees. Effective as of January 1, 2021, MERS is implementing several changes to the plan. Each participating municipality is required to submit an updated Adoption Agreement Addendum (the "Addendum") to MERS to indicate the municipality's Plan design selections related to the changes. The Addendum must be submitted to MERS on or before September 30, 2020. The purpose of this Addendum is to clarify and confirm the manner in which each plan has been operated. Doing so will decrease the likelihood of compliance issues.

An overview of the plan changes appears below.

1. **Plan Eligibility Clarification.** The Addendum includes a Section entitled "Plan Eligibility" to allow a participating employer to better define its plan eligibility requirements. This Section clarifies whether an employer's part-time, temporary, seasonal, voter-elected, appointed officials and contract employees are eligible for plan participation. An employer may choose to exclude certain classifications of employees going forward. For example, an employer may choose, going forward, to exclude new part-time employees who regularly work less than a specified number of hours.
2. **"Day of Work" Definition Modification.** MERS currently uses the "Day of Work" concept to define how an eligible employee earns service credit under the plan. For example, a participating employer may require employees to work a minimum of ten eight-hour days in order to earn a month of service credit. The Addendum replaces the "Day of Work" concept with a section entitled "Service Credit Qualification." Under this new section, employers must indicate a specific number of hours that an employee must work during a calendar month in order to earn service credit.
3. **Leaves of Absence Clarification.** The Addendum includes a "Leave of Absence" Section that allows a participating employer to specify whether or not an employee will earn service credit during a particular type of leave (for example, disability, workers' compensation, or FMLA). The Addendum also lists special rules that apply to certain types of leaves of absence.
4. **Changes to the Definition of Compensation.** The plan definition of "Compensation" is used to determine employer and employee contributions as well as final average compensation ("FAC"). The Addendum allows a participating employer to choose from three standard definitions of compensation (Base Wages, W-2 Wages, and Gross Wages) and a fourth custom option.

Foster Swift Collins & Smith PC – Amanda J. Dernovshek, Julie LaVille Hamlet and Mindi M. Johnson

---

[Fitch: SCOTUS Change Raises Risk of ACA Repeal, Reduced US Hospital Revenue]

Fitch Ratings-New York/Chicago/Austin-22 September 2020: A vacancy in the Supreme Court of the United States (SCOTUS) increases uncertainty about the future of the Affordable Care Act (ACA), given the court's pending decision regarding the severability of the individual mandate, says Fitch Ratings. A repeal of the ACA, which would result in fewer insured patients and lower reimbursement rates, would negatively affect US hospital revenue.

The ACA had a positive effect on the financial profiles of most healthcare issuers since going into effect in 2010, due to an increase in insured patients and a reduction of uninsured patients who self pay. About 25 million Americans have coverage through the health insurance expansion elements of the legislation. Roughly 8.5% of Americans are currently without health insurance, down about 5% from before the ACA's insurance expansion took effect, according to the US Census Bureau. Coverage through ACA serves as a backstop for employer-sponsored healthcare if jobless rates remain structurally high amid the prolonged coronavirus pandemic.

Quantifying the effect of a potential repeal of the ACA on patient volumes and pricing is difficult due to uncertainty regarding its replacement. We expect providers to adapt to new healthcare policies in order to protect credit profiles but a decline in revenue that results in a sustained reduction in cash flow and higher leverage could pressure ratings.

The less people that are covered, even by Medicaid, the greater stress on a hospital's operating margin. Of a hospital's revenue sources, uninsured patients who self pay and Medicaid patients with lower reimbursement rates pose the highest risk to ensuring revenue sufficiently covers costs. Not-for-profit hospitals and publicly-operated hospitals that provide care to a large proportion of uninsured and Medicaid patients will see a reduction in revenue due to increased uninsured care should the ACA be repealed or further weakened.

The coronavirus pandemic has depressed volumes of elective patient procedures and weighed on hospital revenue and operating margins. However, for-profit hospitals and other corporate healthcare issuers are well positioned to defend profitability in the event changes to the ACA threaten volumes or pricing power since strategic M&A has increased scale over the past decade. Challenges to the ACA over the past few years have not curtailed investment by, or in, the corporate healthcare sector due to good underlying demand trends.

Although a full-blown repeal has so far been unsuccessful, changes effected through the courts weakened the ACA. These changes include a reduction in funds for the navigator program, which helps people find insurance, increased leeway by states to define their benchmark healthcare plan and the approval of short-term and association plans with lower premiums.

The SCOTUS vacancy raises uncertainty across the healthcare sector. President Trump intends to nominate a replacement by the end of this week. Confirmations historically average two to three months, making it unlikely a nominee is confirmed prior to Nov. 10, when the court is scheduled to hear California v. Texas, the case challenging the constitutionality of the ACA. Whether SCOTUS hears arguments in California v. Texas with eight or nine judges, the possibility exists that the ACA is upheld or sent back to the lower courts, particularly given Chief Justice Roberts' deciding vote in favor of the ACA in a 2015 case.

Regardless of the pending SCOTUS decision, the outcome of the election is critical to the trajectory of healthcare reform debate. Hospitals will continue to face significant near-term uncertainty about future healthcare policy, given risk of a disputed election result. While this could temporarily be disruptive to the formation of capital for healthcare entities in credit markets, most issuers recently boosted liquidity due to the pandemic.

Contacts:

Megan Neuburger, CFA
Managing Director, Corporates
+1 212 908-0501
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

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

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

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

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@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.

New Opportunities for U.S. Airport P3 Projects Arising from COVID-19: Baker McKenzie

In Brief

The sharp decline in passenger air travel caused by the COVID-19 pandemic has placed airports across the United States under severe financial pressure. As airports struggle to meet operational expenses with substantially lower revenue, capital financing for infrastructure projects could be particularly hard-hit.

These challenges may lead U.S. airports to turn to private investment for needed infrastructure improvements, including through the privatization of airport management and operations. Recent developments suggest that airport privatization and other public-private partnerships ("**P3**" or "**PPP**") spending could fill the financial gap and drive airport infrastructure spending.

Recent Changes to U.S. Law May Amplify Interest in Airport Privatization

The main sources of U.S. airport capital financing have been greatly impacted by the COVID-19 pandemic. Those sources include: (1) Passenger Facility Charges ("**PFCs**"), capped by statute at USD 4.50 per enplaned passenger[1]; (2) operating revenue from tenant leases and aircraft landing fees; (3) tax-exempt bonds; (4) state and local grants; and (5) federal Airport Improvement Program (AIP) grants.

U.S. airports have suffered significant financial hits from the drop in PFC revenue, and will likely continue to lose revenue from landing fees and leases as airlines adjust their schedules in the near- to medium-term. Meanwhile, many state and local governments now face significant fiscal challenges due the loss of taxpayer revenue as a result of the economic climate, which could also impact the municipal bond market. AIP funding is fixed by statute at USD 3.35 billion annually, which may prove insufficient to accommodate rising demand from airports as other funding sources dry up.

Yet, these challenges present new opportunities for airport P3 infrastructure projects in the United States, including airfield/airside development as well as new terminals and facilities. Recent changes to U.S. law intended to promote airport privatization, as well as the success of high-profile P3 projects at major airports, could cause airport sponsors and private investors to take a fresh look at the role of public-private initiatives.

Although airport privatization is widespread in Europe, it has not taken off in the United States. Seventy-five percent of air passengers in Europe and 66 percent of air passengers in Latin America and the Caribbean traveled through privately operated airports in 2018, according to Airports Council International. In North America, only one percent of air passengers traveled through privately operated airports.

The FAA's Airport Investment Partnership Program ("AIPP"), a program intended to generate access to private capital for airport improvement and development costs, could help narrow the gap by laying the groundwork for more P3 projects in the United States. Recognizing the potential benefits from privatization, Congress authorized the FAA to establish the Airport Privatization Pilot Program ("APPP") in 1996, which limited participation in the program to five airports.

In an effort to stimulate airport privatization, Congress substantially modified the APPP in the 2018 FAA Reauthorization Act, and renamed the program the AIPP. The Act made several changes to the program: (1) participation in the program is no longer limited to ten airports; (2) the FAA has less discretion in granting exemptions to airport sponsors and private purchasers; (3) the FAA may fund grants of up to $750,000 for predevelopment planning costs related to preparing a privatization application; and (4) perhaps most importantly, the program allows for "partial privatization," in which the airport sponsor has an interest in the entity that purchases or leases the airport. The AIPP has seen only limited use in the United States, most notably at San Juan Airport, which is now run by a private operator under a 40-year lease. Other initiatives to privatize airports, including St. Louis Lambert International Airport International Airport, have stalled in recent months.

The authorization of partial privatization could make participation in the AIPP significantly more attractive to airport sponsors. Partial privatization arrangements are used at major airports outside the United States, such as Paris' Charles De Gaulle Airport. Under a partial privatization, the airport sponsor may remain involved in managing the private airport operator (e.g., through board representation), which may alleviate concerns arising from privatization. The recent failure of the effort to privatize St. Louis' airport suggests that full privatization may face greater political obstacles.[2]

The Future of Airport P3 Projects

Aside from privatization under the AIPP, we may also see greater interest in P3 projects at airports due to a lack of funding from other sources. Recent airport P3 success stories, such as LaGuardia's Terminal B, may generate interest at other airports.

Although private investment may grow, the types of projects undertaken at airports could change dramatically in the post-COVID-19 world. The emphasis on social distancing could lead airports to favor parking and car rental facilities over mass transit, for instance. Cargo facilities could also draw interest as passenger airlines turn to cargo to make up for lost passenger revenue. Meanwhile, infrastructure developments intended to accommodate rising passenger traffic may be less desirable until airport authorities and investors can observe longer-term trends in air travel caused by the pandemic.

Looking forward, investors should also keep a close eye on Congressional legislation to boost infrastructure funding. Although the CARES Act did not allocate revenue for major airport infrastructure projects, Congress could include infrastructure funding in the next COVID-19 relief bill or in other legislation arising from the pandemic.

The INVEST in America Act, recently passed by U.S. House Democrats, would allocate several billion dollars annually to airports over the next five years. The Act would grant airport sponsors $3 billion in funding in 2021, which would increase in $250 million increments each year, up to $4 billion in 2025. Twelve percent of the funds would be set aside for: (a) cargo airports; (b) general aviation, reliever, and nonprimary commercial service airports; and (c) airport emission reduction projects, airport resiliency projects, and airport noise compatibility and mitigation projects. Following the set-asides, the funds would be allocated proportionately across all commercial service airports based on each airport's share of total passenger enplanements (based on calendar year 2019 unless a later year has more total enplanements). Funds can be used on any development project at an airport directly and substantially related to air transportation, as well as on eligible projects under the AIP grant program and projects eligible for financing using PFCs, among other uses.

It remains to be seen whether infrastructure funding will be included in bipartisan legislation and what role the legislation will assign to private investors.

Looking Forward

As the threat of COVID-19 diminishes and as we gain more clarity on the future of air travel, rising interest in airport P3 projects in the United States may be among the long-term unexpected benefits of the pandemic. Private investors could fill an important role in helping U.S. airports recover from the greatest crisis in passenger air travel. Airport sponsors and investors should consider new ways to finance capital projects, including through airport privatization, and should monitor the legal and regulatory framework for further changes intended to promote spending.

---

[1] 49 U.S.C. § 40117(b)(4).

[2] There are ongoing efforts in St. Louis to put an airport privatization plan before the city's voters, potentially on the November 2020 ballot. It remains to be seen whether such a plan will be passed and whether investors will be attracted to the project despite opposition from elected officials.

17 Sep 2020

Fitch: Revenue Pressures Persist for North American Airports & Airlines

Related Fitch Ratings Content: North American Aviation Update: Airports and Airlines (A Tepid Recovery Raises Industry Risk Profile Despite Defensive Measures)

Fitch Ratings-New York-22 September 2020: The prolonged recovery period in both the U.S. and Canada will intensify revenue and cost pressures on North American airports and airlines, according to Fitch Ratings in a new report.

The coronavirus pandemic continues to grip the aviation sector and the global economy. Passenger traffic, which fell by 95% during the first two months of the pandemic, has only recovered to roughly a 65%-75% reduction level compared with the same period in the prior year. Fitch projects traffic volumes will remain 75% lower this quarter and remain 60% lower for the fourth quarter. Further, government actions, airline financial health and broader economic factors muddy the prospects for recovery in 2021 and beyond.

‘A new normal in air travel has materialized and will persist over the next several years, exacerbated in part by general decline in demand coupled with risks to continued use of imposed travel restrictions at national and state levels,’ said Fitch Senior Director Seth Lehman. ‘Domestic and leisure-oriented travel are best positioned to demonstrate earlier recovery while international and business-related travel will likely take far longer.’

‘For the airlines, the prolonged recovery will at least push a return to more normalized credit metrics beyond 2021, and in some cases will have negative rating impacts, though near-term risks have been mitigated by large amounts of new liquidity that have been raised to date,’ said Joe Rohlena a Senior Director in Fitch’s corporates group.

Airport revenues have become increasingly dependent on revenue streams generated from terminal concessions, parking and rental car activities, which have allowed airport costs to remain in check. Also helping to stem the coronavirus tide has been the efforts of North American airlines in raising capital since the onset of the pandemic. This has kept rating actions fairly limited to date, with most adjustments at one to two notch downgrades, Negative Outlook revisions or placement of Rating Watches. That said, risks for both airports and airlines will continue to elevate as adverse conditions linger. Absent government financial infusions, key metrics will weaken over a sustained period of time.

‘North American Aviation Update: Airports and Airlines’ is available at www.fitchratings.com.

Contact:

Seth Lehman (Airports)
Senior Director
+1-212-908-0755
Fitch Ratings, Inc.
300 W 57th St.
New York, NY 10019

Jeffrey Lack (Airports)
Director
+1-312-368-3171

Joseph Rohlena, CFA (Airlines)
Senior Director
+1-312-368-3112

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. Airports Seek Fiscal Band-Aid from Coronavirus with Bond Refundings.

CHICAGO, Sept 23 (Reuters) – U.S. airports from coast to coast are refinancing billions of dollars of old debt to take advantage of historically low interest rates and attract yield-hungry investors to gain financial breathing room in their coronavirus-hit budgets.

Savings achieved from the refinancings could also help cash-strapped airlines that largely fund airport operations.

On Thursday, Chicago's O'Hare International Airport is scheduled to refinance more than $1 billion of bonds to achieve a projected $175 million present value savings to offset anticipated revenue losses in 2021.

Airports in cities including Dallas, Houston, and Los Angeles have accessed the U.S. municipal bond market in recent months, while deals are coming from Philadelphia, Atlanta and Denver, which plans to refinance up to $1.9 billion of bonds in October.

Passenger traffic is projected to drop 45% this year and airport revenue losses are expected to total $23.3 billion, according to Airports Council International-North America.

Airports are seeking an additional $13 billion federal bailout after receiving $10 billion in aid so far.

Brian Battle, director of trading at Performance Trust Capital Partners in Chicago, said investors willing to take the risk that major airports like O'Hare will recover are grabbing the heftier yields.

"It's a great way to pick up yield in a world where there isn't any for a measured risk," he said.

For example, Dallas Fort Worth International Airport's (DFW) long-term tax-exempt bonds trade at spreads about 70 basis points over Municipal Market Data's benchmark triple-A yield scale, while its long-term taxable bonds trade at spreads around 150 basis points over comparable U.S. Treasuries, a Citi Research report noted this week.

Investors snapped up $2 billion of DFW's refunding bonds this summer, with a nearly $1.2 billion taxable deal that attracted some overseas buyers oversubscribed 8.3 times, according to Christopher Poinsatte, the airport's chief financial officer.

Ahead of the pricings, which resulted in $30 million to $60 million in annual savings over 15 years, Poinsatte said he held as many as 30 one-on-one calls with potential investors, while the airport released 12 pages of COVID-19-related disclosures.

"The benefit of this really flows through to the airlines because we'll be able to keep their rates lower," he said.

Colin Bando, a credit analyst at T. Rowe Price in Baltimore, said airports were in "very, very strong credit shape" heading into the pandemic and most can survive with cash on hand and the money they received under the federal CARES Act, which provided coronavirus relief.

"While we're still worried about the sector, we think that they'll get through this just fine," he said.

Still, S&P Global Ratings, which has already cut credit ratings on various debt at several airports, warned in August it could downgrade even more bonds, citing its belief the pandemic will result in "materially depressed, unpredictable or anemic" passenger volume for an extended period.

By Karen Pierog

(Reporting By Karen Pierog; Editing by Alden Bentley and Jonathan Oatis)

SEPTEMBER 23, 2020

[WIFIA: Examining Synergies with the Muni Bond Market]

Economic gains are possible when investors with different strengths and preferences are combined in a single financing. It's happening at the WIFIA loan program.

The WIFIA loan program makes long-term loans for qualified projects at the U.S. Treasury's interest rate. Since debt capital markets start with this rate as a minimum baseline and add a spread for credit risk, liquidity premia and equity return, in theory, a WIFIA loan should always be a cheaper alternative than the market equivalent, right?

In practice, things are not so straightforward.

The vast majority of WIFIA's borrowers are highly-rated public water agencies that can access the tax-exempt municipal bond market. As in any other part of the debt capital markets, muni rates start with the Treasury curve and add in all the spread components that cold-eyed bond buyers require. But unlike the other market segments, muni investors can also *subtract* something – the value of the tax-exempt status of the overall yield. In a competitive market, the subtracted value of the tax-exemption can exceed the positive spread, resulting in rates that are lower than the Treasury curve. This depends on a lot of variable factors, but it's typically the case for highly-rated borrowers and maturities within about 20 years.

Continue reading.

Water Finance & Management

By John Ryan

SEPTEMBER 25, 2020

[Fitch: Federal Action Needed to Prevent Delays on Transportation Projects]

Fitch Ratings-New York/San Francisco-23 September 2020: Transportation projects that rely on federal funding are at risk of being delayed or cancelled unless Congress reauthorizes federal spending from the Highway Trust Fund (HTF) and provides resources to support the fund, Fitch Ratings says. HTF funding uncertainty discourages investment in substantial, multi-year infrastructure projects as these require long-term planning and funding commitments. The HTF and state transportation budgets depend on federal fuel tax revenues, which were declining even before the coronavirus pandemic due to improved fuel efficiency and the static fuel tax, which has not changed since 1993. HTF spending exceeded fuel tax revenues by about 26% in 2019.

Gas consumption and gas tax revenues declined dramatically at the height of the pandemic, resulting in a meaningful reduction in HTF funds. While gas sales rebounded in June from their historical low in April 2020, consumption is still below typical summer levels according to the US Energy Information Administration (EIA). Factors including a reduction in travel and commuting due to high unemployment and the increase in remote working are expected to keep motor gasoline consumption below 2019 levels through 2021 according to the EIA's September 2020 Short- Term Energy Outlook, further pressuring fuel tax revenues. Many states increased fuel taxes and toll revenues in recent years to help fill transportation infrastructure revenue gaps but these taxes may not be sufficient considering federal funding comprises approximately a quarter of spending on highways.

The Fixing America's Surface Transportation (FAST) Act, which will expire on Sept. 30, 2020, allocates billions of dollars from the HTF to state governments, and the Act also provides for federal general fund transfers to the HTF. Federal transportation allocations to the states will halt, and the HTF could become insolvent as soon as federal FY 2022 unless Congress takes action. Based on the history of HTF reauthorizations, Fitch expects Congress will eventually reauthorize the program and maintain HTF solvency.

The HTF historically received uninterrupted funding even during past short-term authorization lapses, although it relied on federal general fund transfers to remain solvent. The March 2020 Congressional Budget Office (CBO) baseline projections indicate the HTF highway subaccount would run out of money in FY 2022 absent additional subsidies or a structural shift in the fund. Fitch notes the CBO projections are based on pre-pandemic budget and economic projections so insolvency could actually occur sooner absent Congressional action.

Raising federal fuel taxes going forward under the program to cover shortfalls or broader reform of HTF revenues and spending will be difficult in light of the weak economic environment, a ballooning federal deficit the CBO projects will be $3.3 trillion in 2020, and pressing infrastructure demands. Given increased vehicle fuel efficiency, alternative taxes have received more attention. Registration fees and taxes on fuel efficient or electric vehicles, while more feasible, would generate a relatively small amount of revenue compared to HTF spending. Other taxing options that could support the HTF, such as a tax on vehicle miles travelled or a highway freight tax, may be difficult to implement because of the costs of implementing and enforcing a new tax system. An additional tax burden would also be unpopular during the nascent economic recovery.

Congress has not arrived at a consensus on bills proposed earlier this year that would extend the FAST Act, and these bills do not include a long-term structural solution for the HTF. Fitch recognizes there are competing policy and funding priorities placed on the federal government as a result of the coronavirus pandemic. This potentially makes funding decisions regarding the HTF more difficult. Congress may choose to reduce federal highway spending or postpone a longer-term commitment to stabilizing HTF funding.

Contact:

Sean Su
Associate Director, Infrastructure and Project Finance
+1 415 732-7576
Fitch Ratings, Inc.
One Post Street, Suite 900
San Francisco, CA 94104

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

Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

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

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@thefitchgroup.com
Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@thefitchgroup.com

---

America's Infrastructure Solutions Begin at the Ground Level.

In 2016, both presidential candidates pledged that their administrations would dedicate billions of dollars to federal infrastructure investment. But a full election cycle and many "Infrastructure Weeks" later, there have still been no significant advances in federal infrastructure policy. Lawmakers have made proposals ranging from status quo to revolutionary, but these top-down proposals have gone nowhere, failing to shake up the federal-centric approach that has failed the nation's infrastructure.

This June, that pattern was broken with the release of America's New Playbook for Infrastructure from the New Partnership on Infrastructure, which contains 26 proposals to enhance the country's built environment. The playbook is a months-long effort—led by Los Angeles Mayor Eric Garcetti's group Accelerator for America—which involved interviewing dozens of mayors and experts in the field of infrastructure. What makes the playbook different from plans coming out of the White House, Senate, or House of Representatives is that it starts with a bottom-up approach. The playbook is rooted in a practitioner's perspective, targeted toward solving the routine challenges of developing meaningful infrastructure projects. [Full disclosure: I participated in the comment process on an early draft.

The result is a document that adds critical nuance and a unique perspective to the national conversation—focusing on local flexibility, encouraging innovation, and positioning infrastructure policy to meet the needs of the future instead of the past. As the federal government struggles to reconfigure its infrastructure program for the new century, policymakers would be wise to listen to the practitioners and consider the policies outlined in the playbook.

Continue reading.

The Brookings Institution

by DJ Gribbin

Thursday, September 24, 2020

[‘You’re Cornered if You’re a City.’ How Concentration in the Municipal Bond Market Is Raising Borrowing Costs.]

Cities and states are in a fiscal crisis. Municipal bond defaults are now at their highest in a decade. Despite a $500 billion Federal Reserve intervention, with more potentially on the way, regulators have yet to address a longstanding structural problem—a group of the nation’s biggest banks that has cornered the market for municipal bond underwriting. This concentration of power has the potential to raise the interest rates on the bonds local governments urgently need to salvage their finances and the costs could be in the billions. While some municipalities will default on their debt, others will need to increase borrowing to continue providing public services. But the structural issues in the municipal-bond market could make borrowing costlier and alternatives are needed.

The municipal bond market is “very concentrated,” said Margaret Levenstein, a University of Michigan professor who has testified before Congress on the issue. “It’s important to understand these firms divide markets in ways that definitely raise the cost to municipalities in issuing municipal bonds.”

States and municipalities pay for most public services and infrastructure projects, such as hospitals, bridges, roads, and broadband internet, by issuing bonds that are typically purchased by retail and institutional investors in the municipal bond market. Large Wall Street banks act as underwriters, purchasing these bonds and reselling them to investors. Taxpayers in states and municipalities then pay off the bonds through taxes and fees for public services, such as sales taxes or road tolls.

Continue reading.

Barron’s

by Garphil Julien

Sept. 22, 2020 4:21 pm ET

Federal Reserve Board Issues Advance Notice of Proposed Rulemaking on An Approach to Modernize Regulations that Implement the Community Reinvestment Act

The Federal Reserve Board on Monday issued an Advance Notice of Proposed Rulemaking (ANPR) that invites public comment on an approach to modernize the regulations that implement the Community Reinvestment Act (CRA) by strengthening, clarifying, and tailoring them to reflect the current banking landscape and better meet the core purpose of the CRA. The ANPR seeks feedback on ways to evaluate how banks meet the needs of low- and moderate-income (LMI) communities and address inequities in credit access.

“By releasing a thoughtful and balanced ANPR and providing a long period for comment, the Federal Reserve is hoping to build a foundation for the banking agencies to come together on a consistent approach to CRA that has the broad support of the intended beneficiaries as well as banks of different sizes and business models,” said Federal Reserve Board Chair Jerome H. Powell.

“The CRA is a seminal piece of legislation that remains as important as ever as the nation confronts challenges associated with racial equity and the COVID-19 pandemic," said Federal Reserve Board Governor Lael Brainard. "We must ensure that CRA continues to be a strong and effective tool to address systemic inequities in access to credit and financial services for LMI and minority individuals and communities."

Public comment on the ANPR will assist the Board in refining CRA modernization proposals to:

- Strengthen CRA's core purpose of meeting the wide range of LMI banking needs and addressing inequities in financial services and credit access
- Address changes in the banking industry
- Promote financial inclusion by including special provisions for activities in Indian Country and underserved areas, and for investments in Minority Depository Institutions and Community Development Financial Institutions
- Bring greater clarity, consistency, and transparency to performance evaluations that are tailored to local conditions
- Tailor performance tests and assessments to account for differences in bank sizes and business models
- Clarify and expand eligible CRA activities focused on LMI communities
- Minimize data burden and tailor data collection and reporting requirements
- Recognize the special circumstances of small banks in rural areas
- Create a consistent regulatory approach

Congress enacted the CRA in 1977, as part of several landmark pieces of legislation enacted in the wake of the civil rights movement intended to address inequities in the credit markets. The Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency have broad authority and responsibility for implementing the statute, which provides the agencies with a crucial mechanism for addressing persistent structural inequity in the financial system for LMI and minority individuals and communities. The statute and its implementing regulations also provide the agencies, regulated banks, and community organizations with necessary structure for facilitating and supporting a vital financial ecosystem that supports LMI- and minority-focused community development.

Comments on the attached ANPR will be accepted for 120 days after publication in the *Federal Register*.

September 21, 2020

[Inclusive Recovery Requires Reimagining Local Economic Development.]

The way Americans work and live is facing a once-in-a-lifetime challenge in the form of simultaneous crises of public health, the economy, climate change, and racial justice. Our response will shape generations of American life.

Over fifty years ago, on the heels of a generation-defining tragedy and the eve of an era-shaping response, President Lyndon Johnson made a speech we'd be wise to revisit today. Announcing his Great Society agenda, Johnson proclaimed, "The solution to these [our country's] problems does not rest on a massive program in Washington, nor can it rely solely on the strained resources of local authority. They require us to create new concepts of cooperation, a creative federalism, between the National Capital and the leaders of local communities."

Polarization in Washington may have increased since Johnson's 1964 statement, but the principle remains. **If we stand any chance of responding to the current economic, social, and health challenges in a fair, inclusive, and effective way, we need a renewal of creative federalism.**

Continue reading.

Forbes

By Stephanie Copeland, Alex Flachsbart, Colin Higgins, and the Sorenson Impact Center

Sep 18, 2020

The New Normal for Local Governments and Credit Rating Downgrades.

Between unemployment and underemployment at the individual level to impaired income sources for local governments, credit score downgrades are emerging as an inevitable shared reality.

As more and more states and local governments are grappling with the new reality of COVID-19, credit rating agencies are actively monitoring their fiscal health and quickly changing their outlook for these agencies to withstand the current financial recession. According to a recent report from S&P Ratings, " U.S. public finance saw continued downgrade activity in June, including multiple notches for entities affected by a severe drop in hospitality taxes (local governments), cancelled social events (student accommodations and conference centers), and some universities' decisions on remote learning."

In this article, we will take a closer look at how credit rating agencies are assessing the financial health of states and local governments and what they think the future holds for municipalities.

Credit Rating Methodology

Before diving into what municipal downgrades mean for the health of municipalities around the U.S., let's take a look at the methodologies credit rating agencies use for both general obligation (GO) bonds and revenue-backed debt when assigning their credit ratings and outlooks.

In the credit rating analysis of GO debt, there are two main areas typically considered by rating agencies:

- The demographic and socio-economic make of the municipalities and the level of taxation that is suitable.
- Understanding the level of services that are offered by the municipality and paid by the general fund expenditures.
  Rating methodology.

Here are the few areas that are closely examined before rating a GO debt:

- **Sustainability of the Local Economy Paired with the Tax Base:** This is one the most important areas when assessing the fiscal strength of a municipality. This entails analyzing the local economy, knowing more about the largest employer, learning about the diversification of employment, and figuring out how a fiscal downturn might impact the sustainability of the tax base

for the local government. Furthermore, the population size, property values and the median income of a household are some of the key factors included in the GO debt risk analysis.
- **Financial Preparedness:** As currently seen during the COVID-19 crisis, the municipalities that established a financial preparedness plan prior to COVID-19 are much more resilient to the impact of sudden revenue loss due to the pandemic. This preparedness isn't limited to its reliance on general fund revenues, but the current fund balance reserves put aside for an unforeseen event per the reserve fund policy, liquid resources and feasibility of long-range financial plans.
- **Current Management of the Municipality:** This section of the risk assessment for GO debt looks at the institutional framework for the agency and effectiveness of the management in putting successful financial measures in place for successful operations.
- **Current Debt and Pension Obligations:** With respect to the local government's debt portfolio and retiree pension obligations, it's critical that these obligations are taken into account, including the debt to revenue and net pension to revenue ratios, for every debt issuance and understand the current liabilities for the agency.

In the credit rating analysis of revenue-backed debt, it's about understanding the nature of the services provided that generate the revenues. Often, these revenues are pledged to service the debt issued to fund the respective projects. The credit analysis includes the size, the coverage or service area, the strength of rate management and the financial strength of its overall operations.

Here are the few areas that are closely examined before rating a revenue backed debt:

- **System Characteristics:** This parameter measures a utility's ability to fund its operations and capital needs in the future, based on the size and complexity of its operations, financial strength of its service base, and health of its capital assets.
- **Financial Strength:** This area is very similar to the GO debt where you are understanding the fiscal preparedness of an agency. For example, due to the droughts in California, the state's government introduced many measures for people to conserve water, which substantially decreased the water usage in California and in turn had a huge negative impact on local utility revenues.
- **Management Track Record:** This area refers to how the management team manages the utility rates charged to consumers, prepares and allocates the budget, and develops contingency planning to face adversaries in the future.

How Does a Rating Downgrade Impact a Municipality

Here are some ways a credit rating downgrade can impair a municipality financially:

- **Ability to Access to Capital Market:** Similar to an individual with a low credit score, a municipal credit downgrade will limit a municipality's ability to issue debt at favorable rates or access the markets completely, depending on the severity of the downgrade.
- **Increase in Cost of Capital:** With a downgrade comes the increase in the cost of raising capital; this applies to both existing credit facilities like lines of credit as well as new issuances. All the new issuances will consider the impact of COVID-19 on the collateralized revenues and what kind of risk it carries – which will determine the credit rating and the coupon.
- **Reporting and Monitoring:** All agencies that face some kind of change in credit rating or outlook have to self-report the change to the Municipal Securities Rulemaking Board (MSRB), which provides free public access to municipal market information to investors, municipal entities and other related entities.

The Bottom Line

Due to COVID-19, as businesses confront operating constraints due to social distancing and diminished consumer demand, the recovery path will likely be rocky. This economic shock in the private sector would trickle into the fiscal health of municipalities around the U.S. Municipal debt investors must subscribe to and carefully review all content coming out of rating agencies on the different sector of local governments and agencies.

dividend.com

Sep 21, 2020

Rum Bonds, Ice Rink to Jolt Muni Market From Low-Yield Slumber.

- **Rum bonds, ice rink, toll roads and a proton center take stage**
- **Secondary market has been sluggish amid trader reluctance**

Even after three weeks of essentially zero movement in benchmark yields, the municipal-bond market is far from dull.

Municipal-bond investors have a chance in the coming weeks to bet on everything from the post-pandemic comeback of traffic on U.S. roads to whether Americans will stick to drinking Captain Morgan rum. The calendar of upcoming new-issue bond sales is bustling even as ultra-low yields aren't budging and trading has slowed.

Investors can get in on the comeback of toll roads with a $242 million Pennsylvania Turnpike Commission deal set to price Tuesday. Later this month, bond buyers can gamble on a foundation borrowing money for the acquisition of a proton cancer-treatment center in Oklahoma City, even though such facilities have had a poor track record in the municipal market. And the U.S. Virgin Islands is looking for investors willing to take a chance on the distressed territory's $944 million of bonds backed by excise taxes on rum.

Many of the bond sales — including borrowing for dormitories at the University of Central Florida, a California ice center where the San Jose Sharks hockey team practice and Yankee Stadium — are coming from borrowers hit hard by the economic fallout of the pandemic or those with low credit ratings. They are seeking to refinance their debt with super-low interest rates, secure funding ahead of the potential volatility caused by the 2020 presidential election, and to take advantage of investors' desire for higher-yielding debt.

"It's a new issue-driven marketplace," John Flahive, head of fixed-income investments at BNY Mellon Wealth Management, who added that the types of deals are keeping his team "away from boredom" even as the broader market slumbers.

It's a good time for states, cities and local government borrowers to tap the market as cash keeps pouring into mutual funds and interest rates have remained low, with ten-year AAA securities holding at 0.8% since Sept. 1. Those rates make refinancings especially attractive. For investors, it's a chance to find bonds that can survive the pandemic's recession but still offer higher yields.

Wall Street traders in the secondary market, Flahive said, are staying on the sideline given uncertainty over whether Washington will approve a new round of stimulus, as well as concerns over the election and credit issues caused by the coronavirus.

Dealers' net positions in municipals stood at just $9.4 billion on Sept. 9, compared with an average of over $15 billion since 2015, according to Federal Reserve Bank of New York data excluding variable-rate debt. In the primary market, monthly sales of long-term municipals have risen more than 16% in September to more than $32 billion, according to data compiled by Bloomberg.

Hilltop Securities strategist Tom Kozlik said in a Sept. 18 note that the uptick in debt sales is likely reflective of a traditional rush to the market before the election and wanting to take advantage of the low yields and high demand.

"The race is on for issuers to complete their financings before capacity or buying interest falls away," he said.

Bloomberg Markets

By Amanda Albright

September 22, 2020, 10:34 AM PDT

Yankees Eye Bond Market 'Win' by Joining Muni Refinancing Boom.

- **Some $115 billion of municipal bonds issued in refinancings**
- **Top-rated 10-year tax-exempt yields are holding around 0.8%**

The owners of America's empty Major League Baseball stadiums can get some financial relief from the $3.9 trillion municipal-bond market.

Yankee Stadium LLC, which sold bonds for the ballpark in the Bronx borough of New York City, is refinancing its debt through a $923.5 million sale this week. A Texas agency that sold bonds for the retractable-roof stadium where the Houston Astros play is also completing a refinancing that will push off debt payments as hotel- and car-rental tax revenue plunged because of Covid-19.

Tony Bruno, chief financial officer of Yankee Global Enterprises, said cutting its debt costs would benefit the stadium, employees and the city of New York. The refinancing is expected to create present-value savings of more than $200 million, according to its investor roadshow. "It's a win, win, win," he said.

The bonds that are being refinanced were sold in 2006 and 2009 and carry interest rates as high as 7%, according to offering documents. Even though the refinancing was planned before the pandemic, with low rates and the recent revenue losses — the savings help even more. "In a time when a sector is disrupted it becomes more relevant," Bruno said.

The stadium agencies are among those reaping the benefits of a refinancing boom that has accelerated since the economic contraction this year drove interest rates to the lowest in decades, with yields on benchmark 10-year tax-exempt bonds hovering around 0.8%. State and local governments, as well as airports, toll road operators and others that raise funds in the $3.9 trillion municipal-bond market, have sold $115 billion of debt exclusively for refinancings this year, a 77% increase from the same period in 2019. Stadium borrowers have been particularly affected by Covid-19 as games are scuttled and fans stay home.

Bruno said the team benefits from an early billing cycle for seatholders for the upcoming season and the strength of the team's performance in recent years. The Yankees have made 16 playoff appearances in the last 20 seasons and the team is known for flashy fan-friendly players such Aaron Judge, Aroldis Chapman, Giancarlo Stanton and Gerrit Cole, who is in his first season of a record $324 million contract. The team is also ranked by Forbes as the most valuable in the league.

"Going into March, we were moving along at a really nice clip compared to last year," Bruno said.

Even with canceled games, the stadium company still collected $201 million in ticket sales and suite licenses proceeds as of June 30, 2020, compared with about $336 million in 2019. The majority of season-ticket holders haven't applied for refunds for missed games and will likely apply credits to the 2021 season, according to figures as of mid-September.

"The durability of these revenues and the stickiness, I think, are all viewed very favorably from the market," said Fitch Ratings analyst Chad Lewis. "There is that long-term view that sports will come back."

The borrowing costs are also helping the Harris County-Houston Sports Authority, which sold the bonds that financed the Astros' Minute Maid Park. The agency is restructuring its debt to push out some maturity payments.

The Houston Astros stand for the national anthem prior to Game One of the 2019 World Series against the Washington Nationals at Minute Maid Park in Houston.Photographer: Elsa/Getty Images

The restructuring will offer some relief to the Houston agency given that the taxes on hotel stays and car rentals that back the bonds have dropped about 25% and 30% respectively by the end of July from a year earlier, according to bond documents. Another revenue pressure point could come from a key stadium tenant: the Astros. That's because of an agreement that allows the MLB team to reduce the rent and royalty payments it makes to the Houston agency if the team can't play games under certain circumstances, with $4.6 million in those payments helping secure the bonds, according to Moody's Investors Service.

In March, the Astros requested credits to reduce those rental and royalty payments after the season was shortened, according to bond documents. The Houston agency is still evaluating that request and said in bond documents that future game cancellations could result in more requests for payment relief from the Astros.

Moody's has a more positive outlook for some borrowers than it did previously. In June, Moody's lowered its outlook on the Yankees bonds to negative, but it reversed that to stable ahead of the refinancing.

"Things were very different three months ago," John Medina, an analyst for Moody's.

Bloomberg Markets

By Danielle Moran and Amanda Albright

September 21, 2020, 10:30 AM PDT

Bond Market Seeing Material Shift in Outlook: RJ Gallo (Radio)

RJ Gallo, Senior Portfolio Manager: Fixed Income and Head of the Municipal Bond Group at Federated Hermes, on the material shift in the bond market. Hosted by Paul Sweeney and Vonnie Quinn.

Play Episode

Bloomberg Radio

September 21, 2020 — 11:36 AM PDT

New Jersey, California Dodge Worst of Tax Crisis in 'Weird Recession'

- **Revenue starting to rebound as nation emerges from lockdown**
- **Yet states still expect big shortfalls with Congress stalling**

State tax revenues in some parts of the U.S. are rebounding as the economy emerges from the coronavirus lockdown, a positive sign for governors and mayors who had been bracing for the biggest fiscal crisis in decades.

August sales-tax receipts in hard-hit New Jersey rose 3% from a year earlier and non-partisan legislative analysts are forecasting that revenue will exceed Governor Phil Murphy's projections by $1.4 billion for the fiscal year. California's revenue is exceeding forecasts, Georgia's collections are on the rise and Ohio's Cuyahoga County — home to Cleveland — dodged almost all of the devastating blow it once predicted.

The figures are an early sign that the worst economic collapse since World War II may not decimate governments' revenues as badly as some feared, potentially reducing the scale of budget cuts and tax increases that would exert a drag on the nation's recovery. It's also providing comfort to investors in the $3.9 trillion municipal-bond market who had anticipated that Congress would come through with hundreds of billions of dollars in aid, a prospect that is seen as increasingly unlikely until at least after the November election.

"There is no impending existential fiscal crisis that states are facing," said Ty Schoback, a senior municipal analyst at Columbia Threadneedle Investments. "That being said, we know from past recessions, states and locals experience a lagged effect on their tax revenues. So it's not to say they're in the clear as budget challenges will certainly persist."

States and cities are still contending with large budget shortfalls and government officials caution that the good news may be fleeting, given that the disappearance of enhanced unemployment benefits or a resurgence in the coronavirus outbreak could deal another setback to the economy. And because of the lag with which income taxes are collected, states have historically continued to face big deficits well after recessions end.

Beating Expectations

But so far, some are seeing that their tax base didn't erode as much as feared. California's revenue exceeded its estimates by $3.4 billion in July and August, giving the government 9% more than the budget reflected. Georgia's personal income-tax revenue rose 10% in August from a year earlier. And Cuyahoga County, which projected a 20% decline in sales-tax revenue, has seen collections fall just 1.6% through June.

“The numbers are coming in way better than we anticipated,” said Walter Parfejewiec, the budget director for the county. “We were assuming the numbers would be down the remainder of the year.”

Preliminary figures from 40 states show total state tax revenues were down by about $28 billion, or 7.5%, from March through July, the first five months of the pandemic, compared with the same period a year earlier, according to the Urban Institute. In fiscal year 2009, in the midst of the Great Recession, state tax revenue declined 8%, according to the National Association of State Budget Officers.

Look Ahead

Yet that doesn’t mean the toll is behind states, since full income-tax payments for 2020 income won’t be made until next year, said Brian Sigritz, director of state fiscal studies for the budget officers group.

“The expectation is still that the worst is yet to come,” Sigritz said.

The severity of the revenue drop so far has been lessened by the $2.2 trillion stimulus plan enacted in March that provided payroll support to small businesses, direct payments to families, and larger unemployment checks to millions of out of work Americans. The rescue package also gave the Federal Reserve the ability to intervene in the municipal market if needed.

But unique elements of the pandemic have also played a role. Income-tax payments haven’t dropped as much as anticipated because job losses have disproportionately affected lower-paid workers in the restaurant, retail and tourism sector. Higher paid white-collar workers who could work from home have kept earning and spending, unlike during the recession set off by the housing market collapse, when many high-paid finance and real estate workers lost jobs.

“This is a very weird recession,” said Jeffrey Dorfman, Georgia’s fiscal economist. “Nobody has data that fits this. Nobody’s statistical model can predict what’s going on.”

Lost Revenue

Still, the impact has been significant. The Urban Institute estimates that states will see a $125 billion revenue shortfall in fiscal 2021, with those particularly hard hit by the pandemic especially affected. On Monday, Moody’s Analytics lowered its forecast of the shortfalls facing states and cities and said that $200 to $400 billion in aid for them is more “practicable” for Congress. In April, the National Governors Association called on Congress to provide at least $500 billion to offset their lost revenue.

Despite the positive sales-tax bump, New Jersey’s income-tax revenue fell 5.3% in August from a year earlier. New York’s sales-tax revenue declined $1.3 billion, or 20%, for the first five months of the fiscal year, as a prolonged lockdown dashed tourism and shuttered restaurants and shops. Income tax withheld from paychecks has declined just 1.2% compared with the prior year, but estimated payments on capital gains and from small business owners and partnerships are lower by $1.3 billion, or 14%.

New York says it will have to cut $8 billion in aid to cities and schools without more federal help. New York City may be forced to cut 22,000 jobs, Mayor Bill de Blasio said.

Not everywhere is the outlook so dire. In Idaho, a rural state far less affected by the pandemic, the government’s revenue exceeded forecasts during July and August, leaving it expecting that its surplus could grow from $186 million at the start of the fiscal year to over $500 million by next June, said Alex Adams, administrator for the Idaho Division of Financial Management.

“We feel optimistic,” he said. “But cautiously optimistic.”

Bloomberg Economics

By Martin Z Braun and Amanda Albright

September 21, 2020, 6:30 AM PDT Updated on September 21, 2020, 1:09 PM PDT

Pandemic’s Uncertainties Hang Heavy Over Small City's Budget.

Budget pressures brought on by the coronavirus pandemic have already led local officials in Augusta, Maine to make some tough and cautious choices as they brace for the possibility of tax revenue declines and less state aid.

After the virus struck earlier this year, the city moved to eliminate 32 full- and part-time positions from its roughly 240-employee workforce.

City manager Bill Bridgeo says that Augusta is not in an immediate crisis when it comes to covering its expenses. “We’re not broke, we’ve still got a reasonable rainy day fund,” he told Route Fifty this week.

But as he takes stock of the position the city is in, he’s worried about the uncertainty that lies ahead as the pandemic drags on, hammering the economy. Just as unclear is whether Republicans and Democrats in Congress will ever agree on a bill to provide more federal financial assistance to states and localities.

“The biggest concern here, for the city of Augusta, is the future unknown” over the next year or 18 months, he said. “And how to ensure that we don’t misjudge and leave ourselves in a worse situation than we would otherwise be in if we had been a little more prudent.”

Bridgeo has worked as a city manager for about 40 years, the past 22 in Augusta, Maine’s capital city and home to about 19,000 residents. The city’s budget is around $65 million, about half of which goes to schools. Roughly half of Augusta’s revenues come from property taxes and about 37% come in the form of aid payments from the state.

Property taxes tend to provide a relatively stable source of tax revenue, at least early on in economic downturns. But Bridgeo notes that the city’s rate of property tax payments has slipped from a normal level of around 97% to somewhere closer to 93%. A 4% dip like that, while not huge, still adds up to about $1 million or so in revenue that the city was banking on that’s now in question.

A revenue issue that is potentially more distressing is whether Maine, to deal with its own budget gap, will cut aid to local governments.

Gov. Janet Mills, in a call with reporters this week that was organized by the American Federation of State, County and Municipal Employees, reiterated that Maine anticipates a $528 million revenue shortfall for the budget cycle ending next June 30. She said the state needs more federal aid to avoid the future possibility of damaging budget cuts.

Bridgeo, looking back to the 2007 to 2009 timeframe and the Great Recession, said the state reworked its spending in ways that were “calamitous” for localities. Augusta had to downsize its workforce during that downturn as well, Bridgeo said.

His view now is that if the state gets more federal dollars, which could prevent state aid payments to localities from getting slashed, or perhaps even beef them up a bit, the city is likely to be okay. “We could be just fine,” he said. “If, on the other hand, that doesn’t happen, and the state has to retrench, then there’s no way that won’t have a negative effect on our operations.”

An added twist to the financial uncertainty Augusta is dealing with is that the city owns and operates a civic center where events like conferences, concerts and trade shows are held. Nationwide, these types of events have been canceled as Covid-19, the highly contagious respiratory disease the virus causes, remains a public health threat.

For Augusta’s civic center, that means revenues have dried up and the city is faced with the prospect of having to backfill the center’s budget from the general fund. In the fiscal year ending June 30, the civic center was about $300,000 in the red after it more or less shut down in March. The shortfall is expected to grow to $1.5 million in the fiscal year ending next June.

Some city employees who were laid off worked at the civic center. But Bridgeo emphasized that other layoffs are affecting services that people in the community continue to rely on.

For example, he said, the city cut one of its three code enforcement officers, who oversee building, code and minimum housing standard inspections. One fewer person on this team means it can take longer for the city to send someone out to investigate a complaint about bed bugs at an apartment building or to conduct a required inspection for a construction project.

Three full-time and 10 part-time library employees were also let go. Child Care Bureau workers were laid off as well, five vacant heavy equipment operator and truck driver positions in the public works department were left unfilled. The city also decided not to fill an empty patrol officer slot in the police department.

For a small city government, job cuts like these are painful. “It’s not such a big organization that I don’t know these people,” Bridgeo said. The hope is that let-go workers will be brought back once the pandemic eases and the city’s financial outlook improves. In addition to the layoffs, city staff who kept their jobs will have to take 10 unpaid furlough days over the coming year.

The city has also added a couple of jobs to help manage virus-related risks, like a receptionist at city hall who makes sure that too many people aren’t entering the building at one time, and a custodial worker who focuses on keeping surfaces in the building disinfected.

Bridgeo said the current budget slump is in some ways similar to the Great Recession, but that the last time around “the future wasn’t as murky or foggy” as it is now. And, unlike a downturn caused by a housing finance crash, the virus involves a life-threatening disease that adds a whole other layer of public health challenges for the city.

“It’s doubly complicated because of the nature of what’s causing the problem,” Bridgeo said.

Route Fifty

By Bill Lucia

SEPTEMBER 23, 2020

[Local Officials Say They Need More Time to Spend CARES Act Money, as Future Aid Remains in Doubt.]

State and local governments are up against a Dec. 30 deadline to use the coronavirus relief money, a timeframe that many local officials say should be extended.

Local officials say a looming end-of-year deadline for their governments to use hundreds of millions of dollars in federal coronavirus aid could force them to unnecessarily rush spending over the coming three months and will limit them from spreading the money into next year when the virus is likely to still be a threat.

It would be immensely helpful, they say, if the federal government pushed the cutoff date to use the money from Dec. 30, out into 2021.

"One of the best things the federal government could do for us, in Hamilton County, would be to extend the time that we can use our current allocation so that we can make sure these dollars get to where they're needed," said Jeff Aluotto, the county administrator in Hamilton County, Ohio, home to Cincinnati, and a recipient of about $142 million of the federal relief funds.

City and county officials in places that received the direct federal aid say that the money has been crucial for covering public health costs and extending a financial lifeline to struggling businesses and residents at a time when government budgets are otherwise crunched. But along with getting more time to dole out relief dollars, some officials say they could still use additional flexibility to cover costs not currently allowed by the program.

The money is coming from the Coronavirus Relief Fund, which was created under a law President Trump signed in March known as the CARES Act. The fund included $139 billion in aid to states, as well as localities with over 500,000 residents.

"We could not have responded to the pandemic without this money," said Maricopa County, Arizona assistant county manager Lee Ann Bohn. With about 4 million residents and a roughly $2.5 billion budget in recent years, the county received $398 million. That money was channeled into a variety of programs, including coronavirus testing, small business assistance and aid to renters at risk of eviction.

Bohn also said moving the deadline, at least until next June 30, would be a huge help. "Covid does not end on December 30, but our CARES Act money does," she said.

There are also questions about how to keep the programs that the relief money is now paying for afloat if the current slug of aid money runs out and is not replenished. This point has been hammered repeatedly by associations representing state and local governments, lobbying Congress to come up with more aid. But Democrats and Republicans have so far failed to agree on a deal to provide another round of federal support to states and localities. Republicans in the Senate have been generally unsupportive of the idea.

"We really haven't figured out what happens after December 30 in terms of our economic recovery support that we're providing, some of the food assistance, some of the housing assistance that we're providing through the CRF-funded programs," said Margaret Danuser, Denver's deputy chief financial officer.

Danuser noted that the economic slowdown and the fact that people are going out and traveling less as they try to avoid the virus, is hurting Denver's budget. "We rely significantly on sales and use tax and lodgers tax and that came to a screeching halt," she said. This means there's not a ton of extra cash available to spend on the programs that the relief funding has gone to.

"We are trying to shove a lot through the pipeline right now," Danuser said. "A little bit more breathing room in terms of the timeframe to spend the dollars, as well as maybe some additional flexibility around the use of the funds, would be certainly very helpful."

Some officials also make a case—one made repeatedly by state and local government advocates in past months—that the relief funds would be more useful if they could be used to backfill parts of budgets that are getting eroded by the virus-driven economic downturn, but are not necessarily tied directly to the pandemic response.

Jefferson County, Alabama is planning to funnel about $27 million of the $114 million in aid it received to 35 cities within its borders. County manager Tony Petelos said the county and cities would benefit from being able to use at least some of the federal money to shore up their budgets as tax revenues fall short of earlier expectations.

He endorsed a proposal that Republicans in the U.S. Senate have put forward that would allow a portion of the relief funds local governments received to be used this way.

ROUTE FIFTY

BILL LUCIA

SEPTEMBER 26, 2020

New Census Data Shows States Beat Revenue Expectations in FY 2020.

Key Findings

- State tax collections declined 5.5 percent in FY 2020 according to new Census data, though actual losses are likely to be significantly lower after accounting for the shifting of income tax collections into the current fiscal year due to delayed tax filing deadlines.
- After a sharp initial drop under stay-at-home orders, sales tax collections have rebounded, closing the year down 0.3 percent with indications of growth in early FY 2021.
- Individual income tax collections dropped 10.1 percent year-over-year, but most of this can be attributed to timing effects. However, states should expect sluggish income tax collections in FY 2021.
- Corporate income taxes plummeted 17.5 percent in FY 2020 as businesses went into the red, but fortunately for states, they account for less than 5 percent of state tax revenue.
- Other state taxes suffered as the activities they tax—driving, tourism, and entertainment among them—came to a standstill, and these may take time to recover.
- Local sales and property taxes have proven highly resilient thus far, though municipalities which impose local income taxes may experience distress as employees work remotely from outside their borders.
- The latest tax collection data are consistent with prior projections of FYs 2020 and 2021 underperforming initial projections by just under $200 billion (a decline of $121 billion compared to a FY 2019 baseline), which would represent a loss of far lower magnitude than many initially feared.

Download Full Report.

Tax Foundation

by Jared Walczak

September 18, 2020

Fitch: True Unemployment Effects on US States Masked by Workforce Exits

Fitch Ratings-New York-24 September 2020: In addition to large swings in headline unemployment figures this year, material labor force exits are complicating the picture for US states. Certain states have seen an outsized proportion of their populations drop out of the labor force since the onset of the coronavirus pandemic, clouding an already high and uncertain unemployment landscape, says Fitch Ratings.

Focusing on the official unemployment rate alone may understate the pressure on states' economic and budget situations. While those not in the labor force are a small part of the employment picture for most states, they likely compound the negative fiscal effects of job losses. Those who have exited the labor force are typically not generating taxable income or purchasing as many taxable goods and services, and are also more likely to require publicly-funded social services such as Medicaid.

Continue reading.

How the Muni Bond Market Is Preventing Economic Recovery.

The role of Wall Street financiers in forcing austerity on state and local governments. This is The COVID-19 Daily Report for September 25, 2020.

Federal Reserve chair Jerome Powell and Treasury Secretary Steven Mnuchin spent the week fielding questions from Congress about the effect of their bailout rescue and whether it has delivered a broadly shared recovery. Even those who generally think the Fed has done a good job have criticized the orientation around the Municipal Liquidity Facility (MLF), which can offer direct loans to cities and states suffering through revenue shortfalls. Because of the counter-productive and unnecessary penalty rate and generally poor terms, the MLF has only been used twice, leaving close to $500 billion in borrowing authority unused.

According to the Brookings Institution, revenues will decline by between $467 billion and $544 billion between now and 2022. This compares favorably to the lending authority. And the Fed has tools to offer short-term, endlessly rolled-over loans under Section 14, outside the MLF, and give states and cities what they need to survive, and not completely stunt economic recovery.

"It's driving me crazy, it's almost like a fiduciary duty violation," said Cornell University's Robert Hockett, who has been pressuring the Fed to get more creative with its state and local lending authority. Given that the Fed has a mandate to maximize employment, and we know that state and local austerity was a lead weight on employment and economic growth during the Great Recession, it's hard to argue his point. "It's not even like a long time ago we have to look back, it's within living memory for us," Hockett said.

Continue reading.

PROSPECT.ORG

BY DAVID DAYEN SEPTEMBER 25, 2020

Vanguard, BlackRock Eye Munis and Junk as High-Grade Yields Drop.

- **Investment-grade company notes are yielding just 1.97%**
- **Fed's loose money policy pushes returns lower across markets**

Investment-grade corporate bond yields are so low that money managers like Vanguard Group and BlackRock Inc. are gravitating to taxable muni bonds, junk debt and other securities that can offer higher returns.

They can earn more than two percentage points of additional yield in some cases, by looking beyond their usual universe. That's enough to essentially double what they'd get on the average high-grade corporate bond. Their efforts underscore how the Federal Reserve's loose money policy and programs to support higher-quality company notes is forcing investors to look further afield for returns.

Vanguard is looking at taxable muni bonds, particularly longer-dated securities, according to Arvind Narayanan, senior portfolio manager on Vanguard's active investment-grade credit strategies. An uninsured taxable general obligation municipal bond maturing in 30 years, rated AAA, might yield around 2.5%, compared with an average yield of around 1.97% as of Wednesday for an investment-grade note maturing in about 12 years and rated closer to the bottom of the high-grade rating spectrum.

"To generate returns now, investors have to buy either longer-dated bonds or lower-rated credits," said Narayanan, whose firm managed about $6.3 trillion at the end of July. "We favor very specific stories that we believe can thrive in a slow and uneven economic recovery."

Yields are so low that high-grade investors are looking elsewhere
Taxable muni bonds can be a good example but it's important to scrutinize the credits because there has been so much of the debt sold recently, Narayanan said. Governments and public entities have sold more than $94 billion in debt subject to federal income taxes so far this year, according to data collected by Bloomberg, the most since 2010.

Money managers that buy junk bonds now are betting on a tricky market. The notes suffered their biggest loss on Monday since June 11, according to Bloomberg Barclays index data, as equities have sold off and Covid-19 concerns have flared up again. But issuance for the year also reached a record this week as companies look to refinance and money managers clamber for yield.

Western Asset Management Co. is looking at relatively high-rated junk bonds, focusing on companies with stronger businesses and manageable debt loads that can survive Covid-19, according to Kurt Halvorson, an investment-grade portfolio manager at the firm. The roughly $470 billion asset manager is also looking at battered industries like air travel, leisure, gaming and autos for bargains.

“Those are spots we’re certainly willing to look at if we’re being compensated for the risk that we’re taking,” Halvorson said. “You’ve got to ratchet up your due diligence and really dig into the balance sheets.”

BMO Global Asset Management, which usually buys high-grade debt for a number of its portfolios, has also been digging into junk credits in industries outside of energy, such as cruises, airlines and retail. For example, Delta Air Lines Inc. notes due 2029, rated toward the top of the junk spectrum, were yielding about 5.9% on Wednesday, more than 2.5 percentage points above the yield on Southwest Airlines Co. notes due 2030, which are toward the bottom of the high-grade scale.

“We will go anywhere,” said Scott Kimball, a portfolio manager at the firm, which manages about $100 billion of fixed-income assets.

Not all investment firms have much flexibility in that regard. Many money managers are limited by their agreements with their investors as to how much high-yield debt they can buy, for example.

Herd Risk
Even so, the difference between the default risk for a bond at the bottom of the investment-grade scale and the top of the high-yield range isn’t necessarily the most important part of credit analysis in a Covid-19 world, said Rick Rieder, chief investment officer of global fixed income at BlackRock Inc.

“Today it doesn’t matter what the rating is. I’d rather buy a BB company, health care or cable, some of the consumer oriented and housing than buy an energy company that’s investment-grade,” Rieder said at a conference last week. “It’s all about the individual sector.”

Asset-backed securities are also worth looking at, Rieder said, noting that yields there can still be respectable. BlackRock manages about $2.4 trillion of fixed-income assets.

Investors may be wise to look at other kinds of debt outside of the $6.7 trillion U.S. investment-grade corporate universe now, given how high valuations are, according to Erin Lyons, a credit strategist at CreditSights. If companies’ credit profiles start to slide, or the market gets nervous about the lower rungs of investment-grade, there could be a selloff, she said.

“The risk is the herd moves in the opposite direction and you get a wave of selling,” she said.

Bloomberg Markets

By David Caleb Mutua

September 24, 2020, 3:00 AM PDT Updated on September 24, 2020, 7:01 AM PDT

— With assistance by Danielle Moran

Muni Market Anemic to Stimulus Back-And-Forth: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence: Pelosi and Mnuchin may revive stimulus talks; toll road traffic. Hosted by Paul Sweeney and Vonnie Quinn.

Play Episode

Bloomberg Radio

September 25, 2020 — 11:35 AM PDT

Municipal Bond Market Continues to Face Risks.

While fixed-income seekers scramble to find attractive yield-generating opportunities in this lower-for-longer rate environment, bond ETF investors have looked to municipal bonds to supplement their portfolios, but the muni market is not without its risks.

“Munis are relatively attractive, but not absolutely. While they continue to enjoy an after-tax yield advantage across the entire yield curve, they face several risks from an absolute perspective,” Joe Kalish, chief global macro strategist at Ned Davis Research, said in a note.

Specifically, Kalish underscored the fiscal stalemate in Washington. If additional fiscal support stalls in Congress, some states, cities, and projects could face funding problems.

“That’s why we would stick to the higher-rated munis for now,” Kalish said. “In fact, lower quality munis have failed to make up the relative performance drop since the beginning of the pandemic.”

Municipal securities are near their lowest yields compared to their duration in over the past 20 years.

“Although we are not looking for yields to move very much in the near-term, the yield cushion is tiny relative to the interest rate risk,” Kalish said.

Municipal bond supply was also at a record high and fairly strong even before Labor Day. On the other hand. demand has been on the decline. Meanwhile, the continued supply from the Treasury and corporate sectors will also pressure munis as a source of income.

Kalish pointed out that dealers have been de-risking, paring their inventories, and increasing liquidity risk. Cash levels among funds, though, remain relatively high.

Lastly, seasonal factors are negative over the next couple of months and have pressured the muni market.

Looking ahead, some analysts even predicted that the muni market could suffer from downgrades. Prices across most of the market remain at or near pre-pandemic highs even as borrowers’ finances have grown weaker, the Wall Street Journal reports. Moody’s Investors Service already lowered its outlook to negative on all muni sectors except for housing-finance agencies and water, sewer, and public power.

“It’s amazing that we’ve sustained six months of being shut down to some degree with very minimal rating actions,” Lisa Washburn, a managing director at Municipal Market Analytics, told the WSJ.

ETF TRENDS

by MAX CHEN on SEPTEMBER 22, 2020

[Franklin Templeton Dir. of Municipal Bonds on Market Opportunities: 'Supply Demand is Actually Quite Strong']

Ben Barber, Director of Municipal Bonds at Franklin Templeton, joins The Final Round to discuss the overall health of the municipal bonds market and what the 2020 election could mean for it going forward.

– All right. Let's switch our focus and our attention to the muni market. State and city budgets have taken a huge hit from the coronavirus pandemic, but the muni bond market, at least for now, seems to be holding up OK. For more on that, we want to bring in our next guest. We have Ben Barber. He's the Director of Municipal Bonds at Franklin Templeton. And Ben, it's great to have you on the show. Help us understand what's going on in the muni bond market. Because on the one hand, I think there is some hesitation when you see what's happening on the state and local level. But on the other hand, investors continue to pour money into muni bonds. So why do you think that is and where are you seeing opportunity?

BEN BARBER: Yeah. Thanks, Shawna. I appreciate the opportunity. I think when we talk about the muni market, we generally start with two main factors in trying to figure out evaluations. We talk about technicals, nothing more than supply and demand. And we talk about credit fundamentals. Just in general, how's the muni market doing from a downgrade, upgrade, maybe in a default perspective. And then we layer those two things against each other and try to come up with a view on evaluations. And that's usually going to be munis versus something else in fixed income. Usually that's going to be the treasured market. So unpacking that a little bit, thinking about technical. Supply and demand is actually quite strong and favorable towards the muni market. Supply has generally been shrinking on average over the last 10 years. Meaning the muni market has actually had more bonds maturing and/or being called out of the market, then are coming in the primary market. So that sets up a pretty positive technical on the supply side.

On the demand side, in general, flows have been very strong into open end muni bond funds, which is probably your best proxy for demand in the muni market. Over the last three or four years or so it's been pretty positive. At the beginning of the COVID lock down, of course, it turned horribly negative and we had record breaking outflows out of muni bond funds. But since then we've been back to positive territory. This year, for example, just year to date, the open end muni bond fund asset class is positive to the tune of about $15 billion of net new flow into open end muni bond funds on a base of about 800 billion or so in open end funds overall. So the technical environment's actually pretty strong. The credit fundamental environment, we focus on quite a bit. And I would say that overall the muni market continues to be very, very high credit quality asset class, which is probably one of the main reasons why people are attracted to the muni market in the first place.

Defaults continue to be exceedingly low in the investment grade space of munis. They're almost non-existent. In the high yield space of munis, of course, they're more frequent but still a little low single digits on an annualized basis. Very far superior to what happens in the default rate, for example, in the corporate fixed income space. And so munis overall, from a technical standpoint, from a credit fundamentals standpoint, lineup very well right now. From a valuation perspective, it's very interesting to think through that muni yields right now are higher than treasury yields, up and down the yield curve. A lot of people will focus on that ratio. Muni yields divided by treasury yields, it's comparable portions of the yield curve. And it's very interesting to note that ratio right now is north of 100% without taking into consideration tax exemption on the income flow of munis. So munis are cheap on a relative basis right now. They continue to be very high credit quality and the technicals lineup quite well. So I think those are some of the main reasons for demand into the asset class.

RICK NEWMAN: Hi, Ben. Rick Newman here. Two questions for you. First, even before the pandemic there were some concerns about Illinois' fiscal stability. What is going on there? And part of what the next stimulus bill, if it ever happens, is supposed to include is a lot of aid for states and cities. Do states and cities need that from a fiscal stability perspective? Or will they be OK without it?

BEN BARBER: It's a great question, Rick. Thank you. At the beginning of the COVID lockdown of course, liquidity got very, very difficult in the muni market and a lot of people worried about market access for municipalities overall. Soon thereafter, I think it was the end of May, the fed came up with their plan called the MLF, the Municipal Liquidity Facility, which really bolstered the municipal market and the liquidity thereof. So that overall program has a capacity of $500 billion dollars. It's been in existence since late May and only a billion seven of that has been tapped so far. One of the issuers was Illinois, the second was the New York MTA, Metropolitan Transit Authority.

So market access is quite good and remains very, very strong in munis. I think the MLF, the Municipal Liquidity Facility, would be viewed already as a success, even though hardly any municipal issuers are tapping into it. And I think it's just by virtue of the fed offering that, that really helped market liquidity quite a bit. I think that your question specifically about Illinois and other issuers that are having more trouble from a credit fundamental perspective is spot on. And I think the market is very well attuned to those risks. The muni market is pretty good at penalizing the bad actors in our market and rewarding the good in terms of credit spreads and the levels at which these different issuers trade in the marketplace. So it's not lost in the market that Illinois is going through tremendous pressure over the last three, four, five years. But in those pressures can come opportunities, and that's what we on the research side of the municipal bond market at Franklin Templeton really, really seek to dig into.

Yahoo Finance

September 22, 2020

Fitch: Revenue Pressures Persist for North American Airports & Airlines

Related Fitch Ratings Content: North American Aviation Update: Airports and Airlines (A Tepid Recovery Raises Industry Risk Profile Despite Defensive Measures)

Fitch Ratings-New York-22 September 2020: The prolonged recovery period in both the U.S. and Canada will intensify revenue and cost pressures on North American airports and airlines, according to Fitch Ratings in a new report.

The coronavirus pandemic continues to grip the aviation sector and the global economy. Passenger traffic, which fell by 95% during the first two months of the pandemic, has only recovered to roughly a 65%-75% reduction level compared with the same period in the prior year. Fitch projects traffic volumes will remain 75% lower this quarter and remain 60% lower for the fourth quarter. Further, government actions, airline financial health and broader economic factors muddy the prospects for recovery in 2021 and beyond.

'A new normal in air travel has materialized and will persist over the next several years, exacerbated in part by general decline in demand coupled with risks to continued use of imposed travel restrictions at national and state levels,' said Fitch Senior Director Seth Lehman. 'Domestic and leisure-oriented travel are best positioned to demonstrate earlier recovery while international and business-related travel will likely take far longer.'

'For the airlines, the prolonged recovery will at least push a return to more normalized credit metrics beyond 2021, and in some cases will have negative rating impacts, though near-term risks have been mitigated by large amounts of new liquidity that have been raised to date,' said Joe Rohlena a Senior Director in Fitch's corporates group.

Airport revenues have become increasingly dependent on revenue streams generated from terminal concessions, parking and rental car activities, which have allowed airport costs to remain in check. Also helping to stem the coronavirus tide has been the efforts of North American airlines in raising capital since the onset of the pandemic. This has kept rating actions fairly limited to date, with most adjustments at one to two notch downgrades, Negative Outlook revisions or placement of Rating Watches. That said, risks for both airports and airlines will continue to elevate as adverse conditions linger. Absent government financial infusions, key metrics will weaken over a sustained period of time.

'North American Aviation Update: Airports and Airlines' is available at www.fitchratings.com.

Contact:

Seth Lehman (Airports)
Senior Director
+1-212-908-0755
Fitch Ratings, Inc.
300 W 57th St.
New York, NY 10019

Jeffrey Lack (Airports)
Director
+1-312-368-3171

Joseph Rohlena, CFA (Airlines)
Senior Director
+1-312-368-3112

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: NFP Hospitals' Liquidity Supports Ability to Repay CARES Act Loans

Fitch Ratings-New York/Austin-15 September 2020: Repayment of loans provided under the Coronavirus Aid, Relief and Economic Security (CARES) Act through the Centers for Medicare & Medicaid Services (CMS), is expected to begin soon. This will not, however, materially affect the financial profiles of our rated not-for-profit (NFP) healthcare providers, Fitch Ratings says. Providers' ratings are supported by ample liquidity and Fitch's expectations are for a long-term volume recovery due to the essential nature of services. Liquidity will gradually decline as advances are repaid but full and timely repayment is part of our rating assumptions for all issuers and we anticipate most providers will ultimately maintain liquidity profiles consistent with current rating levels based on our expectations for continued volume recovery in the hospital sector.

The coronavirus pandemic resulted in significantly lower volumes and associated top-line revenue, as the most profitable elective procedures were cancelled in an effort to preserve personal protective equipment (PPE) and increase bed capacity to care for patients infected with the coronavirus. While not anticipated, loan repayments in the form of reductions in Medicare payments would only pressure ratings if volume recovery is markedly slower than expected or if there is a significant rise in infections that results in another round of elective procedure curtailment.

NFP hospitals are already showing a strong recovery in elective patient volumes. Fitch-rated issuers in states that reopened in late April or early May are seeing overall volumes at approximately 80% to 90% of pre-coronavirus levels for most services, with further recovery expected. While there is still some patient hesitancy to seek non-coronavirus medical care, particularly visits to the emergency department, we believe that a return to near pre-coronavirus levels are possible by year’s end, however downside risks remain given the volatile nature of the coronavirus itself.

While stimulus funds do not need to be repaid if certain terms and conditions are met, the Medicare Accelerated and Advance Payment Programs (AAP) administered by the CMS that were expanded to provide up to six months of advance Medicare payments as temporary emergency loans to stabilize provider cash flow, will be repaid. The AAP impact had more of an effect for those hospitals that receive the largest amount of Medicare payments and for those hospitals that had a lower absolute level of liquidity prior to the coronavirus. The initial timeline for repayment of the Medicare advances was extended and may be extended again. Some members of Congress proposed forgiving the loans and having them converted into grants as part of a new federal coronavirus aid package. Congress does not yet seem to be close to an agreement and, in the meantime, loan repayments are expected to begin soon.

The amounts provided under the AAP account for as little as 10% of unrestricted liquidity for some of Fitch-rated issuers, although this increases to almost 30% for some issuers with lower levels of liquidity. In terms of total revenues, funds under the AAP range from a low of around 5% of total revenues to around 15%, depending on a hospital’s commensurate amount of Medicare revenue.

Fitch excludes AAP funds from unrestricted liquidity and, hence, all of our key rating metrics. Fitch assumes the sector does not gain relief on the AAP repayment terms and providers will generally be subject to the repayment schedule.

Contact:

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.

NABL Releases Charter School Financings Paper.

Financings of charter school facilities through the issuance of municipal debt obligations have become increasingly prevalent since the first charter school financings were completed in the late 1980s. As more jurisdictions adopt legislation authorizing the creation of and financial support for charter schools, it is likely that these financings will continue and increase in prevalence. Charter school financings raise many unique issues under local, state and federal law.

NABL has crafted a paper that identifies many of the more common issues in charter school financings as they pertain to local, state and federal law.

You can view the paper here.

National Association of Bond Lawyers

U.S. Municipalities Selling Taxable Bonds at Near Record Pace.

- **States and local governments have sold $92 billion this year**
- **Low interest rates push borrowers to refinance tax-exempt debt**

State and local governments haven't sold this many taxable bonds in a decade.

The sellers have issued $92 billion in debt subject to federal income taxes so far this year, according to data collected by Bloomberg. That's almost a third of all the long-term municipal bonds sold in 2020 and is the most since 2010, when the Build America Bond program sunset at the end of that year.

"I'm astonished at the pace of taxable municipal bond sales," said Kathleen McNamara, a senior municipal strategist at UBS's wealth management arm.

Sales of taxable municipal bonds were on the rise late last year, a byproduct of falling interest rates and President Donald Trump's 2017 tax-cut law that took away the power of states and cities to sell tax-exempt bonds for a key refinancing technique known as advance refunding. But the pace surged this year after borrowing costs fell to record lows, allowing issuers to refinance debt with taxable securities that cost less than what they are paying on outstanding tax-exempt bonds.

"As long as taxable yields remain low and tax-exempt advance refundings remain restricted, municipalities are likely to continue to take advantage of refinancing opportunities through the taxable municipal market in the months ahead," McNamara, along with Thomas McLoughlin and other members of UBS's wealth management research team wrote in a note to clients published Sept. 10.

States and local governments sold $154 billion in taxable bonds in 2010 as the Build America Bond program — created under President Barack Obama to subsidize public works projects and jump start the economy — shut down at the end of that year.

Nisha Patel, a portfolio manager at Parametric Portfolio Associates LLC said it's possible this year's volume could top that, especially if Congress doesn't pass another round of stimulus payments and cash-strapped municipal governments trim spending by refinancing higher-yielding debt.

"It certainly could happen," she said. "I wouldn't be surprised if we see more issuers come to the market well before election time saying 'Let's make sure we can issue it at these low rates just in case we need it.'"

Taxable muni bond yields fall and spur more refinancings
Taxable muni bonds generally have longer durations and lower default rates than corporate bonds, making them a useful substitute for crossover buyers, according to the UBS analysts. Those attributes, combined with the surge of new sales, have opened the market to overseas investors who wouldn't benefit from the tax-exemption anyway. International buyers hold about $107 billion in municipal securities as of the first quarter, according to Federal Reserve Flow of Funds data.

A 10-year AA-rated taxable municipal bond yields about 1.64%, or 21-basis points higher than a 10-year AA-rated corporate bond, according to Bloomberg BVAL pricing data. That's luring in investors who normally wouldn't buy municipals, especially as corporate bond yields remain depressed because of Federal Reserve intervention.

"This is all about yield pickup and the associating risk and making sure you are getting compensated for it," Patel said. "That is resonating with non-traditional muni buyers who wouldn't consider buying them otherwise."

Bloomberg Markets

By Danielle Moran

September 15, 2020, 10:49 AM PDT

Muni-Bond Downgrades Rare Even With Few Spared Pandemic's Blows.

- **Moody's and S&P have downgraded about 1% of rated entities**
- **Rating cuts more frequent in 2018 amid economic expansion**

Even as America's states and cities brace for hundreds of billions of dollars tax collections to disappear, the two biggest credit-rating companies have been slow to downgrade municipal debt amid increasing risk for the $3.9 trillion market.

Since the pandemic raced through the U.S., S&P Global Ratings Inc. and Moody's Investors Service have downgraded about 1% of the municipal borrowers they rate, even as sports stadiums close, college towns and dormitories are emptied after some campuses canceled in-person classes, and the steep drop in travel batters airports and tourism-driven cities.

Halfway through September, Moody's has cut the ratings of about 125 of the approximately 12,000 public finance entities it tracks, 90 fewer than the second and third quarters of 2018, when the economy was eight years into a record expansion. S&P lowered those on 175 of about 20,000 borrowers since late March.

Between them, they downgraded just three states: Hawaii, by Moody's; Alaska and Wyoming by S&P. The biggest city downgraded by S&P was Akron, Ohio.

"Does it make sense that we have a once-in a century pandemic and the rating agencies haven't done anything?" said Vikram Rai, a municipal-bond analyst at Citigroup Inc. "They know about the deterioration. They just haven't acted on it."

The lack of downgrades has contributed to the relative calm in the municipal-securities market, where investors have shaken-off a steady drumbeat of negative news about the financial impacts of the pandemic. Prices have rallied since March, with investors pouring billions back into mutual funds as the Federal Reserve cut interest rates.

Measured Pace

But the market is dominated by individual investors, who tend to move as a herd and likely rely more heavily on bond rating actions than professional fund managers. That leaves it vulnerable if issuers are hit with a wave of downgrades, particularly amid the uncertainty cast by the presidential election.

S&P and Moody's defended their measured pace, saying states and municipalities were much stronger going into this recession than previous downturns and have many tools at their disposal to help through periods of fiscal stress.

And in some municipalities, the expected doomsday hasn't arrived, in part due to the federal stimulus measure that temporarily boosted unemployment benefits by $600 a week. Cuyahoga County, home to Cleveland, forecast a 20% decline in sales tax revenue because of the coronavirus. Yet they're down 1.6% through June, although reduction or elimination of enhanced unemployment benefits could hit collections.

"It's a very fluid situation," said Robin Prunty, a managing director at S&P. "What will it look like on the other side of this and is it a short-term budget disruption or longer term structural issue? Those are two different things."

Negative Outlooks

The companies have lowered their outlooks on many corners of the municipal market, putting investors on alert for downgrades if the situation continues to worsen.

Moody's lowered its outlook to negative on all sectors except for housing finance agencies and public electric and water utilities, signaling a greater chance of downgrade in the next 12 to 24 months. The second quarter also marked the first in three years that Moody's public finance downgrades outpaced upgrades.

S&P assigned a negative outlook to about 1,500 entities, meaning there's a one in three chance a rating will change in as long as two years.

States have been helped by savings that built up during the long expansion and an influx of federal aid. Their reserves were an estimated 8% of expenses at the end of fiscal 2020, nearly double the level before the 2008-2009 Great Recession, according to the National Association of State Budget Officers. Property taxes, which back most debt issued by cities, towns and counties, have benefited from a housing-sales boom stimulated by low mortgage rates.

Stimulus Boost

In addition to tapping rainy day funds, municipal coffers were bolstered by the Cares Act, which sent $150 billion to the states and more than $160 billion for hospitals, airports, transit, schools and universities.

“In the past, including the Great Recession, we’ve seen that most government credits have strong resilience because they have flexibility to manage their finances,” said Tim Blake, a managing director at Moody’s. “The outlook for how long this stress will last, how deep, is very uncertain because it’s a unique health-driven crisis.”

Moody’s doesn’t move ratings based on the ups and downs of the economic cycle, only when there’s a “severe” change to credit quality, said Naomi Richman, another Moody’s managing director. The company has five states on negative outlook: New York, New Jersey, Illinois, Nevada, and Alaska.

“Our ratings aren’t intended to reflect the worst position at this point in time — it’s a forward look,” said Richman.

Looming Election

Citigroup’s Rai speculated that rating companies have held back from downgrades, waiting to see whether Congress passes another stimulus package and for the results of the presidential election. Although prospects for more state and muni aid are “zero” according to Rai, a Democratic sweep of the presidency and Congress would likely result in more cash for municipalities.

“They’re waiting for some event so they don’t have to go and reverse their actions,” he said.

Blake rejected Rai’s contention, saying Moody’s ratings are based on economic data not political assumptions. The company doesn’t have plans for multi-notch downgrades, he said.

Failure to get more stimulus will negatively affect municipalities but won’t by itself spur rating changes, Moody’s and S&P analysts said. What’s more important are the actions that states and local governments take to balance their budgets and preserve cash.

“If the federal government announced tomorrow, no more money and we’re going to do this premature austerity, we’re not going to go ahead the next day and say everyone’s done,” said Geoff Buswick, a managing director at S&P. “We go back and say how are you going to address this gap.”

Looking Ahead

So far, states haven’t pushed down draconian cuts onto local governments, although that could change, Buswick said. New York says it will have to cut $8 billion in local aid without more federal aid while New York City may be forced to cut 22,000 jobs. Meanwhile, New Jersey, which is already the second-lowest rated state plans to borrow $4 billion to balance its budget, adding more pressure to its A- rating. S&P doesn’t expect multi-notch downgrades for states and it’s unlikely they will be necessary for municipalities either, Buswick said.

The pace of employment recovery is the most important factor for municipal credit ratings, Blake said.

“In each passing month, it’s looking like the rebound of employment may be more extended,” he said. “If it becomes very clear that it’s going to be a very extended recovery, that distress is more intense, we will have to screen our ratings again.”

Bloomberg Markets

By Martin Z Braun

September 14, 2020, 9:36 AM PDT

US Mayors are 'Under More Pressure Now Than Ever Before': Ooll

A new survey of U.S. mayors finds two conflicting trends that point to intense challenges for cities in the years ahead.

Most mayors – 69% – report the need to invest in infrastructure as a top and immediate priority to recover from the pandemic.

At the same time, 98% expect their city's operating budget will decline over the next 12-18 months. Most of the respondents attributed all or most of the decline to the COVID-19 pandemic.

In all, 96% of mayors say they are "under more pressure now than ever before."

A good example came on Wednesday when New York City Mayor Bill de Blasio announced that all employees in his office, including himself, would have to take a one-week furlough sometime between October and next March to save the city money. "[I]t is with pain that I say they and their families will lose a week's pay" the Mayor said.

Moves like New York's come at the same time as cities are feeling pressure to invest in the economic recovery.

"Mayors know that few things can revitalize an economy and a city like investments in modern infrastructure," said Louisville Mayor Greg Fischer, the president of the U.S. Conference of Mayors, in a statement. "That's why it's so important for lawmakers in Washington to appreciate the severity of the budget crisis that cities are facing as a direct result of the virus," he said.

This survey was conducted online by The Harris Poll on behalf of the U.S. Conference of Mayors and Siemens U.S.A. The survey included 124 mayors across 35 states from cities with populations of 30,000 or higher.

During an appearance on Yahoo Finance, Barbara Humpton, the CEO of Siemens USA, noted that the mayors see infrastructure as "not just as a way to create jobs but actually to really enable economic growth" she said adding that partnerships with companies like Siemens may be a way for cities to take advantage of this as "both a near term and a long term opportunity."

Yahoo Finance

by Ben Werschkul

Wed, September 16, 2020, 5:11 AM PDT

Municipal Bond Investors Have to Share the Burden in State Bailouts.

When Greece had its government debt crisis a decade ago, it received several rounds for bailout funding from the European Commission, the European Central Bank, and the International Monetary Fund. Key to the negotiations were not only the extent to which Greece would reform its public finances, but also how much the existing owners of its debt would have to suffer losses before the country received the bailout funding. The private investors in Greek bonds ultimately took haircuts that reduced the value of their positions by 59 percent in 2012.

Now in the United States, many voices, including former Federal Reserve Chairman Ben Bernanke, are calling on the federal government to provide massive transfers for bailouts of state and local governments as they face their own debt crisis. House Speaker Nancy Pelosi has also called for an additional $1 trillion. The argument goes that the coronavirus pandemic has slammed state and local revenues, and extensive additional federal support is now necessary to support spending.

Absent among these requests has been any mention of the existing bond holders, the creditors who voluntarily loaned nearly $4 trillion to state and local governments in the municipal bond market. The federal government supports this market through a valuable tax break, as the vast majority of these bonds pay tax free interest to the holders.

Around 30 percent of the municipal bond market are general obligation bonds backed by the general revenue of the issuing state, county or city, as opposed to revenue bonds that are linked to specific revenue streams. The $1 trillion in outstanding general obligation bonds are unsecured, and their holders are not asked to share in the burden.

Proponents of past bailouts in both the United States and the European Union have cited worries that allowing creditors to suffer losses might unleash or worsen a financial crisis. These assertions are in many cases dubious but, even taking this argument at face value, it would be hard to apply to municipal bonds in the current situation.

When the debt crisis in Greece looked like it might be repeated by other countries in the European Union, officials were concerned that the debt crisis might bring down the banking system. Total sovereign exposure by banks to debts of Italy, Spain, Greece, Ireland, and Portugal amounted to 58 percent of tier one bank capital, according to data of the Organisation for Economic Cooperation and Development. But even with this situation, Greece managed to enact haircuts for the bond holders.

By contrast, as of this spring, around 12 percent of municipal bonds were owned by banks. This implies only about $130 billion of total exposure to all general obligation municipal debt by the banking sector, compared to well above $1 trillion of tier one bank capital. Similar amounts of general obligation municipal debt reside on the balance sheets of the insurance companies, where municipal bonds are 7 percent of assets.

The remaining municipal bonds are directly owned by individuals, or in mutual funds and exchange traded funds largely owned by individuals. Municipal bond defaults would primarily affect individual investors, and especially individuals who buy tax exempt municipal debt because they are looking for tax free income. Congress has to therefore condition any further bailout funds on shared losses by municipal bond investors. For instance, the law can mandate that state governments pass legislation that would write off a dollar of municipal bond debt for every dollar of additional grants given to a state or local government.

These actions would face legal challenges, since the contracts clause in the Constitution prohibits state legislation which impairs contracts. But past cases have allowed this legislation when “reasonable and necessary to serve an important public purpose.” Nothing in the bankruptcy code prohibits states from imposing debt restructuring laws on themselves. Congress would have to amend the bankruptcy code if it wanted to let states enact restructuring laws for counties and cities.

The federal government offered assistance to state and local governments with over $270 billion for the Cares Act and $500 billion for the municipal liquidity facility of the Federal Reserve. Bernanke and others complain that the conditions on the funding are restrictive. However, states such as New Jersey are already investigating ways to tap the municipal liquidity facility to support contributions to the pension plans for public workers that it has underfunded for years. If that is not flexibility, then what is?

The Cares Act and the municipal liquidity facility should have been more than sufficient for most states. In the cases where they are not, it is time for the investors who willingly took risk and received such tax breaks by investing in these bonds to share the load with debt relief.

THE HILL

BY JOSHUA RAUH, OPINION CONTRIBUTOR — 09/17/20

Joshua Rauh is a senior fellow for the Hoover Institution and the Ormond Family Professor of Finance at the Stanford Graduate School of Business.

Muni Bond Defaults Remain Rare Through 2019.

Summary

- Municipal defaults and bankruptcies remain rare overall, even though they may have become more common over the last 10 years.
- At the end of 2019, the median rating for U.S. municipal credits had risen to Aa2 (2018: Aa3).
- We still believe that municipal bonds remain important to the core strategy of constructing an individual portfolio.

At the end of July, Moody's Investors Service released its annual municipal bond market snapshot, US municipal bond defaults and recoveries, 1970-2019, with updates through 2019. The report continues to affirm two hallmark benefits offered by muni bonds. First, municipal defaults and bankruptcies remain rare overall, even though they may have become more common over the last 10 years. (There were no rated municipal defaults in 2019.) Second, muni bonds continued to be highly rated in 2019, with more issuers upgraded than downgraded. (According to Moody's, however, as in 2018, the size of the downgrades, on average, was larger than the upgrades.)

An important "observation" noted once again in this year's report was that over the 40-year study period: "[A]ny one default may only reflect the idiosyncrasies of that individual credit, and not be representative of any general sector trend."

Municipal Bond Defaults and Bankruptcies Remain Rare

The report drew attention once more to the fundamental difference between municipal and corporate credits.

The five-year all-rated cumulative default rate (CDR) of municipal bonds throughout the study period (1970-2019) decreased a tiny bit to 0.08% (1970-2018: 0.10%) and remains very low. In comparison, the five-year CDR of global corporates is 6.7% over the same time period. There were neither any new rated municipal defaults in 2019, nor any new unrated defaults during the same period.

While there may not have been any new rated defaults in 2019, Moody's noted that there were "some notable developments concerning default, bankruptcy and recovery," not least in the context of the defaults in Puerto Rico and the near-total obliteration of Paradise, CA in the fires of 2018. Vis-à-vis Puerto Rico, the rating agency noted: "Puerto Rico, although a U.S. Territory, reinforces one pattern we have seen elsewhere, which is that a bankruptcy or bankruptcy-like proceeding may not only affect recoveries differently across separate debt classes but may simply not impair all debt classes to begin with."

Continuing Stabilization in Muni Bonds

The report also mentions, for the third year running, that nearly a decade after the Great Recession (2007-2009), the credit quality of the municipal bond sector is now stable. It has been aided in part over the last couple of years by growth and economic recovery in many regions of the U.S. For the fourth year running, in 2019, muni bond rating upgrades outweighed downgrades (602 vs. 296), but there were fewer rating changes in 2019 than in previous years.

The report added that the municipal sector overall remains highly rated, with approximately 92% of all the municipal credits in Moody's rating universe falling into the A category or higher as of the end of 2019 (2018: ≈92%). Further, at the end of 2019, the median rating for U.S. municipal credits had risen to Aa2 (2018: Aa3). This stood in stark contrast to the median rating for global corporates, which was Baa2 (2018: Baa3).

Municipal Bonds: Still a Fiscally Sound Income Vehicle
We continue to argue that, while it remains a struggle to obtain the same amount of timely disclosure from issuers of municipal bonds as one sees in other asset classes, the pure empirical evidence suggests that muni bonds still offer a fiscally sound vehicle for deriving an income stream free from federal, and in some cases, state taxes.

If one looks at long-term municipal bond obligations across all sectors between 1970 and 2017, according to Moody's report, there were only 113 distinct Moody's-rated defaults in the total amount of a little over $72 billion. There are more than 50,000 different state and local governments and other issuing authorities.

There are, as always, caveats. As Moody's, once again, states in the report's Introduction: "The once-comfortable aphorism that 'munis don't default' is no longer credible: rating volatility, rating transition rates and cumulative default rates (CDR) have all increased since 2010." However, the rating agency does add that: "… they had begun to stabilize before the current virus-related stresses."

The sector continues to face challenges. These include, among others, democratic shifts (populations both aging and relocating-affecting tax receipts), "substantial increases in pension and retirement health care leverage" and "the associated heightened exposures to equity markets." Moody's also notes, "The growth of total leverage is significant and in stark contrast to the earlier decades of low bonded debt and long-term economic expansion."

Despite this, we still believe that municipal bonds remain important to the core strategy of constructing an individual portfolio.

Disclosure

Source: US municipal bond defaults and recoveries, 1970-2019.

This content is published in the United States for residents of specified countries. Investors are subject to securities and tax regulations within their applicable jurisdictions that are not addressed on this content. Nothing in this content should be considered a solicitation to buy or an offer to sell shares of any investment in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction, nor is it intended as investment, tax, financial, or legal advice. Investors should seek such professional advice for their particular situation and jurisdiction.

VanEck does not provide tax, legal or accounting advice. Investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service.

Municipal bonds are subject to risks related to litigation, legislation, political change, conditions in underlying sectors or in local business communities and economies, bankruptcy or other changes in the issuer's financial condition, and/or the discontinuance of taxes supporting the project or assets or the inability to collect revenues for the project or from the assets. Bonds and bond funds will decrease in value as interest rates rise. Additional risks include credit, interest rate, call, reinvestment, tax, market and lease obligation risk. High-yield municipal bonds are subject to greater risk of loss of income and principal than higher-rated securities, and are likely to be more sensitive to adverse economic changes or individual municipal developments than those of higher-rated securities. Municipal bonds may be less liquid than taxable bonds.

The income generated from some types of municipal bonds may be subject to state and local taxes as well as to federal taxes on capital gains and may also be subject to alternative minimum tax.

Diversification does not assure a profit or protect against loss.

Investing involves substantial risk and high volatility, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. An investor should consider the investment objective, risks, charges and expenses of a fund carefully before investing. To obtain a prospectus and summary prospectus, which contain this and other information, call 800.826.2333 or visit vaneck.com. Please read the prospectus and summary prospectus carefully before investing.

Seeking Alpha

Sep. 17, 2020

Muni Haircuts.

Summary

- Municipal bonds are illiquid and tax-exempt and thus well targeted at very wealthy high-income individuals who face high tax rates.
- Given the racial disparity in wealth, it would be astounding if the disparity in municipal bond holding were not very large as well.
- To forestall a bankruptcy, you do not just lend money for current operations – you end up taking on past debts.

Continue reading.

Seeking Alpha

Sep. 18, 2020

Federal Aid Impasse Heightens U.S. Muni Market Credit Risk - Analysts.

CHICAGO, Sept 18 (Reuters) – A political deadlock over a new round of federal aid will elevate credit risk in the $3.9 trillion U.S. municipal bond market as states, cities and other debt issuers struggle with steep revenue losses due to the coronavirus pandemic, analysts said on Friday.

No agreement is on the horizon between Senate Republicans, House Democrats and the White House over using federal dollars to plug those budget holes.

Policy differences are "too significant" for a deal to emerge this month, Barclays analysts said in a research report.

"Unless municipals receive a substantial amount of federal help in the near future, their credit quality will continue to deteriorate for a while, and the default rate might stay elevated for quite some time," the report said, noting that Barclays continues to forecast just a 2% to 4% default rate for 2020.

There are already signs of credit deterioration. Public finance rating downgrades by Moody's Investors Service totaled 81 in the second quarter, versus 52 upgrades, the first time in three years downgrades outpaced upgrades.

In a BofA Global Research report, analysts pointed to "increased downgrade risk as a result of Congress' failure to deliver more aid, which will force muni issuers to confront significant budget gaps and likely stymie economic recovery."

Mark Zandi, chief economist at Moody's Analytics, told a meeting of state lawmakers this week that in order to avoid a backslide into recession, the next round of stimulus should total between $1 trillion and $1.5 trillion and state and local governments should be "at the top of the list of beneficiaries" for that aid.

He added that states and local governments face a collective $450 billion in budget shortfalls through fiscal 2022, an amount that he warned that could rise to $650 billion if there is a second wave of the coronavirus.

By Reuters Staff

SEPTEMBER 18, 2020

Reporting By Karen Pierog; Editing by Alden Bentley and Dan Grebler

---

Lawmakers Tangle Over Fed's Muni-Market Rescue.

Debate centers around whether the Federal Reserve has done enough to backstop municipal finances

Lawmakers clashed at a congressional hearing Thursday over whether the Federal Reserve has done enough to backstop municipal finances.

State and local governments are facing historic budget shortfalls due to the coronavirus, and Congress has deadlocked over the prospect of additional federal aid. But those governments have largely regained their ability to borrow in private markets.

Those markets suffered a historic freeze-up in March as the pandemic shut down the U.S. economy. That prompted the Fed to create the Municipal Liquidity Facility.

The idea was to show that the Fed stood ready to back the municipal market as a lender of last resort, rather than attract a flood of borrowers from it. So far, only two borrowers have tapped the facility for funding.

That is a feature, not a bug, of the program, Kent Hiteshew, deputy associate director with the Fed's financial stability division, said at Thursday's hearing before a congressional oversight committee.

Some Democrats, though, say the Fed should be using the program more extensively. Rep. Donna Shalala (D., Fla.) questioned whether more government borrowers could benefit. "The Municipal Liquidity Facility can support $500 billion in lending but to date has only $1.65 billion, less than 1% is being used," she said.

The Federal Reserve has repeatedly expanded the criteria for who can participate in the program and has reduced its rates. But it remains off limits to most smaller cities and counties. Even those governments that can access it have generally opted for lower rates in the private market.

Mr. Hiteshew also said there might be reason to extend the program beyond its Dec. 31 borrowing deadline. "There are warning signs in the municipal market that we should all be aware of" including "coming cuts and potential downgrades" from rating firms, he said.

Some Republicans say, though, that the Fed has done enough. "The Municipal Liquidity Facility was not meant to replace private capital markets (or) be a mechanism to bail out state and local governments," said Sen. Pat Toomey (R., Pa.). "Liquidity in the municipal bond market has been restored and as such the MLF in my view should wind down."

Tension over the program mirrors a bigger battle over whether and how much more aid Congress should approve to states and municipalities dealing with revenue shortfalls from the pandemic-induced recession.

A broader relief package has been tied up in part due to an impasse over this particular spending disagreement. Fed Chairman Jerome Powell said Wednesday that municipalities were likely to need more support from Congress, and he had warned of the limits of the central bank's lending programs to address revenue losses.

"While state and local governments cannot cut their way out of this recession, neither can they borrow their way out of it, and if the legacy is operating deficit financing on state and local balance sheets after this crisis is over, that will limit their ability to finance infrastructure, to educate our students and to care for our elderly," Mr. Hiteshew said.

The two borrowers that have tapped the facility are both facing major budget crises: the state of Illinois and New York's Metropolitan Transportation Authority

Mr. Hiteshew said a third borrower is in the pipeline for a possible deal with the facility and others may use it.

Patrick McCoy, the MTA's director of finance, said at the hearing that his agency ultimately needs aid but called the Fed facility "a critical bridge to a long-term solution." He urged the Fed to expand the program, including by increasing the maximum maturity for facility debt beyond three years and extending the borrowing deadline beyond the end of this year.

The Wall Street Journal

By Heather Gillers

Sept. 17, 2020

[Wall Street Loses Faith That Congress Will Rescue States, Cities.]

- **Investors, analysts widely anticipated aid in stimulus bill**
- **BofA, once expecting $400 billion, says expectations 'fading'**

Wall Street banks are losing confidence that Congress will soon provide a rescue for states and cities that have seen tax collections tumble because of the recession.

Bank of America Corp. analysts, who earlier predicted that that the federal government would extend as much as $400 billion of aid by the end of September, said in a note Friday that their expectations of a stimulus package by the November election were "fading." Barclays Plc strategists made a similar call.

"We have fading expectations of a stimulus package before the election," Bank of America strategists led by Yingchen Li and Ian Rogow said in the note. "Which could mean that the next best chance is probably sometime in 1Q21 — and, again, dependent on the outcome of the election, which is far from certain."

Analysts and investors in the municipal-bond market had broadly expected that a new economic stimulus plan would include aid for states, local governments and public transit systems, all of which have seen their revenue decline as the coronavirus shutdowns sent the economy into the worst recession since World War II.

While House Democrats' stimulus package in May included some $1 trillion in aid for states and localities, Senate Republicans balked as President Donald Trump mischaracterized it as a "bailout" for Democratic strongholds.

Other banks have also become more skeptical that the two sides will be able to resolve the stalemate.

"Without negotiating progress in the short term, we're inclined to remove proactive fiscal stimulus that avoids negative economic consequences in 2020 from of our base case," Morgan Stanley strategists said Sept. 13.

The lack of progress has helped drive up benchmark municipal yields since August, Bank of America's Li and Rogow said. They predicted that the lack of a stimulus deal by the end of the month could weigh on the prices of lower-rated securities. The note also said they're slightly "bearish" on municipal bonds given the risks posed by the election.

But that could change if Democrat Joe Biden defeats Trump and the party makes gains in Congress.

Barclays strategists led by Mikhail Foux noted that a Democratic sweep in November could lead to a sizable aid package for states and cities that could total more than $500 billion.

"If Democrats do not sweep, there might still be some desire to provide additional money to state and local governments, but an agreement might be elusive, and the package would almost certainly not be as large as the first one," the Barclays strategists said. "It would also depend on the state of the US economy and the pace of a recovery."

Bloomberg Markets

By Amanda Albright

September 18, 2020, 9:38 AM PDT

— With assistance by Martin Z Braun

Fed's Main Street Pandemic Lifeline Flops.

Some of the biggest lenders demanded such crushing terms that discussions stalled. Other banks decided not to participate at all. It all threatens to undercut the economic recovery and efforts to protect jobs.

(Bloomberg) — It was billed as a lifeline for America's middle-market companies seeking cash to get through the pandemic. Yet more than two months since its launch, the Federal Reserve's Main Street Lending Program isn't living up to expectations as few banks are willing to provide the loans.

Some of the nation's biggest lenders have demanded such crushing terms that discussions have stalled from the get-go, while other banks have decided not to participate at all. That's meant the take-up for the $600 billion program is just 0.2%, threatening to undercut the economic recovery and efforts to protect jobs.

Data-analytics firm IDM is just one example of hundreds of midsize businesses affected by Covid-19 that have been left disappointed.

It was hoping to get a Fed-assisted loan to support payroll, refinance debt and potentially hire more employees. What the Reston, Virginia-based company found instead was banks in West Virginia and Georgia that weren't taking part, while it wasn't able to pursue a loan with JPMorgan Chase & Co. because the firm was asked to pledge real estate it doesn't have.

"We can't even get out of the box and submit an application," said John Chung, chief operating officer at IDM, which has $30 million in annual revenue. "This whole thing is kind of a joke."

Companies impacted by Covid and even those resilient to the outbreak have struggled to find banks willing to lend through the program. Cardinal Capital, a Baton Rouge, Louisiana-based commercial finance brokerage firm, has been looking to borrow about $300 million for various clients. But most of the 60 banks it approached won't accept new borrowers, or work with new businesses backed by assets that fall outside the lender's usual purview, the company's partner Rob Powell said in an interview.

JPMorgan, meanwhile, has had discussions with about 2,000 of its clients about Main Street loans, only to receive applications from about 5% of them, according to a person familiar with the matter who isn't authorized to speak publicly.

JPMorgan spokeswoman Ashley Frost declined to comment.

The Fed and Treasury Department started the program on July 6 with the aim of providing loans to companies either too small to access capital markets, or too big to get aid through the government's Paycheck Protection Program.

Just $1.4 billion of Main Street loans were issued as of Sept. 10, with about $300 million more submitted or being processed, according to the Boston Fed which administers the program. In contrast, blue-chip companies have sold more than $1.2 trillion of corporate bonds since March to help weather the pandemic's economic impact, and smaller outfits have benefited from hundreds of billions of dollars in potentially forgivable loans.

The government "essentially set up a program that didn't do what the mandate was, which was to protect jobs, to get the funds readily available to businesses — particularly businesses who were not able to benefit from the PPP," said Tom Bohn, chief executive officer of the Association for Corporate Growth, which represents middle-market companies and their lenders.

What's worrisome is that midsize companies employ about 48 million people and account for about a third of the gross domestic product in the private sector. A credit crunch for such firms could cause many to limp along or outright fail, undermining a post-pandemic recovery. Critics of the program have included U.S. Representative James Clyburn and Bharat Ramamurti, a member of the Congressional Oversight Commission for the CARES Act.

Among lender concerns in the program's current state are capital charges they have to account for due to the requirement to hold 5% of the loans. Some also lack expertise after stepping back from lending to riskier middle-market companies after the last financial crisis a decade ago. And there are also questions around how potential bankruptcies would work, spooking would-be lenders fearful of facing off in court against the Fed, said Ellen Snare, a partner at King & Spalding LLP.

The Treasury itself has advised banks to avoid taking any credit risk — a critical component of lending — telling them to target zero losses, according to bankers interviewed by Bloomberg.

The Fed has already tweaked the program a few times, and regulators are looking at additional adjustments to address some of the issues. Some economists have suggested the Fed take on greater credit risk, with banks employed simply to process the loans. Other ideas put forth are offering government subsidies to lower the cost of borrowing, placing banks ahead of the government in bankruptcy workouts and shifting to more equity-like financings.

Still, only 575 lenders had said they'd participate by Sept. 4, and most of them have yet to hand out loans. One lender, City National Bank of Florida, accounts for 50% of disclosed loans, and 30% of the total amount borrowed, according to the Fed.

Treasury Secretary Steven Mnuchin said at a Sept. 1 Congressional hearing that loan issuance could grow to $25 billion to $50 billion, predicting a lot of volume in the next two months. That increase, even if it does happen, would still only represent 4% to 8% of the program's maximum size. The Fed is likely to be asked about the program at its next meeting on Wednesday.

Treasury Department representatives declined to comment further, as did the Federal Reserve.

All told, access to credit for small and midsize companies may get worse. Already, large and regional banks are offering fewer loans of $25 million or less, according to AFS Business Intelligence, and a survey of senior lending officers indicates that lending conditions are tightening at the quickest pace since the financial crisis.

“I am not sure the verdict on Main Street is fully in yet,” said Jeremy Stein, chairman of the Harvard University economics department and a Fed governor from 2012 to 2014. “But I do think it will be a problem if the economy continues to suffer, corporate bankruptcies go up and the program still has little takeup.”

Crain’s Chicago Business

September 15, 2020 08:58 AM

NABL: New York Fed Releases Updated Form Documents and Certifications for the Municipal Liquidity Facility

The NY Fed has released updated documents and certifications for the MLF.

You can find more information here.

Sep 16, 2020 10:18 AM

House Legislation to Require Fed Facilities Use More Ratings Firms.

Yesterday, the House passed legislation that would require the Federal Reserve and the Treasury Department to expand the number of credit rating firms allowed to participate in Covid-19 financial market support programs.

The bill would intervene in the Fed and Treasury’s bond-buying programs by forcing them to accept securities rated by any credit rating agency recognized by the SEC.

Since summer hearings on the issue, a bipartisan group of House lawmakers has continued to press the Fed and Treasury to expand the list of rating agencies beyond the three dominant ratings firms — Standard & Poor’s, Moody’s and Fitch. Under the bill, the Treasury and Fed would be able to exclude certain ratings if they’re deemed unreliable or inaccurate for a particular asset class.

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

Bond Dealers of America

September 22, 2020

Senator Toomey Pushing to Wind Down Municipal Liquidity Facility.

Today, the Congressional Oversight Commission, an oversight panel established by the March

CARES Act, hosted a hearing to discuss the Municipal Liquidity Facility. The hearing featured representatives from the Federal Reserve, think-tanks, rating services and leadership of the issuer advocacy group GFOA.

The hearing notice can be viewed here.

The issuers featured universally noted that while the MLF helped to soothe the markets in the Spring, state and local governments need continued help. Marion Gee, Finance Director of the Metropolitan St. Louis Sewer District and President of the GFOA stated, *"The Federal Reserve should make the rate as low as possible for states and local governments as this saves taxpayer dollars, saves jobs, and prevents drastic budget cuts that may irreparably hurt local communities."*

Kent Hiteshew, who has been leading the Fed facility, made the case for extension of the program due to expected credit downgrades in the coming months. However, Mr. Hiteshew's position found significant pushback from Senator Pat. Toomey (R-PA) amongst other majority witnesses noting that the MLF has been scantly used, while stating that liquidity in the market has been restored, marking the program unnecessary.

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

Bond Dealers of America

September 17, 2020

West Coast's Massive Wildfires Put New Pressure on State, Local Budgets.

Dozens of deadly wildfires raging across California, Oregon and Washington could also pose a risk to state and local budgets already struggling under the weight of the pandemic.

Oregon Gov. Kate Brown, a Democrat, said during a Monday press conference that she expects the state's legislature will need to hold a third special session to deal with budget items, but it's not likely to occur before the presidential election.

Brown and other governors have pleaded with the federal government to provide more aid to states and their localities to deal with costs and the hit to revenues from the COVID-19 pandemic.

The rating agencies have in most cases viewed natural disasters, including wildfires, as not being a credit risk to state and local budgets, because of support from the state and federal government. Of the California blazes, Moody's Investors Service said in a recent report that it expected most would emerge with their bond ratings intact.

More than 40,000 Oregonians have been evacuated and 500,000 were under an evacuation notice last weekend in a state where more than 1 million acres have burned, 10 people have died and 22 have been reported missing, said Doug Graf, Chief of Fire Protection for the Oregon Department of Forestry. The acreage burned is about twice the annual average for the past decade.

Brown and California Gov. Gavin Newsom, a Democrat, have vowed to ramp up efforts to combat climate change, which both have cited in recent public remarks for creating conditions that have ushered in an era of devastating wildfires on the West Coast over the past several years.

“There is no doubt that this is a wake-up call that we need to address climate change,” Brown said. “State, localities and the federal government need to take action on this issue.”

Brown created a governor’s council on wildfire response in November in response to the havoc wreaked by wildfires in 2018 when 1,180 fires burned 846,000 acres at a cost of $514 million to the state, according to the Northwest Interagency Coordination Center.

Senate Bill 1536, the bill that would have implemented the recommendations from the council, didn’t pass the Legislature after Republicans walked out in February in protest over the state’s proposed cap-and-trade legislation.

“It would have provided more boots on the ground, more resources for firefighters and would have provided the Oregon Office of Emergency Management with more resources for evacuation plans,” Brown said.

“We have to be creative in how we deploy folks to fight fires given what we are seeing,” Brown said. “These fires are more fierce and hotter. In the last couple of years, they have moved more rapidly.”

Brown provided notice Monday in a letter to the Legislature that she will veto several line-item appropriations in order to preserve funding for the state’s ongoing emergency wildfire response efforts and maintain a balanced budget.

Combined, the vetoes will preserve over $65 million, improving the state?s ending balance to total $164.3 million in general funds and $16.7 million in lottery funds. The governor also requested that legislators reserve at least $150 million in the state’s emergency fund for upcoming requests relating to the fires.

On Friday, Newsom vowed to accelerate California?s efforts to tackle climate change calling the wildfires and resulting air quality problems “a climate damn emergency.”

He was more sanguine during President Donald Trump’s visit to Sacramento Monday, brooking criticism from some who thought he should be more forceful about climate change matters and the president’s criticism of forest management policies in the state.

Most of California’s forests are owned by the federal government.

In February, the National Association of State Foresters said cuts the Trump Administration had made to their budgets has restricted forest management efforts.

“Given the boundary-less nature of forest pests, disease, and wildfire, additional investments in state and private forests are needed in order for all forests to be healthy, resilient, and productive across all boundaries,” said Greg Josten, NASF president and South Dakota state forester in a release.

California wildfires have already killed 19 people this year and burned more than 3.1 million acres, an area bigger than Connecticut, according to the California Department of Forestry and Fire Protection. That acreage is 26 times more than the amount that burned by this time last year and California?s most destructive wildfires have historically flared up in the fall.

Newsom called the role of forest management in failing to lessen the impact of wildfires ?one point, but not the point,” during a Friday press conference.

California has experienced record setting temperatures in August and September, and fires that have burned 147 million trees that died during the recent drought, said Newsom, citing that as evidence of climate change?s role in fueling the fires.

The debate is over, around climate change, Newsom said. “Just come to the state of California, and observe it with your own eyes.”

Trump took him up on the offer, swinging by Sacramento Monday, before a campaign stop in Arizona.

During his California visit, Trump again disputed that climate change played a role saying: “It will start getting cooler, you just watch.”

He also attributed the problem to forest management making a reference to “exploding trees.”

California has filed 100 lawsuits against the Trump administration including one related to the state’s efforts to reduce vehicle emissions, which the Trump administration has blocked.

Though money from Congress may not arrive to help local governments before the presidential election, California has made it a practice since 2016 to help backfill lost property taxes for localities in areas that have lost houses and the resultant property taxes to fires.

California appropriated $64.3 million to backfill cities, counties and special districts for fire-related property tax losses in the 2018 budget act, said H.D. Palmer, a Department of Finance spokesman. Another $63.9 million for schools was transferred automatically under the state’s constitution’s school funding guarantees, Palmer said.

The state will make the decision about how much relief to provide to local governments and schools during discussions for the next budget.

“We will assess that issue later in the fall when a) we get through the peak fall period that still lies ahead, and b) when we have an updated picture of what the general fund looks like,” Palmer said.

The Oregon governor’s office didn’t respond to a question on whether that state might take similar steps to help cities affected by the fires.

Both Oregon and California are still waging battle against the fires, so it’s too early to tell which cities and school districts might face the level of devastation that aid from the Federal Emergency Management Agency and states won’t be enough to protect bondholders.

Marc Joffe, a senior policy analyst with the Reason Foundation, said the Oregon towns of Phoenix and Talent were severely damaged by the wildfire.

“I see that Phoenix has a few million dollars in bonded debt, but also large general fund reserves,” Joffe said.

The local school district, which serves both towns, may face debt challenges, because it issued $68 million of general obligation bonds in 2018, Joffe said.

“Fortunately for bond holders, bonds (issued by school districts) are enhanced through a state guarantee program,” Joffe said.

By Keeley Webster

BY SOURCEMEDIA | MUNICIPAL | 09/15/20 03:55 PM EDT

Wildfires Could Hurt Some Municipal Bonds.

The West Coast wildfires are posing rising risks to some municipal bonds, analysts say.

Even as heavy rainfall and thunderstorms this past week in Oregon provided relief to one of the states hardest hit by wildfires, risks of flash floods and mudslides arose. There are reportedly 79 active large fires burning in the U.S., with the largest numbers in California, Idaho and Oregon. Already, fires have burned more than 7 million acres across the west.

According to rating agency AM Best, "the current wildfire season in California has been setting new records in terms of the number of fires and the acreage burned."

"There seems to be an elevated risk to credit quality this year compared to years past, and we are still in the beginning part of the fire season," says Tom Kozlik, head of municipal strategy and credit at Hilltop Securities.

For example, Standard & Poor's placed on Credit Watch with negative implications the ratings for Phoenix, Ore., currently at AA-minus, and Jackson County School District No. 4 in Phoenix-Talent, currently A-plus.

There are 9,024 local governments in California, Oregon, Washington, and Idaho, according to the website Governing.com. Not all have issued bonds of course. California is the biggest issuer, with $65.2 billion issued in 2019, according to the Municipal Securities Rulemaking Board. Washington issued $9.2 billion; Oregon, $6.8 billion; and Idaho, $1.2 billion. Idaho was ranked the most creditworthy state in a recent review of all 50 states by Eaton Vance for Barron's. Washington was No. 11, Oregon was No. 17, and California was No. 30.

"There's a good amount of nuance when it comes to the way wildfires are affecting the muni space," says Chris Hartshorn of risQ, a research firm that is analyzing the financial risks posed by climate change for Municipal Market Analytics. In particular, smaller cities and other types of muni issuers "could be looking at some impairment."

One issuer at risk of impairment, Hartshorn says, is Oregon's Asante Health System, which has three hospitals in Ashland, Medford and Grants Pass, all towns around one of the most destructive fires. That could affect its 5% refunding bonds due in 2025, or any related issues.

"It's not that any of the hospitals themselves were impacted, but their catchment area—the population that represents their patients and revenues—certainly was," says Hartshorn. In the past, revenues for hospitals are greatly affected if the population declines or is forced to spend discretionary income on rebuilding rather than on elective procedures.

Pioneer Union Elementary School District in California, which issued bonds in February, is also at some risk because of the fires, says Hartshorn. The district includes Berry Creek Elementary School, which burned down. Others at risk include the entities related to Butte County, Calif., which contains many of the most damaged areas from this year's fires, as well as the town of Paradise, which was destroyed in 2018. "I'm not sure how many more it can take before property value and population starts to take a downward trajectory, along with the county' balance sheet," says Hartshorn.

Officials at Butte County, Pioneer Union, and Asante weren't immediately available to comment.

Property insurers, meanwhile, are facing a bill of $3 billion and counting,

Typically the places most hurt by fires are remote and sparsely populated. “A lot of the towns destroyed have been very small communities, (where) the whole tax base gets wiped out,” says Bill Glasgall, director of state and local initiatives at the Volcker Alliance. They’re unrated, and have limited amounts of debt.

And historically, municipalities receive significant support from FEMA, “which can cover 75% of losses and private insurance as well,” explains Bill Delahunty, director of municipal credit research for Eaton Vance. After the 2018 fire that burned the town of Paradise, the state of California announced measures to replace property tax losses to a number of entities. Paradise was eligible.

There has been only one muni default directly related to wildfires: The PG&E (ticker: PCG) bankruptcy in 2018. Still, the risks may be rising this year. “Even though we are still closer to the beginning rather than the end of the fire season, it seems the threat to larger populations centers exist,” says Kozlik of Hilltop Securities. The LNU Lightning Complex fire now burning through California’s wine country is reportedly 98% contained, but if it heads south, it could threaten the area near Travis Air Force Base, with a population of about 200,000, Kozlik says.

Barron’s

By Leslie P. Norton

Sept. 20, 2020 10:35 am ET

‘All Kinds of Opportunity Here’: Will the Pandemic Help Improve the Way Cities Operate?

The virus brought about sudden changes to the way cities do business, some of which could stick. Local government leaders discussed this and other ways cities might transform during the final day of Route Fifty’s Future Cities event.

The coronavirus pandemic is forcing state and local governments across the country to rethink how they deliver services and manage employees, with many jurisdictions adopting new technology and allowing more of their staff to work remotely.

Now, with the initial shock of the virus outbreak passed, some government leaders and experts are weighing how the disruption caused by the public health crisis might lead to more lasting changes that could improve how states and localities operate.

“There’s all kinds of opportunity here to do the things that were difficult to do in the past,” Patrick Duhaney, city manager of Virginia Beach, Virginia, and until recently the city manager of Cincinnati, Ohio, said Friday during Route Fifty’s Future Cities event.

“With the pandemic it creates an opening for us to make a lot of radical change. And I think now is the time to take advantage of it while we can,” he added, as he discussed city management and administration issues. “Chaos is a ladder of opportunity.”

Duhaney joined former New Orleans Mayor Mitch Landrieu and Accelerator for America president and CEO Rick Jacobs to discuss ideas for how local governments could be transformed to run more efficiently and serve residents better.

“My ultimate dream,” Landrieu said, “is for every citizen to actually enjoy going to city hall.”

How might cities move in that direction? Many of the ideas offered up by the speakers at Friday’s event fell into three broad categories: working across jurisdictions, adopting new technology, and rethinking the way government leaders manage their workplaces and staff.

For example, Landrieu suggested that money could be saved by consolidating public water or transportation systems within a region, and he also argued that, given today’s technology, “we simply just do not need as many elected officials as we have or appointed officials.”

“It always bothered me,” the former mayor added, “how many governmental units we have that are duplicative, that we do not need.” But Landrieu also acknowledged that consolidation proposals can often trigger fights between the government entities they affect.

Jacobs raised similar issues about regionalism, noting that many of the nation’s jurisdictional lines were drawn decades ago and in some cases for reasons that are scarcely relevant today. “We have a lot of boundaries. A lot of borders,” he said.

“The problems that cities face are not bounded by funny lines on a map,” Jacobs added.

One suggestion he made is that the federal government could look for more ways to reward local governments with additional funding if different jurisdictions cooperated regionally on planning and building new transportation infrastructure, or housing.

Duhaney said that the pandemic has highlighted ways problems can arise when neighboring jurisdictions aren’t on the same page—there’s nothing necessarily stopping the virus’ spread from a place taking lax public health precautions into other nearby communities.

On the technology front, Landrieu pointed out that many Americans now expect to be able to take care of a wide variety of tasks online, or using their smartphones, and made a case that local governments could be doing a better job offering virtual services.

When localities fail to do so, he noted, it means people have to drive or take transit to complete in person transactions at government offices, an often time consuming and frustrating prospect.

The virus outbreak has drawn attention to tech shortfalls as well, according to Duhaney. “What we’re finding out now is just how far behind we were compared to a lot of our peers in investing in the technology that helped us to navigate Covid-19,” he said, referring to the name of the illness the virus causes.

Duhaney also explained how the virus put cities in a situation where they had to suddenly reckon with how to offer services as employees worked from home or otherwise away from traditional workplaces. He thinks this is something that will stick to some extent going forwards.

“We’re realizing it’s working,” he said.

“That’s going to be something that we’re going to have to put in the toolbox,” Duhaney added, noting that a more flexible work environment could help with recruiting younger workers.

When it comes to management, and pushing government organizations to adapt, modernize and change systems that are in need of improvement, Landrieu emphasized the importance of encouraging workers to think entrepreneurially and take risks.

“I’m going to let you fail. I want you to break the china, because I want to create a new model,” he said. “And you have to literally do that every day … You have to become a culture of change organization, as opposed to a status quo organization.”

Using data to get stakeholders onboard with changes and also being transparent with residents about how decisions are being made were two other priorities that Duhaney mentioned.

Duhaney also said that, in his view, it’s important for public officials to be open, or “vulnerable,” to feedback, acknowledging that they may not know all of the answers at the outset of policy discussions, rather than acting defensive about their positions.

He said sometimes government officials have a tendency of “getting stuck on our favorite phrase: ‘well, we’ve always done it this way.’”

ROUTE FIFTY

by BILL LUCIA

SEPTEMBER 18, 2020

Bill Lucia is a senior reporter for Route Fifty and is based in Olympia, Washington.

Municipal Pension Sophistry Exposes More Cracks In AGO, Muni Bond ETFs.

Summary

- Assured Guaranty Ltd. and muni bond ETFs have been shaken by the pandemic and the veritable bankruptcy of Puerto Rico.
- But there is another looming threat to municipal finances that existed well before the pandemic and which will remain after it has passed which could further subsume municipal finances.
- A dovish Federal Reserve exacerbates risk to municipal pension systems.
- Overly optimistic projections about pension returns are a veritable “Sword of Damocles” on municipal finances.
- The pandemic and Fed policies have both clarified the risk to municipal pension finances, but at a time when it is most difficult to address.

Continue reading.

Seeking Alpha

States Expect More Damaging Cuts Without More Federal Aid.

State policymakers will soon begin addressing shortfalls that have already arisen in their current budgets even as they prepare next year’s budgets, and many states are bracing to make deeper, more damaging cuts than they’ve already imposed if they don’t receive additional federal fiscal aid.

State and local tax revenues have plummeted as people have less income, shop less, and reduce their economic activity in other ways due to the coronavirus and the worst economic downturn since the Great Depression. For example, state sales tax collections in the second quarter of 2020 (April through June) dropped over 14 percent compared to the same quarter a year ago; in a typical year, they'd grow 3 to 5 percent.

Six states (Massachusetts, New Jersey, Pennsylvania, Rhode Island, South Carolina, and Vermont) have delayed adopting a full budget for fiscal year 2021 (which started on July 1 in most states), and the fiscal year hasn't started in Alabama, Michigan, and the District of Columbia. But many states that have adopted their budgets assumed much higher revenues than they now expect and didn't fully account for recent cost increases due to the pandemic. These and other states will undoubtedly revisit their budgets as COVID-19's budgetary toll and the likelihood of more federal aid become clearer. For example:

Continue reading.

Center on Budget and Policy Priorities

by Elizabeth McNichol

SEPTEMBER 9, 2020

State Revenues Decline for First Time Since the Great Recession, With the Worst Still to Come.

The majority of states have closed out fiscal 2020 and, as expected, most states experienced a decline in general fund revenues, both compared to prior-year (fiscal 2019) collections and to pre-COVID revenue projections. This large swing in tax collections led to a roughly 6 percent shortfall for states for fiscal 2020 in just a few months' time. This initial decline is only the beginning of what is projected to be a multi-year revenue challenge facing states with the potential to dampen the economic recovery. As states continue to experience high unemployment rates and lower consumption levels, the trends seen in the fourth quarter of fiscal 2020 are expected to further depress state revenues in fiscal 2021 and beyond.

- **Despite three quarters of strong growth through March 2020, fiscal 2020 revenue collections could not overcome the impact of the COVID-19 pandemic in the fourth quarter (April-June), as the vast majority of states operate on a July 1 to June 30 fiscal year.** States saw general fund revenues decline 3.0 percent compared to fiscal year 2019 collections, whereas prior to the COVID-19 crisis, collections were expected to grow 3.0 percent based on states' latest pre-COVID revenue estimates reported to NASBO in the spring, creating a roughly 6 percent shortfall. States, required by law to balance their budgets, have responded to these revenue shortfalls with spending cuts, in addition to using reserves and other one-time measures. New York, which operates on an April 1 fiscal year start, experienced a 10 percent decline in General Fund revenues in the April-June 2020 quarter compared to the prior year, after adjusting for the tax filing extension and liquidity financing to offset the delay.
- **Facing more severe revenue losses ahead, many governors and their administrations have directed agencies to develop budget reduction plans of as much as 15 percent or 20 percent for fiscal 2021 and/or fiscal 2022.** Declines in state tax collections (and state spending) tend to lag the economic cycle, and can take a long time to recover. After steep declines during the

Great Recession, state general fund revenues took a decade to return to fiscal 2008 levels, after adjusting for inflation. Additionally, state general fund spending did not return to the inflation-adjusted pre-recession fiscal 2008 level until fiscal 2019, only to be hit with the current fiscal crisis the following year. Rising public health costs, as well as increased caseloads from citizens needing assistance during the economic crisis further increase state budget gaps.
- These declines do not include those to non-general fund revenues such as gas taxes and program fees that have also been hit hard by this fiscal crisis.

Continue reading.

NASBO

By Shelby Kerns

Congress Faces Sept. 30 Deadline to Decide on State and Local Aid.

The post-Labor Day return of Congress to Washington leaves lawmakers just over three weeks to agree on a stopgap to avoid a government shutdown and whatever new emergency aid might be provided to address the COVID-19 pandemic.

The deadline for acting is the Sept. 30 end of the federal fiscal year.

The House and Senate have not agreed to any of the 12 spending bills that fund various federal agencies, nor have they agreed on the reauthorization of the Highway Trust Fund.

The current surface transportation bill also expires Sept. 30 and the Republican-led Senate has balked at considering the $1.5 trillion Moving Forward Act passed by the House. The House bill includes additional infrastructure measures such as $30 billion in new bond authority for schools, a new program of direct-pay bonds and an increased limit on bank-qualified bonds to $30 million from $10 million.

?We have heard that lawmakers may be starting negotiations around combining a COVID relief package with a continuing resolution,? said Eryn Hurley, associate legislative director for the National Association of Counties.

The National Association of Counties is seeking additional direct and flexible federal aid to counties of all sizes.

NACo joined with six other state and local groups last month in requesting additional federal aid beyond the $150 billion approved by Congress in the CARES Act.

?State and local governments aren?t seeking a bailout,? said the statement issued by seven groups that included the National Governors Association, the National League of Cities, the U.S. Conference of Mayors and the National Conference of State Legislatures.

State and local governments say they ?are seeking fiscal stabilization to immediately address revenue shortfalls caused by emergency measures enacted at every level of government to contain the spread of COVID-19.?

?There is wide bipartisan agreement that state and local governments came into this recession with unprecedented rainy-day reserves to help deal with the next downturn,? the joint statement said. ?No one could have anticipated a once-in-a-century pandemic combined with the worst economic conditions since the Great Depression, but with lives and livelihoods on the line, state and local governments are stepping up and answering the call.?

A spokesman for the NGA said the governors are encouraged by recent testimony by Treasury Secretary Steve Mnuchin at a House hearing ?that the Trump administration supports additional aid to states with flexibility to meet the real and pressing needs in states and territories.?

?We will continue to work with the Senate and House on a bipartisan basis for a phase four relief package,? Mnuchin said at the hearing. ?I believe a bipartisan agreement still should be reached and would provide substantial funds for schools, testing, vaccines, PPP for small businesses, continued enhanced unemployment benefits, child care, nutrition, agriculture, and the U.S. Postal Service, along with liability protection for universities, schools, and businesses.?

The Trump administration, however, has refused an offer by congressional Democrats to set the price tag of the overall emergency relief package at $2.2 trillion.

Senate Republicans have considered bringing to the floor an even smaller package of around $500 billion to force congressional Democrats to budge from their negotiating position. But it’s unclear whether this so-called “skinny” bill could get the 51 votes needed for passage.

On the other hand, the administration could agree to a higher number because it is separately asking Congress to include half a dozen pandemic-related fixes in the next stopgap funding measure or into the next COVID-19 relief legislation.

The new White House requests include additional funding for the Supplemental Nutrition Assistance Program which has added nearly 5 million recipients since the pandemic began.

Democrats say their $2.2 trillion proposed compromise is the halfway mark between the House-passed HEROES Act and the administration?s ceiling of $1 trillion.

Hurley of NACo that her organization estimates that counties alone are facing a revenue shortfall of $202 billion through fiscal 2021.

?Actually 68% of counties have either cut or delayed their county services,? said Hurley. Among the cuts: human services, public safety, community development, capital investments as well as furloughs and layoffs.

The August employment report released by the Bureau of Labor Statistics Friday said government employment was 831,000 below its February level.

Although government employment rose by 344,000 in August, the majority of those jobs reflected the hiring of 238,000 temporary 2020 Census workers.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 09/04/20 12:20 PM EDT

[The Big Question: Can States and Cities Recover from Covid?]

A Q&A with municipal finance experts Richard Ravitch and Antonio Weiss on why local government shortfalls put the U.S. economy at risk.

Brian Chappatta: U.S. states and cities are projected to face massive revenue shortfalls in the coming years due to the coronavirus pandemic. And yet, Congress can't seem to agree to another round of fiscal aid that supports municipal budgets. What's the holdup in Washington? Just how critical is federal support?

Richard Ravitch, director at The Volcker Alliance and former lieutenant governor of New York: The estimates for revenue loss for states and cities range from $600 billion to $900 billion. The House passed a bill that appropriated $900 billion to cover revenue losses incurred subsequent to 2019. But the only revenue loss that we can measure today is the sales tax lost so far in 2020. Property taxes are the largest source of revenue for almost every municipality in the U.S. But people don't file their property tax returns until the year following the end of the tax year. Similarly, with income-tax revenues, we won't have those numbers until next year when people file their 2020 tax returns.

The size of the revenue loss is such that borrowing is a temporary stopgap. You can't encumber cities and states with a massive amount of new debt, which will have to be repaid at a point in time where cities are recovering and should be devoting resources to help all the people who have suffered so egregiously for health reasons and unemployment reasons. Therefore we're totally dependent on what Washington does.

Antonio Weiss, senior fellow at the Harvard Kennedy School's Mossavar-Rahmani Center for Business and Government and director at The Volcker Alliance: The "skinny" relief bill, which was introduced by McConnell and was passed by 51 of his members in the Senate, not only contained no state and local fiscal relief, but it also sunset the Municipal Liquidity Facility at the Federal Reserve on Dec. 31 and provided for no repurposing of prior appropriated funds to allow for relief.

It's a mean-spirited exercise in inflicting pain on states and municipalities and it flies in the face of all of the economic evidence about what is required in a sharp recessionary environment. It's forcing states and municipalities to consider a set of draconian reductions to expenditures, workarounds to replace funding with financing and in some cases increases in taxes at the very moment when the opposite should be happening.

States and municipalities have a number of differences from the federal government. Forty-nine of them have either a constitutional or statutory requirement to balance their budgets. States don't have their own currencies, they don't have their own central banks, and they cannot print money to get out of a crisis. So when faced with an exogenous shock of this magnitude, they become entirely reliant on the federal government.

We don't know yet what the magnitude of the revenue loss will be for certain. I tend to believe the estimates that are closer to $500 billion in state shortfalls over the next two fiscal years, and that cascading down to municipalities through a variety of means could bring the total close to $1 trillion. We are putting a substantial part of any recovery from the Covid-induced recession at risk by creating necessary fiscal relief at the federal level and necessitating contraction at the state and local level.

BC: You are both clearly passionate about the functioning of state and local governments. How did you get interested in the intricacies of municipal finance?

RR: I've been interested in this since I was lieutenant governor and I was appalled by the fact that [state legislators] made a $600 million contribution to the pension system by borrowing the money. I thought it was so outrageous that I tried to stop it. And everybody, the unions, the politicians, they all opposed me. I was very conscious of the fact that the borrowing to cover operating expenses and pension contributions, in order to meet contractual obligations to the retired employees of the government, was outrageous. So that's what got me interested.

I want to tell you a story. In 1975, when the governor of New York State, Hugh Carey, asked President Ford for help for New York City, Ford said no. That produced the famous headline, "Ford to City: Drop Dead." Well, two days later, the governor and I convened all the top businessmen to the governor's office in New York. It was a Sunday afternoon. The governor said if we don't get some help from the federal government, we're going to have to file a bankruptcy petition for the city of New York.

The business leadership of New York — the chairman of Citibank, the chairman of JPMorgan, of airlines, of AT&T, of insurance companies — they all went to Washington. Several of them played golf with Mel Laird, who was the secretary of defense and who was Gerald Ford's best friend. Several went down and saw Bill Simon, the secretary of Treasury. Felix Rohatyn contacted all of the major European banks, which let Bill Simon know that a bankruptcy of New York City would have a very adverse effect on the entire world banking system. And about 20 of these business leaders spread out and talked to members of Congress.

Well, a month later, I was sitting in the Treasury Department working out the details of a $3 billion line of credit from the Treasury, ultimately as a result of the business pressure.

Now, the business community in New York, most of whom gave a lot of political contributions to McConnell and Trump, there's no evidence they're doing anything to use those political relationships. Instead, they write a letter to the mayor saying he has to solve all the problems. Well, the mayor doesn't have the money to do it and has rapidly diminishing resources to address a complex set of problems.

BC: So that's one takeaway from New York City's brush with bankruptcy — that business leaders need to use their clout to fight for their cities. Antonio, you were intimately involved with the more-recent Puerto Rico bankruptcy, during your time at the Treasury Department. Is there anything we can extrapolate from that crisis and apply to potential cash crunches among U.S. states and cities?

AW: Puerto Rico is neither a state nor a municipality: It is a territory of the U.S. The relationship with the federal government remains unresolved 120 years after the Spanish-American War. And so the imposition of an oversight board in Puerto Rico, no matter how carefully designed it was at the time, was going to be an offense just due to the colonial relationship between Puerto Rico and the U.S. and the neglect of Puerto Rico as a priority despite the fact that its millions of residents are American citizens.

I don't know that one can analogize anything that happened in Puerto Rico to the state and local crisis that's pending across the country, because so much of Puerto Rico's problem is structural and stems from a neglect on the part of the federal government, which itself is in part a result of this unresolved colonial relationship. That's not to say that there isn't blame to go all around. But the reason that the problems reached these unprecedented levels in terms of debt as a percentage of general fund expenditures, or the zero funding of pensions, among other items, is due to the fact that the U.S. has never really come to grips with the proper relationship that should exist with

Puerto Rico, nor afforded Puerto Rico a path to determine its own status. It’s important not to take what is a very specific set of circumstances and generalize across the country on that basis.

RR: Antonio did a brilliant thing in designing PROMESA [Puerto Rico Oversight, Management and Economic Stability Act]. It gave this board the ability to file a bankruptcy petition, if it couldn’t arrive at a contractual understanding with the government, with the debt holders and with the trustees for the debt holders for how much debt to haircut. The power to file was the leverage that the board had to get bondholders to agree to very substantial reductions in the amount of debt, without which Puerto Rico would never have been able to survive.

The point is: control mechanisms are very useful. I’ll tell you another marvelous anecdote. There was a control board created in New York. The governor asked me to spend a lot of time with the mayor. Every time the control board forced the city to cut an expenditure, like to reduce the number of garbage pickups to save money in the sanitation budget, Mayor Ed Koch would go on television and criticize the control board. When he got off camera, he would turn to me and say, “Thank God for the control board.” If we’re going to pump federal money, state money or borrowed money into a local government, the public is entitled to know that there’s some reasonable oversight over their expenditures, and that politicians are not spending money to enhance their re-election.

BC: Dick, given that you were a former chairman of the Metropolitan Transportation Administration, I have to ask: how does the MTA get through this? Bankruptcy isn’t an option. Its credit rating was just cut again by Moody’s. It’s about to issue even more debt. What’s the way out?

RR: Federal money. The bill the House passed provides the money that the MTA needs for operating purposes, because ridership is way down and the revenues therefore are dramatically reduced. That’s their most immediate problem. The longer-term problem is they have to restore their financial credibility in order to be able to continue to borrow to meet their capital needs. But in the short-term, to ensure there continues to be mass transit available, they’re going to have to get federal aid.

BC: What’s the bottom line — what are the most important things that state and local leaders need to do right now, from a fiscal budgeting standpoint, to get to the other side of this pandemic?

AW: I suspect one will see even greater borrowing by various states and municipalities. They will become creative in how they can issue debt notwithstanding the constitutional and statutory limitations on borrowing that they face. The municipal markets themselves are extraordinary healthy right now. The debt markets are open, but the reality has already set in, with the layoffs and furloughs, which are at unprecedented levels in recent history.

As the reality of the cuts that must be made to the main budgetary items in states becomes evident — everything from healthcare and education to grants and assistance to municipalities — the loss of essential services is going to hit the most vulnerable populations at the very moment when more, not less, aid is needed in order to offset the direct healthcare and economic consequences of the pandemic. There is a real need for engagement by civil society, by business leaders and labor, to make clear to Congress that deficit financing is not going to come anywhere near to substituting for the funding that the federal government has to provide in the next Covid relief package.

We’re talking about an extraordinary, once-in-a-century exogenous shock to the country. And the solution to an exogenous shock is for the federal government to step in and protect the citizenship from the consequences of that shock, in supporting the healthcare system and the economy broadly. As part of that, the federal government has got to channel support to states and municipalities. This is not a question of mismanagement, as some in the political leadership would assert. It’s a question of a radical reduction in revenues due to an exogenous shock. It’s the very essence of why we require a federal government — to protect the people against what is in essence a national security threat.

Bloomberg Opinion

By Brian Chappatta

September 13, 2020, 1:00 PM PDT

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

Fitch: US States' Employment Recoveries Still Have a Long Way to Go

Fitch Ratings-New York-08 September 2020: All states saw significant employment losses during the height of shutdowns due to the coronavirus pandemic from February through April 2020, says Fitch Ratings. With business re-openings and lifting of travel restrictions beginning in April, employment has gradually recovered but still remains supressed in a number of states. The continued spread of the virus is weighing heavily on the pace of expansion.

The depth of employment declines and pace of recoveries varies widely among states, with implications for medium-term economic and labor market growth. High unemployment negatively affects income and sales tax revenues, squeezing state budgets and slowing economic recovery. Fitch considers most states well-positioned to deal with resulting budget volatility at current rating levels but the risk of a prolonged severe economic contraction consistent with Fitch’s coronavirus downside scenario could compound revenue declines that erode states’ gap closing abilities.

Those states in the lower left quadrant in the chart below experienced the steepest declines in employment in the first three months of the pandemic and have seen slower employment recovery in the following three months. Seven states, Alaska, Hawaii, Illinois, Kentucky, Nevada, New Jersey and New York, have a Negative Outlook, five of which appear in the lower left quadrant.

Leisure and hospitality were among the most affected sectors in terms of job losses, although there has been a notable recovery in many states over the summer months. Leisure and hospitality job losses as a percentage of total job losses through July were between 28%-39% for the states in the lower left quadrant, compared with 45%-60% at the height of the pandemic. The exception is Hawaii, for which leisure and hospitality employment losses through July were still 60% of total job losses.

While job losses in leisure and hospitality have been the most severe, average job losses in four other sectors are sizeable, between 10%-12% of total job losses from February to July: trade, transportation and utilities; professional and business services; education and health; and state and local government. Unemployment in these sectors is a significant drag on gross state product for certain states, and Fitch will be commenting on unemployment by sector in upcoming research.

Further private and public sector layoffs are expected the longer it takes to contain the coronavirus. State policy and budget responses, the extent of any additional federal aid for the economy at large, and state and local governments specifically, and the effectiveness of state and national efforts to reduce the virus’ spread will also be critical to longer-term employment and economic recovery.

Fitch assessed monthly data from the Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) program to calculate states' employment declines and subsequent growth. BLS notes the ongoing pandemic affected the agency's data collection process and led to some modifications in its reporting model. Given the compounding volatility inherent in the rapidly evolving labor market, Fitch considers the CES data to be a useful indicator of economic trends, but not as definitive as in pre-pandemic times.

Defaulted Rice-to-Fiberboard Company Wants to Borrow $53 Million.

- **CalPlant needs California approval for unrated municipal bonds**
- **Company behind factory skipped July 1 payment on $228 million**

A company building a novel factory in California that has defaulted on its debt payments is seeking the state's approval to sell an additional $53 million in tax-exempt bonds.

CalPlant I LLC, constructing the world's first facility converting rice cultivation debris into fiberboard, will appear before the California Pollution Control Financing Authority on Tuesday for its request to borrow more, according to a company filing and the agency's agenda.

Proceeds will go to the operation's costs and not to cover debt service for its previous unrated tax-free bonds, the company's filing said. The firm skipped a July payment on a $228 million issue sold in 2017, although it has continued to meet obligations for last year's $74 million deal. The company plans to get the consent of its bondholders before issuing the debt.

The request will test California's appetite for such ventures that are intended to produce economic and environmental benefits and will also gauge investors' risk tolerance. Already, a company backed by Fortress Investment Group private equity funds plans to sell a record amount of unrated municipal bonds this month to finance a passenger train to Las Vegas from a Mojave Desert town, after California and Nevada officials granted the company the states' limited allotment of municipal bonds for such projects.

Amid low rates, bond buyers have moved further down in credit quality in search of fatter returns. Still, for the past three weeks, investors have yanked cash out of municipal-bond high-yield funds, according to Refinitiv Lipper US Fund Flows data.

Project Woes

CalPlant has run into many troubles during construction. Last month, fire swept through its storage yard holding the fiberboard material called rice straw, and last week, insurance adviser Marsh USA Inc. said it's not "commercially feasible" for the company to get property coverage for construction risks under the terms of its policy that expired in August.

A report from the California financing agency on CalPlant's request couldn't be disclosed yet, according to Spencer Walker, attorney for California Treasurer Fiona Ma. He also declined to state her position on the matter. CalPlant is responsible for debt payments, not the agency issuing the bonds on its behalf.

Elizabeth Whalen, a spokesperson for CalPlant, declined to comment on the proposed financing.

"The plant startup and commissioning specialists returned to Willows in August after leaving the site in March for Germany due to the pandemic," she said by email. "We anticipate starting the plant in November 2020."

Bloomberg Markets

By Romy Varghese

September 11, 2020, 5:00 AM PDT

How Climate Change Threatens the U.S. Financial System.

It's hard to fight something you can't see. But that's the unfortunate position that our financial system is in as it faces increasing challenges from climate change. It's time for the financial system to wake up to the threat.

As the most politically polarized issue, climate change rarely finds total agreement. So many were likely surprised recently when representatives of oil companies, agribusinesses, banks, retirement funds and environmental organizations, plus some academics like me, jointly authored and unanimously endorsed a government report calling out the risks of climate change to the U.S. financial system. Working together for the top U.S. regulatory agency for derivatives, we wrote that climate change poses an important threat, and the financial system needs to get ready. And we provided dozens of recommendations for what can be done.

There is a lot to fix. For one thing, our government needs to limit the scale of the problem going forward. Dumping climate pollution into the atmosphere is currently free. There needs to be a cost of disrupting our climate. Our legislators need to put a price on carbon.

Meanwhile, our government regulators need to be aware of and prioritize the climate-related risks to the financial system. These risks need to be better quantified, and more transparent to investors, so they can be priced appropriately.

Climate change poses a variety of threats related to commodities like crops and fossil fuels, as well as to real estate and other economic sectors. In the Midwest, we regularly see crops ruined by droughts or floods. We expect wetter springs, bigger downpours and more variable precipitation during hotter summers to crash yields more often. The agricultural banks that many farmers depend on for credit are typically small and disproportionately exposed to these regional extreme weather events. If droughts and floods that threaten farmers' livelihoods also degrade their banks' ability to provide credit, recovery from these events will be even more difficult.

Recently, climate-related threats to homes and properties have become painfully obvious on our coasts. In the West, wildfires have grown in size, with terrible consequences. In the East and South, more powerful and wetter hurricanes, pushing storm surges on top of a higher ocean and gulf, have flooded and torn apart homes and businesses. The insurance sector is already reacting to these changing threats; its regulators need to help companies assess their exposure in a transparent and comparable manner.

The primary climate risk to the oil, gas and coal industries is that society will take our advice and add the full cost of climatic disruption to the price of fossil fuels. Such a price increase would incentivize companies and individuals to use less of these fuels. A reduction in demand would depress the values of fossil fuels, their discovered but untapped reserves, and the companies that participate in this sector. This risk needs to be clearly quantified for investors.

It's relatively easy to see how individual events such as floods or fires can affect individual commodities, sectors or even a region. However, the financial system must see how ongoing changes can connect through the market to more broadly threaten its ability to function. For instance, sea-level rise could reduce coastal home values, reducing cities' tax bases and their capacity to make payments on municipal bonds (which may have paid for flood control measures to begin with). Bond defaults are a threat that we want our financial system to manage. But how can it do this if it doesn't see the problem coming?

The risks related to climate change need to be clear to those who put money in the game. Investors, whether they are buying crop futures, municipal bonds, corporate debt or stock in insurance or energy companies, must be able to evaluate their climate risk exposure. We need a commonly accepted level of climate risk that requires disclosure, and straightforward, comparable and fair methods for companies to determine this risk.

The system needs to be prepared for times when everything goes wrong at once. Aren't we learning this from 2020? Climate disruption increases the chance that the many different weather-related threats will get bigger, happen more often and happen at the same time. Each event is a disaster for many people, and a minor challenge to the financial system. But more and more often, economically damaging events will pile up on top of one another. We need a government that opens its eyes to climate change and gets our financial system ready.

CHICAGO TRIBUNE **|** By JEFF DUKES

SEP 11, 2020 AT 6:32 PM

Jeff Dukes is director of the Purdue Climate Change Research Center and a member of the subcommittee that wrote the climate risk report for the U.S. Commodity Futures Trading Commission.

U.S. Regulator Calls Climate Change a Systemic Risk.

(Reuters) – Climate change poses a "slow motion" systemic threat to the stability of the U.S. financial system requiring urgent action from financial regulators, including the Federal Reserve and the Securities Exchange Commission.

That is one of the findings of a landmark report commissioned by the U.S. Commodity Futures Trading Commission and put together by a panel convened about 10 months ago by Rostin Behnam, one of two Democrats on the five-member CFTC.

The panel's 35 members, including representatives of Goldman Sachs Group Inc , BP Plc, the Dairy Farmers of America, and The Nature Conservancy among others, approved the report on Tuesday.

"The physical impacts of climate change are already affecting the United States, and … the transition to net-zero emissions may also impact many segments of the economy," the 196-page report said.

"Both physical and transition risks could give rise to systemic and sub-systemic financial shocks, potentially causing unprecedented disruption in the proper functioning of financial markets and institutions."

A sudden shift in perceptions of the risks from frequent wildfires and intense hurricanes could bring a sudden drop in asset prices, for instance, that cascades through a community and spill more broadly into markets, the report said.

And because the COVID-19 pandemic has depleted household wealth, government budgets and business balance sheets, the economy is more vulnerable than before, it added, "increasing the probability of an overall shock with systemic implications."

The report's release comes less than two months ahead of a national election that pits Republican President Donald Trump, who says climate change is a hoax, against Democratic challenger Joe Biden, who calls climate change an "existential threat."

Its first recommendation is to "establish a price on carbon" that is hefty enough to push businesses and markets to cut use of carbon dioxide-producing fuels such as oil and gas. Taxing carbon would require action by Congress.

But the report's dozens of other recommendations amount to a call for a sweeping rewrite of financial market rules and norms that could go forward without any new laws and no matter who wins the presidency.

Among the proposals: requiring banks to address climate-related financial risks and listed companies to disclose emissions, and to stress test community banks for their resilience to climate change.

Regulators in Europe have worked for years on efforts to calibrate and mitigate climate risks to financial markets.

Regulators in the United States, where politicians regularly cast doubt on the fact that burning fossil fuels is affecting the earth's climate, have lagged far behind on such work.

Only recently has the Federal Reserve begun to acknowledge the potential for climate change to destabilize the financial system, and to think about possible responses.

The report urges financial authorities to integrate climate risk "into their balance sheet management and asset purchases, particularly relating to corporate and municipal debt."

It also calls for them to do research into the financial implications of climate change and join international climate-focused groups, such as the Network for Greening the Financial System, all of which appear to specifically apply to the Fed.

Sept. 9, 2020

(Reporting by Ann Saphir in Berkeley, Calif.; Editing by Clarence Fernandez)

Harvard, Princeton Rush to Sell Debt to Yield-Hungry Buyers.

- **American college debt sales have risen to $36 billion in 2020**
- **Barclays banker has seen more Asia demand in last 3-6 months**

In a world of falling interest rates, U.S. universities like Harvard and Princeton are finding love for their bonds from international investors seeking extra yield.

Demand for debt of American colleges has increased recently from investors in places like Japan, South Korea, Singapore and Taiwan, market participants say. That’s helped the universities price about $36 billion of bonds this year, the most since at least 2004, as they join a global boom in debt deals.

While colleges face uncertainties this academic year after having to close or modify campuses due to the coronavirus, many global investors are finding the long-term stable outlook of the schools particularly appealing as weaker borrowers stumble. For investors in countries that need funds to support aging populations like Japan and South Korea, the perceived strength of the issuers for years to come is a particular draw.

“Those types of credits help investors sleep at night,” said John Augustine, a managing director at Barclays Plc who runs the bank’s higher education group. He said he’s seen an increase in Asian investors interested in college and university bonds over the last three to six months.

Such buyers are drawn to high-quality names at major private and public research universities, usually rated AA or higher, Augustine said. His firm is one of the top-ranked dealers for debt sold by U.S. universities, according to Bloomberg-compiled data.

South Korea’s Samsung Life Insurance Co., the nation’s biggest life insurer, has previously bought such debt and is considering additional investments that offer a bit more yield than local notes, it said.

Wealthy Korean individual investors are interested in U.S. college bonds as well, according to Kim Sung-soo, a Seoul-based credit analyst at NH Investment & Securities Co., who recommends debt of highly ranked universities such as Yale and Harvard given their large endowments and high credit scores.

Top-graded university bonds also offer a yield premium to U.S. sovereign debt. Harvard’s AAA rated notes due in 2050, for instance, initially priced at a 2.517% yield or 110 basis points more than Treasuries.

When California State University sold $466 million in taxable bonds last month, investors from Taiwan and Korea were among buyers that put in orders for the debt, said Mike Uhlenkamp, a spokesperson for the school. That type of credit is exactly what international investors will gravitate toward, said Kathleen McNamara, senior municipal-bond strategist at UBS’s wealth management arm.

“It’s as simple as yields are so low, if you can buy a muni that is AA rated with some name recognition at 100 basis points over where Treasuries are, why not?” McNamara said. “I’m sure they can’t find long-duration high quality bonds anywhere else.”

The Cal State deal is rated AA- by S&P Global Ratings and Aa2 by Moody’s Investors Service. A 10-year bond priced 104 basis points over Treasuries.

Still, there are risks that foreign investors face, such as the threat that any weakening in the dollar would reduce their returns in home currency terms.

Jamison Feheley, head of public finance banking at JPMorgan Chase & Co., said his markets team in the U.S. is in constant communication with their international sales colleagues when they underwrite a taxable municipal bond deal, notably those for colleges and universities.

“It’s not a one-off order here or there either — in some transactions we have double-digit participation from international accounts,” he said.

Bloomberg Markets

By Kyungji Cho and Danielle Moran

September 10, 2020, 2:00 PM PDT Updated on September 11, 2020, 5:59 AM PDT

— With assistance by Finbarr Flynn

Higher Ed Headwinds Change Muni Bond Paradigm: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses muni markets: GOP “skinny” stimulus rejected, and higher ed headwinds. Hosted by Paul Sweeney and Vonnie Quinn.

Play Episode

Bloomberg Radio

September 11, 2020 — 10:31 AM PDT

S&P: California's Rolling Blackouts Could Foreshadow Rating Pressures For Public Power And Electric Cooperative Utilities

Key Takeaways

- Recent rolling blackouts across California highlight the potential for operational and financial challenges for electric utilities in that state and elsewhere as they embrace intermittent renewable resources.
- Although many states have introduced carbon-free mandates, the targets could be overly ambitious because achieving some elements of the decarbonization frameworks might not be feasible.
- Although pass-through mechanisms and other measures might insulate a not-for-profit utility’s financial performance during price spikes, the corresponding rise in retail rates could alienate customers, interfere with their ability to pay their bills during periods of extreme costs, and create barriers to rate adjustments.

Continue reading.

Strained Rural Water Utilities Buckle Under Pandemic Pressure.

Rural water and wastewater systems have largely been left out of federal and state pandemic relief.

The months leading up to the coronavirus pandemic already spelled trouble for the Rome Water System and the tiny community it serves in the Mississippi Delta.

A tornado tossed around several homes, closed roads and left the community without power for two weeks. Lightning strikes on two separate occasions damaged pumps used to transport water and wastewater for about 75 connections serving about 220 people.

The system usually takes in about $3,400 a month. But since the pandemic hit, the system has been bringing in just over half as much. It can't catch up until people start paying their bills, said the system's treasurer, Irie Knighten.

[Continue reading.]

Route Fifty

By April Simpson

SEPTEMBER 11, 2020

[Corporate CUSIP Request Volume Flattens in August, While Muni Volumes Slow.]

Second Straight Month of Declining Municipal Identifier Request Volume

NEW YORK, Sept. 10, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for August 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 decline in request volume for new municipal debt identifiers, while requests for new corporate identifiers were roughly flat from last month to this month.

CUSIP identifier requests for the broad category of U.S. and Canadian equity and debt totaled 4,101 in August, up 0.37 % from last month. On a year-over-year basis, corporate CUSIP requests are up 4.7%. August volumes were driven by a 2.8% monthly increase in requests for corporate debt identifiers and a 7.6% monthly increase in requests for identifiers for certificates of deposit with maturities longer than one year.

Municipal volumes slowed for a second straight month in August. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 11.8% versus July totals. On an annualized basis, municipal CUSIP identifier request volumes are up 8.9% through August.

“Corporate and municipal debt issuers continued to access liquidity at a healthy pace throughout the COVID-19 crisis, which is why we're seeing strong year-over-year CUSIP request volume across several asset classes,” said Gerard Faulkner, Director of Operations for CGS. “Over the last two months, however, that pace has slowed – particularly in the municipal market, where we're seeing a second straight month of slowing CUSIP request volume. Given the highly publicized funding needs of municipalities, this is a trend we're going to watch closely.”

Requests for international equity and debt CUSIPs were mixed in August. International equity CUSIP requests were up 15% versus July. International debt CUSIPs decreased 19.8% on a monthly basis.

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

Municipal Bond Market Update - September Edition

On August 27, Federal Reserve Chairman Jerome Powell announced a major policy shift, stating that the central bank will allow inflation to run hotter than the Fed's 2 percent target in order to support the labor market and the economy. "Many find it counterintuitive that the Fed would want to push up inflation" Powell stated. "However, inflation that is persistently too low can pose serious risks to the economy."

Muni Market Performance

The municipal market concluded its streak of positive returns in August, marking the end of the three-month recovery that began in May. The Bloomberg Barclays Municipal Bond Index returned negative 47 basis points (0.47 percent) for the month, leaving municipal-bond prices broadly lower. In the final three trading days of the month, muni-bonds fell 17 basis points (0.17 percent) following Federal Reserve Chairman Jerome Powell's speech at the first virtual Jackson Hole Conference. The Jackson Hole Conference is an annual economic symposium, sponsored by the Federal Reserve Bank of Kansas City since 1978 and is held in Jackson Hole, Wyoming. It was during the virtual symposium that Fed Chair Jerome Powell announced the policy shift to "average inflation targeting," spurring concerns of higher future inflation. The comments pushed rates higher on longer-term U.S. Treasuries, with municipal bond yields following suit.

Longer-dated muni-bonds were particularly vulnerable to the Fed's announcement as those with maturities greater than 22 years posted a negative 0.78 percent return for the month. Municipal bonds towards the front end of the curve were largely unchanged, with those in the one to five-year maturity range returning negative 0.02 percent. Intermediate municipals with five-to-ten year maturities returned a negative 0.27 percent in August.

While investment-grade muni bonds ended their streak of positive monthly returns, higher-yielding credits continued to march higher. The Bloomberg Barclays Muni High Yield Index returned a positive 0.26 percent. High yield municipal bonds have outperformed their investment-grade counterparts each month since May but remain behind year-to-date. Within investment grade, Baa-rated municipals were the best performing rating category, returning negative 0.04 percent, but have underperformed higher-rated peers year-to-date. AAA-rated municipal bonds returned negative 0.63 percent in August.

Supply & Demand Situation

August issuance was comparable to the same month last year, however, year-to-date issuance remains elevated at 41 percent higher year-over-year. Taxable municipal issuance continues to drive the new issue supply volume. Advanced refundings have led year to date taxable issuance to make up nearly 30 percent of the year's total municipal supply. Historically, taxable issuance has made up 5 to 10 percent of the total supply. The increase in taxable issuance is even more pronounced when comparing current issuance levels to the prior year, marking an increase of over 250 percent year-over-year.

Demand continues to remain strong with municipal funds posting their 16 weeks of consecutive inflows. However, investor flows into municipal bond funds slowed towards month-end as Congress broke for recess without agreeing on phase 4 stimulus measures. Negotiations appear likely to continue into the fall as investors search for clarity around the size and scope of any additional packages.

dividend.com

Corey Boller

Sep 10, 2020

[Munis Threatened By Climate Risks.]()

Municipal bond investors should keep climate risks front and center when deciding where to put their money, said Adam Stern, senior vice president and co-head of research at Breckinridge Capital Advisors.

Some investors wonder why they should care about a decades-long phenomena when their bonds will mature in just a few years, but climate change is a "threat multiplier" for municipal bond investors, said the executive of Breckinridge, a Boston-based financial firm with $41 billion in assets under management.

"The seemingly longer-term risks can have relevance today and should be included in a comprehensive credit analysis of an issuer," Breckinridge said in a statement. "Climate events can magnify existing credit weaknesses of the bond issuer [and] events often attributed to the risks associated with climate change will likely occur more frequently and their effects will be felt more widely."

Investors need to look at a range of factors that could affect long-term infrastructure projects that are funded by municipal bonds, Stern said.

"Some factors will have a more immediate impact than others," he explained in a subsequent interview. "Many climate change risks are starting to rear their heads now. For instance, if bonds are to be used for maintenance of a 30-year road project, temperature changes could be a factor. Climate change risks impact everything in some way and they are going to intensify as time passes. These issues are important for retail and institutional investors.

"Retail investor are going to be looking for guidance from the advisor community about risk mitigation, and advisors are going to need more data," he added. "If one governmental jurisdiction is doing a better job of dealing with the problems now, it will have lower costs and better outcomes for projects in the future. Investors should keep that in mind."

Breckinridge wants more disclosure from issuers and more uniform reporting standards for different jurisdictions.

"Investors should ask issuers if they know about climate risks and ask them what they are doing about the risks," Stern said.

FINANCIAL ADVISOR

SEPTEMBER 8, 2020 | KAREN DEMASTERS

[Is Covid-19 Putting Municipal Bonds in Jeopardy?]

Municipal bonds have long been considered some of the most reliable fixed income options with a low default rate. Enter Covid-19 and a once untouchable space could now be in jeopardy with defaults.

“The pandemic is threatening the creditworthiness of many municipal securities long seen as safe investments—bonds for higher education, health care, tourism and travel,” a Wall Street Journal report noted. “Moody’s Investors Service has lowered its outlook to negative on all municipal bond sectors except for housing-finance agencies and water, sewer and public power.”

“It’s amazing that we’ve sustained six months of being shut down to some degree with very minimal rating actions,” said Lisa Washburn, a managing director at Municipal Market Analytics.

According to the WSJ report, the number of municipal bond “defaults have reached their highest rate since 2011, the aftermath of the last recession, according to Municipal Market Analytics data. Still, Americans continue to pour money into municipal bond mutual funds, which are clocking 17 straight weeks of inflows since mid-May.”

March’s sell-offs due to Covid-19 saw a flood of money head into municipal bonds as a safe haven with a tax-exempt benefit. Per the report, “fund managers see big-name borrowers who have good relationships with creditors as a good long-term buy even if their bonds are at risk of a short-term downgrade.”

“We’re modestly more comfortable with those guys because there is a possibility that we’re entering a terrain where sophistication and access to markets is a big credit differentiator,” said Adam Stern, co-head of research at Breckinridge Capital Advisors.

ETF TRENDS

by BEN HERNANDEZ on SEPTEMBER 8, 2020

[When Buying Muni Bonds, Investors Should Look Beyond Their Own States.]

Municipal bond returns can vary greatly from state to state. Here’s why—and what investors should do about it.

Many investors look at municipal bonds and make the same mistake: They think they’re all the same—an investment option with tax-exempt income features, almost zero risk and the same low yield.

Investors might be surprised to learn there can be large differences in munis, both in their coupon rates and in the returns of the mutual funds that invest in them. Currently, average returns for muni funds in some states can differ by as much as a full point, which over time can add up to a tidy sum.

Because people tend to only buy munis in their home states, taking advantage of the tax-free status that states confer on homegrown municipal issues, they often are unaware that such differences exist. But, contrary to popular belief, where the spreads are large, it can even be to an investor's advantage to forgo the homegrown option for a fund that buys issues in another state.

Continue reading.

The Wall Street Journal

By Derek Horstmeyer

Sept. 7, 2020 11:00 am ET

Big Muni-Bond Trades Drop With Wall Street Bracing for Headwinds.

- **Trades above $1 million have fallen below 10-year average**
- **Shrinking demand and record low rates may be factors**

With muni-bond prices retreating from the highest in decades and the pace of debt sales poised to pick up, big block trades are on the decline.

Average trades of state and local government bonds of $1 million or more fell below 1,540 — the 10-year average– in the second week of August and declined to about 1,330 during the last two weeks, according to Municipal Securities Rulemaking Board trade data. August was the first month this year to fall below the long-term average.

There may be many reasons behind the decline, said Citigroup Inc.'s Kevin Danckwerth, the bank's co-head of muni-bond trading. The seasonal slowdown in debt payments, looming credit-rating downgrades and uncertainty about the presidential elections is giving investors pause, he said.

Adding to that is a heavy new-issue calender and yields that are holding not far from the lows hit early last month, when those on top-rated 10-year debt were as little as 0.54%. And mutual funds have been receiving a steady stream of cash, leaving them no reason to unload big lots of bonds in the secondary market.

"Investors have been able to source what they've wanted to buy in the primary," said Danckwerth. "And frankly there just hasn't been much selling because the mutual fund flows have been solid."

The slowdown in big trades comes as the market is weakening. State and local government debt in August had its first loss in three months as yields edged up, and the fall is typically a difficult season because governments step up borrowing while the amount of cash returned to investors from principal and interest payments falls. On average, since 2013, municipal bond prices have declined in September, October and November, according to Municipal Market Analytics.

While muni mutual funds have raked in cash for 17 straight weeks, the flows have slowed to a trickle. Investors added about $139 million to such funds during the week ended last Wednesday, down from some $2.3 billion during one week in August, according to Refinitiv Lipper US Fund Flows data.

Capital Gains

But unless there's money pulled out, fund managers aren't keen on selling bonds that have appreciated in price because they'll have to pay capital gains taxes and replace them with lower yielding securities, said Nick Venditti, senior portfolio manager at Wells Fargo Asset Management.

"It's really hard to trade bonds in an economic manner," Venditti said. "No one is super excited about flipping out of positions and losing that book yield."

The decline in institutional-sized trades is noteworthy because it's the first time in months that the daily average has fallen below the long-term average, despite the sizable amount of new bonds sales in the last two weeks of August, said Tom Doe, president of Municipal Market Analytics. MMA noted the trend in a client webinar last week.

"We know the bonds in the primary are being placed effectively, a good thing," Doe said. "But it also means there's perhaps less capital available in the secondary market and could be an issue should we have something of a more harsh correction later this year."

But Citigroup's Danckwerth said the trading decline shouldn't raise concerns about liquidity. A key barometer of bond dealers' willingness to commit capital, the competitive underwriting market, is strong, he said. Auctions of new municipal bonds are drawing between five and 10 bidders and sometimes more, compared with two or three at times in March, when a swift pullback by investors caused dealers' inventories to surge and trading costs to soar.

"When I see that type of capital willing to be deployed by the dealer community, I feel like dealers are in a position to provide capital," Danckwerth said. "We've added a little bit of risk over the past few weeks as the market's cheapened up, but there may even be better opportunities as the year progresses."

Bloomberg Markets

By Martin Z Braun

September 9, 2020, 10:30 AM PDT

Municipal Bond Market Update - September Edition

On August 27, Federal Reserve Chairman Jerome Powell announced a major policy shift, stating that the central bank will allow inflation to run hotter than the Fed's 2 percent target in order to support the labor market and the economy. "Many find it counterintuitive that the Fed would want to push up inflation" Powell stated. "However, inflation that is persistently too low can pose serious risks to the economy."

Muni Market Performance

The municipal market concluded its streak of positive returns in August, marking the end of the three-month recovery that began in May. The Bloomberg Barclays Municipal Bond Index returned negative 47 basis points (0.47 percent) for the month, leaving municipal-bond prices broadly lower. In the final three trading days of the month, muni-bonds fell 17 basis points (0.17 percent) following Federal Reserve Chairman Jerome Powell's speech at the first virtual Jackson Hole Conference. The Jackson Hole Conference is an annual economic symposium, sponsored by the Federal Reserve Bank of Kansas City since 1978 and is held in Jackson Hole, Wyoming. It was during the virtual symposium that Fed Chair Jerome Powell announced the policy shift to "average inflation targeting," spurring concerns of higher future inflation. The comments pushed rates higher on longer-term U.S. Treasuries, with municipal bond yields following suit.

Longer-dated muni-bonds were particularly vulnerable to the Fed's announcement as those with maturities greater than 22 years posted a negative 0.78 percent return for the month. Municipal bonds towards the front end of the curve were largely unchanged, with those in the one to five-year maturity range returning negative 0.02 percent. Intermediate municipals with five-to-ten year maturities returned a negative 0.27 percent in August.

While investment-grade muni bonds ended their streak of positive monthly returns, higher-yielding credits continued to march higher. The Bloomberg Barclays Muni High Yield Index returned a positive 0.26 percent. High yield municipal bonds have outperformed their investment-grade counterparts each month since May but remain behind year-to-date. Within investment grade, Baa-rated municipals were the best performing rating category, returning negative 0.04 percent, but have underperformed higher-rated peers year-to-date. AAA-rated municipal bonds returned negative 0.63 percent in August.

Supply & Demand Situation

August issuance was comparable to the same month last year, however, year-to-date issuance remains elevated at 41 percent higher year-over-year. Taxable municipal issuance continues to drive the new issue supply volume. Advanced refundings have led year to date taxable issuance to make up nearly 30 percent of the year's total municipal supply. Historically, taxable issuance has made up 5 to 10 percent of the total supply. The increase in taxable issuance is even more pronounced when comparing current issuance levels to the prior year, marking an increase of over 250 percent year-over-year.

Demand continues to remain strong with municipal funds posting their 16 weeks of consecutive inflows. However, investor flows into municipal bond funds slowed towards month-end as Congress broke for recess without agreeing on phase 4 stimulus measures. Negotiations appear likely to continue into the fall as investors search for clarity around the size and scope of any additional packages.

municipalbonds.com

by Corey Boller

Sep 10, 2020

Baird Funds Downgrades View on Municipal Bonds but Remains Bullish.

Baird Funds has downgraded its view on municipal bonds but remains bullish on the sector, citing smaller-than-expected revenue declines for states and attractive yields compared with taxable Treasuries.

The Baird downgrades follow a trend of Wall Street firms lowering their views on munis as a result of elevated prices. This month, BlackRock noted that it had reduced risk in its muni exposure "given stretched valuations and the potential for increased volatility in the fall."

Meanwhile, Morgan Stanley Wealth Management noted that "credit-rating downgrades will likely, and fairly, ensue due to some of the pandemic's surprising impacts" and that investors should emphasize stable, AA-or-higher "essential" credits, and "stay close to professional Financial Advisors."

Munis have stormed higher partly because of Federal Reserve support. In a recent Barron's article, we outlined the risks for all 50 states as local and state governments struggle with the pandemic, but noted that muni-bond prices have been surging, the result of the sector's solid performance in past periods of stress.

Investors have also been bidding up prices for high-yield municipal bonds, so that the spreads for bonds rated double-B-plus or lower is now just three percentage points above triple-A-rated munis, compared with seven points in 2009, during the financial crisis.

In downgrading their view to Strong from Very Strong, Duane McAllister and Lyle Fitterer—who help run the Baird Short-Term Municipal Bond fund (ticker: BTMSX) and the Baird Core Intermediate Municipal Bond fund (BNMSX)—noted that there is "no doubt" that the credit quality of municipalities has been negatively impacted by Covid-19, "but the data can be misleading, if not overstated."

While state revenues fell 29% on average from March through May, the divergence between states was significant. State tax revenues in Oregon and California fell 53% and 42%, respectively, while those in North Dakota and South Dakota rose 8% and 1%. They also noted that the "negative revenue impact is better than expected," because it didn't reflect the fact that the tax filing deadline was extended. Meanwhile, municipalities have lots of financial levers, including reserves, cutting spending, and refinancing.

McAllister and Fitterer noted that tax-free municipal yields were still higher than comparable Treasuries "at virtually every point along the yield curve."

"We think the better choice for most investors is simply to stay the course if already invested in the municipal market, but to make sure you are within your target risk parameters," the managers wrote. "If not currently invested in municipals, then moving out from cash or even taking some winnings from a rising equity portfolio may also be prudent moves.

"Investing in a liquid, higher-quality fund or portfolio of securities focused on the short-t--intermediate segment of the curve remains, in our view, a prudent way to optimize risk and return."

Barron's

By Leslie P. Norton

Sept. 3, 2020 12:58 pm ET

America's College Towns Are Facing an Economic Reckoning.

Communities that rely on student spending and higher education jobs are struggling with fiscal woes and Covid-19 fears as the school year begins.

Curtis Shulman is the director of operations for Hotel State College, a hospitality company that runs a group of six bar-restaurants in State College, Pennsylvania. Home to Penn State's University Park campus, the town depends heavily on the 45,000-student campus, largest of Penn State's 24 outposts.

"We make 20% of our revenue just from football weekends," said Shulman. "About 60% of the remaining revenue we make during the school year."

But Penn State students were sent home back in March, when the coronavirus arrived, and lockdown orders forced Schulman to shutter watering holes like the Corner Room, a local staple since 1926. "We had 250 employees and laid everyone off except for two people," said Shulman. The group's restaurants partially reopened in June, but are currently operating at only 25% capacity as Covid-19 cases surged over the summer.

Continue reading.

Bloomberg CityLab

By Kara Harris

August 21, 2020, 2:01 PM PDT

Stadium Bonds: A Homerun or Strike Out During the COVID-19 Pandemic?

The smell of fresh peanuts in the air. Frank Sinatra's 'Take me out to the ball game' playing on loop. And the road to the World Series stretched out ahead. For fans of Major League Baseball, it's officially a favorite time of year, but maybe not in 2020.

Despite spring training games being canceled due to the COVID-19 pandemic, regular season games began in late July. However, it's not simply cardboard cutout fans who look different this year. Teams' hometown financial situations aren't playing out as in years past, either.

Continue reading.

municipalbonds.com

by Wayne Anderman CFP® MBA

Sep 02, 2020

Forget Pension Obligation Bonds. Two Cities Are - No Joke - Leasing Their Streets To Fund Pensions.

It sounds preposterous, and the headline of a recent article here at Forbes by Marilyn Cohen is certainly eye-catching: "The Lunacy Of Using City Streets To Collateralize New Municipal Bond Deals." And these aren't just any municipal bond deals — two cities in California are issuing bonds *with their own city streets as collateral* to pay down their unfunded pension liabilities.

In West Covina, the city council voted to do so on July 7, as reported at the *San Gabriel Valley Tribune*. The city, a suburb of Los Angeles with a population of 100,000, a median household income of $71,200, and nearly $200 million in pension liabilities, is using the proceeds of $205 million in debt to pay off its own debt to CalPERS.

Likewise, according to the *East Bay Times*, the city of Torrance, also in suburban Los Angeles, population 150,000, median household income $80,900, pension debt $500 million, will issue $350 million in bonds. (See the formal report of the recommendation and the minutes of the July 28 city council meeting.)

Now, it turns out, they're not turning their streets into toll roads, or giving bond-buyers the ability to "foreclose" or take control either now or in the future.

They're using a bond-issuing mechanism called "lease revenue bonds." We're all used to cities paying for public works, stadiums, and the like by issuing bonds which are paid off by a dedicated revenue source — sewer bills, hotel taxes, etc. But lease revenue bonds are different. Here's the layperson's description at Charles Schwab:

> "Lease revenue bonds are a unique structure in the muni market. Instead of issuing long-term debt, like general obligation bonds do, to finance improvements on a public facility, the municipality may enter into an arrangement that uses lease revenue bonds. Often a trust, not the municipality, issues bonds and generates revenues to pay the bonds back by leasing the facility to the municipality. The municipality will generally appropriate money during each budget session to meet the lease payment.
>
> "Bonds backed by structures with lower essentiality and limited protections for appropriating funds will usually be lower-rated and have higher yields. Our opinion is to be cautious of bonds backed by lease revenues, as these bonds should be viewed more like general government bonds, not revenue bonds."

This means that the city of San Francisco used lease revenue bonds to buy items ranging from hospital beds to a witness protection van. And Torrance and West Covina are each using these bonds to, in principle, lease their city streets to a special Financing Authority, which will pay the city their up-front money, and "rent" the streets back to the city for the 25 year term of the agreement, in order to pay off the bonds.

Despite the fact that the streets are nominally being "leased," the bondholders will not have any particular rights to lay claim to the streets; despite their status as "collateral," the bondholders can't take them over and charge tolls if either city defaults on their "rent" payments. The city will simply pay the "rent" based on their ordinary tax revenue rather than any special purpose taxes. The "lease" component then becomes little more than a gimmick, a loophole, a way to use the existing "menu" of bond choices available to them in the most advantageous way possible, especially since, at least in California, "general obligation bonds" require voter approval.

(Lease revenue bonds exist at the state level, too; and a group opposing the construction of prisons has a helpful explainer on these due to their use for that purpose.)

What, then, is the purpose of a lease revenue bond in this case? *The Bond Buyer* explains that these are functionally pension obligation bonds, but can be implemented more quickly, citing Mike Meyer of NHA Advisors: "Depending on the legal structure, there may be added flexibility for use of proceeds to CalPERS or more strategic timing of investing in the market. . . . These things aren't possible under a traditional POB structure." At the same time, there's a trade-off, as rating agencies rate pension obligation bonds more highly than lease revenue bonds. Brian Whitworth, director of

Hilltop Securities, which underwrote the West Covina bonds, further claimed, "This is the fastest form which the city would be able to use and issue bonds."

And why are the cities in such a hurry to issue these bonds? In one respect, it's the same rationalization as appears every time pension obligation bonds pop up, the notion that they are "refinancing" a debt at a lower interest rate, because of the difference in rates between the bond rate, and the interest being accrued on the books, at the higher actuarial valuation rate — so, for example, a 7% rate appears to be dropped to a 4% rate due to the "savings" of "refinancing." (See my explainer from 2019, when this was a hot topic in Chicago.) This is a mirage, though — since it's all just a matter of how liabilities are accounted for; their true cost is the payment of pension benefits in the future, regardless of what the plan account is now. And the nature of a pension obligation bond, the hope to get a higher asset return for the money you've borrowed at a low bond rate, remains the same.

Now, to be sure, there is a further wrinkle in California. The state agency CalPERS manages their pensions, and prescribes a required annual contribution. This makes it all the more difficult to perceive that pension bonds' "savings" come solely from the hope of higher asset returns than bond interest rates (which are, incidentally, fully-taxable rather than offering the investors the benefit being of tax-free).

And what are those annual contributions? The most up-to-date reports on the CalPERS website are from July 2019, based on June 30, 2018 and calculating the required contributions for the 2020 – 2021 plan year. The city of West Covina pension plan is 71% funded, but to pay down its underfunding and fund new accruals, must pay 44% of payroll. The West Covina public safety plan is 62% funded and requires a contribution of 74% of payroll to fund new accruals and pay down underfunding. The Torrance city pension is 79% funded with 24%-of-payroll contributions; the Torrance fire pension, 65% funded, 68%-of-payroll contributions; and the Torrance police pension, 62% funded, 78% of payroll contributions. What's also important to know is that these high contributions are not the result of having to make up underfunding in an unreasonably-short period of time; the underfunding level as of 2008 was set at a 30 year amortization, and gains and losses since then are likewise given 30 years to be paid off. This means that the high contributions are simply a reflection of the high cost of the pensions themselves, and the tremendous impact of even marginally-poor funding levels.

Forbes

by Elizabeth Bauer

Sep 2, 2020,03:44pm EDT

States Plan for Cuts as Congress Deadlocks on More Virus Aid.

Spending cuts to schools, childhood vaccinations and job-training programs. New taxes on millionaires, cigarettes and legalized marijuana. Borrowing, drawing from rainy day funds and reducing government workers' pay.

These are some actions states are considering to shore up their finances amid a sharp drop in tax revenue caused by the economic fallout from the COVID-19 pandemic.

With Congress deadlocked for months on a new coronavirus relief package, many states haven't had the luxury of waiting to see whether more money is on the way. Some that have delayed budget decisions are growing frustrated by the uncertainty.

As the U.S. Senate returns to session Tuesday, some governors and state lawmakers are again urging action on proposals that could provide hundreds of billions of additional dollars to states and local governments.

Some state officials, such as Republican Gov. Eric Holcomb of Indiana, are pushing for greater flexibility in spending the money they already received. Others, such as Republican Gov. Mike DeWine of Ohio, say more federal aid is needed, especially to help small businesses and emergency responders working for municipalities with strained budgets.

In mid-May, the Democratic-led U.S. House voted to provide nearly $1 trillion of additional aid to states and local governments as part of a broad relief bill. But the legislation has stalled amid disagreements among President Donald Trump’s administration, Republican Senate leaders and Democrats over the size, scope and necessity of another relief package. In general, Republicans want a smaller, less costly version.

The prospects for a pre-election COVID-19 relief measure appear to be dimming, with aid to states and local governments one of the key areas of conflict.

The bipartisan National Governors Association and Moody’s Analytics have cited a need for about $500 billion in additional aid to states and local governments to avoid major damage to the economy. At least three-quarters of states have lowered their 2021 revenue projections, according to the National Conference of State Legislatures.

While Congress has been at loggerheads, many states have pressed forward with budget cuts.

Wyoming Gov. Mark Gordon, a Republican, recently announced $250 million of “agonizing” cuts that he described as “just the tip of the iceberg” in addressing a $1 billion budget shortfall caused by the coronavirus and declining revenue from coal and other natural resources. The cuts will reduce funding for childhood vaccinations and eliminate a program to help adults learn new job skills, among other things.

“It is not likely that these trends are going to turn around rapidly or as significantly as we would like,” Gordon said.

In August, Rhode Island Management and Budget Director Jonathan Womer sent a memo to state agencies instructing them to plan for a 15% cut in the fiscal year that starts next July.

In some states, however, the financial outlook is not as dire as some had feared earlier this year.

Previous federal legislation pumped money into the economy through business subsidies, larger unemployment benefits and $1,200 direct payments to individuals. The resulting consumer spending led to a rebound in sales tax revenue in some states. Many states also delayed their individual income tax deadlines from April to July, which led to a larger than usual influx of summer revenue from taxpayers’ 2019 earnings.

In Vermont, where lawmakers are expected to work on a budget next week, a deficit that some had feared could reach $400 million now is pegged around $55 million. A predicted $518 million shortfall in Arizona for the current fiscal year has been revised to just $62 million.

Local governments in New Mexico said revenue has been propped up by surprisingly strong sales taxes. But “that sugar high from the federal stimulus will fall off, and our communities will be affected,” said A.J. Forte, executive director of the New Mexico Municipal League.

New Mexico Gov. Michelle Lujan Grisham, a Democrat, is urging the Legislature to legalize and tax recreational marijuana as a way to shore up state revenue. Democratic Pennsylvania Gov. Tom Wolf also wants the Legislature to legalize marijuana, with the tax revenue going toward grants for small businesses and criminal justice reforms.

State tax revenue often lags economic trends because individuals’ income losses aren’t reflected on tax returns until months later. As a result, experts warn that states might experience the lagging effects of the recession well into their 2021 and 2022 budget years.

“The worst is still yet to come,” said Brian Sigritz, director of state fiscal studies at the National Association of State Budget Officers.

The 2021 fiscal year began July 1 in most states. But seven states have yet to enact a full-year budget, in some cases because they have been waiting for congressional action on another relief bill.

One such state is New Jersey, which shifted the start of its budget year from July to October because of the coronavirus pandemic. Democratic Gov. Phil Murphy recently proposed a budget that would slash about $1 billion in spending, take on $4 billion in debt and raise taxes on millionaires, businesses, yachts, cigarettes and health insurance plans.

Murphy has said the initial federal aid didn’t provide enough “to deal with the variety of tsunamis that we’re facing.”

In New York, Democratic Gov. Andrew Cuomo’s administration estimates the state will receive about $8 billion less in tax revenue than once expected this fiscal year. Cuomo, who recently became chairman of the National Governors Association, wants Congress to provide an additional $30 billion to New York to plug budget holes that he warns will compound in coming years.

“There is no combination of savings, efficiencies, tax increases that could ever come near covering the deficit,” Cuomo said, “and we need the federal government to assist in doing that. Period.”

By The Associated Press

Sept. 6, 2020

Associated Press writers Adam Beam in Sacramento, California; Mike Catalini in Trenton, New Jersey; Bob Christie in Phoenix; Tom Davies in Indianapolis; David Eggert in Lansing, Michigan; Mead Gruver in Cheyenne, Wyoming; Morgan Lee in Santa Fe, New Mexico; Marc Levy in Harrisburg, Pennsylvania; Wilson Ring in Stowe, Vermont; Andrew Taylor in Washington; Andrew Welsh-Huggins in Columbus, Ohio; and Marina Villeneuve in Albany, New York, contributed to this report.

How the Fed’s Expanded Support Can Help the Muni Market.

Analysts warn, however, that downgrades and negative outlooks could nevertheless increase.

The Federal Reserve has stepped in once again to help a part of the economy suffering from the coronavirus-fueled recession while it waits on more support from Congress.

It is expanding its $500 billion municipal liquidity facility (MLF) to include more cities and counties as well as multi-state entities.

U.S. counties with at least 500,000 residents and cities with a population of at least 250,000 residents will now be eligible for the Fed backstop. The comparable requirements were 2 million and 1 million residents previously, when the Fed first announced the MLF earlier in the month.

"The new population thresholds allow substantially more entities to borrow directly from the MLF than the initial plan announced on April 9," the Fed explained in a statement.
The facility was created to help states, cities and counties that cannot meet their financial needs through the capital markets because their spending rose sharply while their tax revenues fell substantially due to the COVID-19 pandemic.

"The Fed is effectively providing a guarantee on the ability for these issues to borrow," explained Matt Fabian, partner at Municipal Market Analytics, an independent research firm.

It will purchase eligible notes from municipal issuers that can prove they could not borrow in the capital markets without paying much higher interest rates than "normal" and can provide confirmation of that so long as they meet other requirements, said Fabian.

"It's unclear to us how the Fed will determine 'normal' pricing," wrote analysts at Morgan Stanley. The Fed said pricing guidance "will be forthcoming" and it is also considering extending the use of the lending facility to municipal entities that issue revenue bonds.

The municipal notes available for the Fed backstop include tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes from eligible issuers. They also must have a term no longer than 36 months, an increase from the 24-month limit the Fed originally announced, and must be rated investment grade as of April 8.

The expansion of the municipal liquidity facility "will help states and localities "get through immediate liquidity issues," Fabian said.

Current liquidity in the muni market is thin but better than it was in late March and early April before the Fed announced its municipal lending facilities. But it could be tested as downgrades and negative outlooks increase.

In the last two months, Illinois, New Jersey, New York, Alaska, Connecticut, Hawaii and the New York Metropolitan Transportation Authority have been hit by downgrades or negative watches from the major rating agencies, and many more could follow as a result of the current economic downturn.

But even in the midst of the developments, there are opportunities for muni investors, says Fabian.

MTA bonds, which have been downgraded by major credit agencies to the equivalent of A or A-, are yielding 6% for a 10-year term. On a tax-equivalent basis that's around 12% for New Yorkers in the highest bracket for federal, state and local taxes. Investors, however, "have to assume that debt will be downgraded to BBB, but that the MTA will survive the current crisis. You're effectively betting it's too big to fail," said Fabian.

The agency has seen its ridership fall by over 90%, which has hurt revenues, leading the MTA to seek federal and state aid to help close a $8.5 billion budget deficit this year.

No matter what the municipal issue, advisors need to alert clients to the fact that municipal bond servicing is subordinate to local governments providing health and welfare services.

“Clients have to understand that there could be issues [with munis] that they haven’t had to deal with before,” Fabian said.

Morgan Stanley analysts said the Fed’s latest move was “an additional boost to high grade” muni bonds. The high-yield muni market, in contrast, will remain “weak for the foreseeable future,” according to the analysts.

They expect the municipal bond issuers will tap the majority of the $500 billion muni lending facility from the Fed, but the Fed could eventually provide even more support “if market conditions deteriorate further, at least until the broader economy is clearly healed.”

ThinkAdvisor

By Bernice Napach | April 28, 2020

S&P Credit FAQ: How COVID-19 And The Recession Could Affect Credit Quality For U.S. K-14 Schools

Table of Contents

Since the onset of the COVID-19 pandemic the U.S. educational landscape has changed markedly, and it may never go back to the way it was. This means that schools–from local districts to charter schools to independent schools and community colleges–will transform their operations to respond to a situation that may last no longer than a year. While this is daunting enough considering the number of students enrolled in these schools, for many there is the added pressure of possible funding cuts stemming from tighter state budgets. The blow could be cushioned a bit for some districts after they ended the 2019-2020 school year with lower-than-budgeted expenditures following several months of savings from not having students in their buildings. However, while it may provide a little extra cushion, we don’t expect this to solve all the problems facing schools in 2020-2021.

We held a “back-to-school” webcast in August covering this wide range of K-14 education operators. (For more on higher education, also covered in our webcast, see “Not-For-Profit Higher Education Mid-Year Sector View: Fall 2020 Enrollments Will Drive Credit,” published Aug. 15 on RatingsDirect). While each type of educational environment has its unique challenges, there are two common themes: revenue uncertainty and enrollment fluctuation. This FAQ details where schools stand to date during the pandemic, some key issues facing credit quality in this uncertain environment, and what we will be watching for as schools ramp up across the country this fall.

Continue reading.

3 Sep, 2020 | 17:15

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

View the list.

1 Sep, 2020

State and Local Budget Pain Looms Over Economy's Future.

Providing more aid to struggling governments has become one of the biggest issues tangling up the debate over another pandemic rescue package.

WASHINGTON — The U.S. economy struggled to shake off the last recession, with historically slow growth and a labor market that took more than six years to recover its earlier employment levels. A big part of the reason: state and local governments, which cut spending and fired workers amid widespread budget shortfalls.

The same dynamic poses one of the biggest threats to America's recovery from the pandemic downturn. State governments are again experiencing extreme budget problems as they pay out increasing sums to cover unemployment and health costs caused by the coronavirus crisis while revenues from sales taxes and corporate and personal income tax payments plummet. States could face a gap of at least $555 billion through the 2022 fiscal year, according to one estimate.

Economists warn that the long-term risk coming from struggling states could prove even more damaging this time than the last recession, which spanned 2007 to 2009, unless Washington steps in. Yet providing more aid to state and local governments has become one of the biggest political battles in the fight over another pandemic rescue package.

Continue reading.

The New York Times

By Jeanna Smialek, Alan Rappeport and Emily Cochrane

Aug. 14, 2020

Local Governments Add Some Jobs in August, But State and Local Payrolls Still Way Down.

State and local governments have about 1 million fewer employees than they did a year ago.

Local governments added 95,000 jobs in August and state employment remained relatively flat, as the coronavirus continued to strain public budgets, according to figures the Labor Department released Friday.

Despite the improvement, there were still about 1 million fewer workers on state and local government payrolls in August compared to a year earlier.

The U.S. economy more broadly added 1.4 million jobs in August, and the unemployment rate fell to 8.4% from 10.2% in July, the latest Labor Department statistics show. The employment gains were weaker than the 1.7 million jobs added in July, or the 4.8 million posted in June.

Now about six months into the pandemic, the U.S. has roughly 11.5 million fewer jobs than it did in February, before the virus upended the economy.

About 31,000 of the local government jobs added in August, were in education-related positions. The rise in local government employment outside of education—63,000 jobs—was the strongest since employment in the sector plummeted in April.

Overall local governments had an estimated 13.7 million employees in August, compared to nearly 14.6 million last August.

At the state level, non-education employment ticked up slightly by an estimated 2,000 jobs, while state jobs tied to education fell by 3,900, for a net loss of about 2,000 jobs. State employment totaled about 4.9 million, compared to about 5.1 million a year earlier.

States and localities have resorted to a mix of layoffs, furloughs and hiring freezes as the coronavirus outbreak has put a historic drag on economic activity and tax revenues, while also driving unplanned government spending on the response to the public health crisis.

Economists and state and local leaders have warned that widespread and lasting public sector layoffs at the state and local level could hamper the nation's economic recovery.

"As in the Great Recession, the pursuit of austerity will stifle a quick and full recovery," Elise Gould, an economist with the left-leaning Economic Policy Institute wrote on Friday.

Gould added that schools around the country are likely in need of more, not less, staff in the coming months, as they try to reopen with the added challenges posed by the coronavirus.

She also suggested the federal government could boost public employment through hiring more public health workers and contact tracers—the workers who track down and follow up with people who've come in close contact with someone found to have the virus.

Democrats and Republicans in Congress are at odds over whether to provide states and localities with more federal aid that could help them to avoid cuts to jobs and services. It's a major sticking point in talks about another coronavirus relief package, with Republicans less supportive of the idea.

Government employment overall increased by about 344,000 jobs in August. But about 238,000 of those added jobs were temporary workers hired by the federal government to conduct the census.

In the hospitality and leisure industry, which includes establishments like restaurants, hotels and bars, which have been particularly hard hit by the pandemic, payrolls rose by 174,000 in August.

While job gains in the sector have totaled 3.6 million over the last four months, employment in food services and drinking places is still down by 2.5 million since February.

Some Republicans offered an upbeat take on Friday's employment report.

U.S. Rep. Kevin Brady, the top Republican on the House Ways and Means Committee, noted that it marked “a fourth consecutive month of job growth,” and added: “We have recovered nearly half of the jobs lost at the lowest point of the pandemic in March.”

Route Fifty

by Bill Lucia

SEPTEMBER 4, 2020

Bill Lucia is a senior reporter for Route Fifty and is based in Olympia, Washington.

Fitch Ratings Releases 2020 Median Ratios for Not-for-Profit Life Plan Communities.

Related Fitch Ratings Content: 2020 Median Ratios (Not-for-Profit Life Plan Communities Seek Stability)

Fitch Ratings-New York-01 September 2020: Fitch Ratings has released its 2020 Median Ratios for Not-for-Profit Life Plan Communities (LPCs). The data presented in this report are limited solely to audited fiscal 2019 results.

‘The sector is trying to regain a place of stability – a new normal, which for at least the remainder of 2020, will include the impact of the coronavirus’, says Margaret Johnson, Director. ‘The pandemic has resulted in increased expenses and lower revenues as a result of a decline in post-acute rehabilitation volumes and pressured cash flows. However, none of this impact is captured in this set of medians, as the impact from the coronavirus is only first seen in 1Q20, which will be captured in next year’s median report.’

As of Aug. 18, 2020, Fitch rated a total of 158 LPC providers, of which 156 are included in the median ratio calculations. The median rating is ‘BBB’ and the number of ratings in the ‘BBB’ rating category remains the most numerous at 76 (or about 49%) versus 37 (or 24%) in the ‘A’ rating category. Within Fitch’s median portfolio, Type A contract providers remain the plurality with 62 (about 40% of the portfolio), followed by Type C contract providers and Type B contract providers.

Contact:

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

Ryan Pami, CFA
Director
+1 212 908 0803

Gary Sokolow
Director
+1 212 908 9186

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: Pandemic Likely to Sting Over Time for U.S. NFP Hospitals]

Related Fitch Ratings Content: [2020 Median Ratios (Not-for-Profit Hospitals and Healthcare Systems)]

Fitch Ratings-Austin-01 September 2020: Median ratios improved for a second straight year for U.S. not-for-profit hospitals and health systems, though the unprecedented coronavirus pandemic will still likely stress healthcare providers as the pandemic continues, and as future pandemic readiness requirements and payor mix shifts erode margins over time, according to Fitch Ratings in a new report.

"Additionally, capital spending will generally be reduced in the initial years post-pandemic as organizations scrutinize every dollar of capital spending," said Senior Director Kevin Holloran. "However, we expect that providers who emerge from the pandemic as strong as they are now or stronger will ultimately accelerate spending in anticipated merger, acquisition and expansion activity."

2020 median operating margins and operating EBITDA increased incrementally to 2.3% and 8.7%, respectively, from 2.1% and 8.6% in the prior year. Median operating profitability also improved for the second straight year following prior years of operating income declines. Additionally, days cash on hand increased approximately five days (2.3%) to 219.8, compared to 214.9 in the prior year.

The across-the-board median improvements obviously do not yet address the direct impact of coronavirus on hospitals, with the first signs likely to emerge in Fitch's 2021 medians update. "'Health organizations will be trying to adapt to a new normal in moving further away from traditional fee-for-service reimbursement due to their experience during the coronavirus pandemic which results in no services and no fees," said Holloran. "The pandemic is already resulting in increased expenses, initially significantly lower revenues and significant questions about the path forward for the remainder of the year."

In order to shed some light on what lies ahead, Fitch conducted a brief prospective analysis of the fallout that the coronavirus is likely to create for the sector. Absent stimulus relief and re-bounding elective procedural volumes, hospitals would have taken a considerable shock to all key financial metrics. Thus, it is safe to say that the pandemic fallout will be felt by hospitals for some time to come. "With Medicaid likely to be cut by states balancing their own budgets, additional federal assistance is likely still to come in order to help hospitals stem the proverbial bleeding that the pandemic has and will continue to precipitate."

Fitch's '2020 Median Ratios: Not-for-Profit Hospitals and Healthcare Systems' is available at 'www.fitchratings.com'.

Contact:

Kevin Holloran
Senior Director, Head of U.S. NFP Hospitals & Health Systems

+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

With Washington Deadlocked on Aid, States Face Dire Fiscal Crises.

Local officials are slashing funding for everything from education and health care to orchestra subsidies.

Alaska chopped resources for public broadcasting. New York City gutted a nascent composting program that could have kept tons of food waste out of landfills. New Jersey postponed property-tax relief payments.

Prisoners in Florida will continue to swelter in their cells, because plans to air-condition its prisons are on hold. Many states have already cut planned raises for teachers.

And that’s just the start.

Across the nation, states and cities have made an array of fiscal maneuvers to stay solvent and are planning more in case Congress can’t agree on a fiscal relief package after the August recess.

House Democrats included nearly $1 trillion in state and local aid in the relief bill they passed in May, but the Senate majority leader, Mitch McConnell of Kentucky, has said he doesn’t want to hand out a “blank check” to pay for what he considers fiscal mismanagement, including the enormous public-pension obligations some states have accrued. There has been little movement in that stalemate lately.

Economists warn that further state spending reductions could prolong the downturn by shaking the confidence of residents, whose day-to-day lives depend heavily on state and local services.

“People look to government as their backstop when things are completely falling apart,” said Mark Zandi, chief economist at Moody’s Analytics. “If they feel like there’s no support there, they lose faith and they run for the bunker and pull back on everything.”

States and municipalities are also crucial employers and spenders that keep the economy moving. “We run the risk of descending into a dark vicious cycle,” Mr. Zandi said.

State and local governments administer most of America’s programs for education, public safety, health care and unemployment insurance. They also provide a wide variety of smaller services, such as outdoor recreational facilities or highway rest stops, that improve the quality of life. The costs of many of these programs have spiraled because of the pandemic, which has at the same time caused an economic slump that has driven down tax revenues.

Collectively, state governments will have budget shortfalls of $312 billion through the summer of 2022, according to a review by Moody’s Analytics. When local governments are factored in, the shortfall rises to $500 billion. That estimate assumes the pandemic doesn’t get worse.

Lawmakers soon passed the $2 trillion CARES Act, which authorized one-time stimulus payments and temporary supplemental unemployment payments, which buoyed consumer spending and helped states’ sales-tax revenues. The law also allocated about $150 billion to states for expenses directly attributable to the pandemic, in areas ranging from education and health care to the operation of nearly empty airports. But the rules for what expenses that money can cover have kept much of it from being spent, according to the Treasury Department. New York State, for example, has been sent about $2.9 billion that it can’t put toward other uses.

Although states’ budget challenges would be eased if Congress relaxed those rules, that still wouldn’t be enough to fill the gap.

Gov. Andrew M. Cuomo has warned that without further relief New York will cut $8.2 billion in grants to local governments, a blow he said had “no precedent in modern times.” The cuts would hit “nearly every activity funded by state government,” including special education, pediatric health care, substance abuse programs, property-tax relief and mass transit, he said.

No two states have tackled the budget crunch the same way. Several have torn up their annual budgets and are doling out money to programs one or two months at a time. Some have earmarked cuts but not yet carried them out.

Delaware has decided to issue less debt, and a bond issue that was supposed to fund clean-water projects has been shelved. In California, people who go to court without lawyers — an estimated 4.3 million a year — will continue to deal with confusion because the state has scrapped plans for “court navigators” to shepherd them through. Nevada said it would forgo the penalties and interest it normally charged tax cheats, hoping to coax them and their unpaid millions up from underground. In Maryland, the Baltimore Symphony Orchestra will lose a $1.6 million state subsidy.

Some states are trying to save cash on their pension contributions. Kentucky has delayed its payments to the state workers’ pension fund, already one of the most poorly funded in the country. Colorado and Maryland are among the states planning to reduce their contributions. Some, like California and New Jersey, had recently committed to raising their contributions to cover past underpayments — but now can’t afford to do so.

Without further federal aid, some of the biggest cuts will be to education and health care. California says it will send its school districts $12.5 billion in I.O.U.s if Washington doesn’t step in, and it will be on the schools to figure out how to fund themselves in the meantime. Preschool programs are being cut in many states; so are free-tuition college programs. State university systems are slated to lose billions of dollars in state funding, although some states say the cuts will be quickly reversed if enough federal money arrives.

And many states say they will reduce their outlays for Medicaid. The health care program for low-income people has been growing rapidly in the pandemic as millions have lost their jobs along with their employee health benefits. States are struggling to find a way to pay for all these additional people. Some, like Colorado, are increasing the co-payments that their Medicaid patients must pay for doctor visits, pharmaceuticals and medical transport.

State officials say they have little choice but to keep cutting if more aid doesn’t arrive. All but one state, Vermont, are legally bound to balance their budgets every year, and Vermont does so voluntarily. They can’t borrow their way out of a cash crunch, the way Washington can, because they have laws limiting how much bond debt they can carry. If they veer too close to the limit, lenders will start demanding higher interest rates and the rating agencies will downgrade them.

In May, the Federal Reserve offered to buy states' bonds if terms in the municipal bond market become onerous. But most states think the Fed loans cost too much and have to be paid back too quickly to be of much help. So far only one state, Illinois, and one state authority, New York's Metropolitan Transportation Authority, have taken the Fed up on its offer. New Jersey and Hawaii are exploring deals, according to the National Conference of State Legislatures, which tracks the states' fiscal plans as they develop.

Public pensions have been a central point of contention in discussions over additional federal aid.

In April, with economic activity at low ebb, Illinois lawmakers sent a detailed wish list to their state's congressional delegation that included $10 billion for the coming year's pension contribution. They also asked for $9.6 billion for Illinois's cities, which needed the money to "fund retirement systems for the police, firefighters and other first responders providing emergency services during this Covid-19 outbreak."

On a syndicated radio show, Mr. McConnell said Senate Republicans would "certainly insist that anything we'd borrow to send down to the states is not spent on solving problems that they created for themselves over the years with their pension programs."

Glenn Hubbard, an economic conservative who was chairman of the Council of Economic Advisers under President George W. Bush, said he agreed that federal money should not be used to prop up failing state pension funds. But he acknowledged that the states' cash needs were becoming urgent and said there wasn't time for a complete overhaul of troubled state pension systems.

For the sake of speed, Mr. Hubbard said in an interview, Congress could send the states money with a simple, and probably breakable, rule that it not be used to reduce taxes or bail out pensions. Public pension reform, which would be grueling, could come later.

Or, as Mr. Hubbard said in an online seminar hosted by the Economic Policy Institute last month, "if an overweight person comes to the E.R. with a heart attack, you treat the heart attack before you lecture him or her about weight."

The New York Times

By Mary Williams Walsh

Sept. 7, 2020

Muni-Fund Investors Have Been Their Own Worst Enemies.

A more disciplined approach should lead to better results.

Municipal-bond fund investors have often been their own worst enemies, but they don't have to be.

With holdings that help finance state and local governments and other essential projects like schools, water systems, bridges, and toll roads, muni funds might seem like a staid backwater of the fixed-income world. When it comes to investor behavior, though, they've often been prone to erratic cash flows that have ended up hurting investor returns (also known as dollar-weighted returns or internal rates of return).

In our annual “Mind the Gap” study, which estimates the gap between investors’ dollar-weighted returns and reported total returns, we found that in aggregate, the returns muni-fund investors earned for the trailing 10-year period ended Dec. 31, 2019, continued to fall short of reported total returns by a fairly wide margin. This gap has averaged about 1.1% per year over the past five 10-year periods. It improved slightly for the most recent 10-year period but still stood at 94 basis points per year, as shown in the chart below. That’s particularly painful given that returns on muni funds aren’t that high to begin with.

Continue reading.

morningstar.com

by C. Arnott, CFA

Aug 31, 2020

Risk Creeps Into Municipal Bond Market, Yet Prices Stay High.

Rock-bottom yields leave risk-averse investors with few options

Add the municipal market to the long list of American institutions reshaped by Covid-19.

The pandemic is threatening the creditworthiness of many municipal securities long seen as safe investments—bonds for higher education, health care, tourism and travel.

Prices across much of the market remain at or near pre-pandemic highs even as borrowers’ finances have become more precarious.

Moody’s Investors Service has lowered its outlook to negative on all municipal bond sectors except for housing-finance agencies and water, sewer and public power.

Analysts predict downgrades.

“It’s amazing that we’ve sustained six months of being shut down to some degree with very minimal rating actions,” said Lisa Washburn, a managing director at Municipal Market Analytics.

Municipal bond defaults have reached their highest rate since 2011, the aftermath of the last recession, according to Municipal Market Analytics data.

Still, Americans continue to pour money into municipal bond mutual funds, which are clocking 17 straight weeks of inflows since mid-May.

After prices cratered in March, they rebounded to pre-pandemic highs as investors flocked to the tax-exempt investments.

Rock-bottom yields across the fixed-income market have left risk-averse investors with few other appealing options. Municipal bonds default far less often than corporate debt. Moves by the Federal Reserve to backstop the municipal market have stoked investor confidence.

Some fund managers see big-name borrowers who have good relationships with creditors as a good long-term buy even if their bonds are at risk of a short-term downgrade.

“We’re modestly more comfortable with those guys because there is a possibility that we’re entering a terrain where sophistication and access to markets is a big credit differentiator,” said Adam Stern, co-head of research at Breckinridge Capital Advisors.

Such buyers have helped bolster prices in the thinly traded $4 trillion market. Many high-net-worth households buy municipal securities for retirement income and hesitate to erode the value of their portfolios by trading.

Prices are rising on bonds backed by essential services. Water system improvement bonds issued by the San Francisco Public Utilities Commission that mature in 2029 are trading at 108 cents on the dollar compared to 104 cents in January.

Debt manager Richard Morales is expecting strong investor demand for a September water-syste--improvement bond issue and planning a money-saving refinancing in October.

“Everybody needs to flush the toilet,” Mr. Morales said. “And the water that comes out of their sink has to go down a drain.”

Tourism-linked borrowers, however, face more uncertainty and sometimes wary investors.

At the Greater Columbus Convention Center in Ohio, hotel tax revenues are falling from about $26 million a year to a roughly projected $10 million, said Executive Director Don Brown.

“Hotel occupancy has plummeted,” Mr. Brown said.

Over the past five months, the Franklin County Convention Facilities Authority has withdrawn about $4.9 million from a reserve fund to cover debt payments on bonds issued to renovate the center. The authority plans to restructure about $200 million to bring annual debt payments below $10 million until 2025 to avoid drawing on a revenue pledge by Columbus and Franklin County, Mr. Brown said.

Convention center bonds due in 2025 are trading at highs of 118 cents on the dollar versus 119 cents before the pandemic.

Bonds for communal-living developments such as senior housing and student dormitories are defaulting at greater rates than during the last downturn, according to Municipal Market Analytics data.

The pandemic has drained revenue from universities as Covid-19 outbreaks prompted schools to cancel sports and forgo housing fees. Public universities get a median 13% of their revenue from those types of sources and private universities get a median 16%, according to an analysis by Merritt Research Services.

Moody’s downgraded 10 health-care borrowers and 17 higher-education and nonprofit borrowers in the second quarter of this year. Both S&P and Fitch Ratings have lowered Northwestern University to AA+ as a result of pandemic-related pressures.

A stress test by Merritt found that if universities lost a quarter of their revenues, 44% of public schools and 39% of private schools would exhaust any available financial cushion unless they made cuts.

"I would expect that some are vulnerable to that kind of loss," said Richard Ciccarone, Merritt's president and chief executive.

In the same scenario, about a fifth of hospitals would run out of cash, the firm found.

Some health-care facilities are already running into trouble. Petaluma Health Center, a nonprofit network of clinics in Sonoma County, Calif., that serves students and the homeless, last month disclosed to bondholders it had recorded a $3.7 million deficit for the second quarter. The group said it expects forgiveness on a federal loan to plug the shortfall.

In many cases, investors are continuing to pay pre-pandemic prices despite added risk.

Ten-year tax-exempt bonds New York City issued last month paid out yields of 1.45%—nearly the same as bonds priced Feb. 13, about a month before the city shut down in response to Covid-19.

Jonathan Kahn, a New York state resident and a buy-and-hold individual investor in New York municipal debt, said he hasn't bought muni bonds since March because prices are too high to justify exposing himself to the uncertain environment for state and local government finance.

"There's no clarity as to revenues and expenses for the duration of the bonds that they are selling," Mr. Kahn said. "Therefore it is impossible to gauge the risk, and interest rates are so low there is no offsetting reward."

Getting A Yield Pickup In Misunderstood Airport Bonds.

Summary

- The risk of airport bonds is more quantifiable relative to comparable General Obligation bonds.
- Yield on airport bonds versus comparable GOs put airports slightly on top.
- Major airports have the cash to pay bondholders.
- All the information needed to assess an airport bond is easily available and understood.
- Specific recommendations of three airport bonds we believe are "money good."

Continue reading.

Seeking Alpha

by Chris Malburg

Sep. 4, 2020

Morning Zoo Radio and Cash Flow Relief for Issuers: Part 1 - Squire Patton Boggs

The pandemic is forcing even the most frugal issuers to seek to reduce or postpone their debt repayment requirements. There are many ways to do this. Each approach has pros and cons from a business perspective. Not surprisingly, each approach also has tax consequences that are often not intuitive and sometimes downright devilish. We will tackle them one at a time in a series of bite-size (relatively speaking) posts. First up: *It's America's #1 Morning Zoo Tag-Team Radio Show: SCOOP AND CHUCK!*

Like "Cinderella Bonds" and "total return swaps," the term "Scoop and Chuck" can mean several things. To your stir-crazy author, it conjures images of two zany morning radio hosts bantering and giving incessant weather reports (*"It's 99 degrees and miserable in Houston, 99 degrees and miserable in Galveston, 99 degrees and miserable in Katy, 99 degrees and miserable in the Woodlands. . ."*), while their dopey sidekick hosts a 2-for-1 giveaway from a dunk tank at a local discount mattress store. (Maybe that's just me.)

Continue reading.

Squire Patton Boggs

By Johnny Hutchinson on August 23, 2020

Morning Zoo Radio and Cash Flow Relief for Issuers: Part 2 - Squire Patton Boggs

In Part 1, we introduced the cash flow relief technique/staple of your morning commute known as "Scoop and Chuck." In particular, we discussed an issuer that will issue new bonds and use the proceeds to pay interest (but no principal) on a prior issue of bonds. The new bonds will have a debt service schedule that is pushed out later in time compared to the debt service schedule on the prior bonds. This enables the issuer to keep some of the revenues that it otherwise would have used to pay debt service on the prior bonds. In Part 2, below, we'll add more facts and try to provide some answers.

We left our last post with you heading to the local mattress store to check in with a radio sidekick. More to the point, we left you with Reg. 1.150-1(d)(2)(i), which provides a way for us to avoid treating our scoop and chuck issue as a refunding issue, meaning that it can't be an advance refunding issue, meaning that we could use proceeds of our scoop and chuck issue to pay interest that accrues more than 90 days (but within 1 year) of the issue date of our scoop and chuck bonds.

Continue reading.

Squire Patton Boggs

By Johnny Hutchinson on August 24, 2020

Better Data Can Highlight Climate Exposure: S&P Focus On U.S. Public Finance

Key Takeaways

- ***Better data could provide a foundation for understanding current and future climate risks*** on the county level across the U.S. in coming years, providing insight into U.S. public finance–where consistent and comparative disclosure has been lagging.

- ***Data also improves our understanding of the possible scale of entities' risks and can facilitate a richer dialogue about adaptation actions.*** For USPF entities, location and regulation will drive sensitivity to physical climate risks, so enhanced analytics about the degree of potential exposures and when the exposures could crystallize can improve our understanding of their preparedness and the potential future influence of climate risk on credit quality, if adaptation actions are not taken.
- ***Water stress and heat waves are on the rise in the U.S.,*** where water scarcity will affect 38% of counties in 2050 under a high-stress climate scenario (RCP8.5), raising risks under this scenario for their municipal water utilities, public-owned power utilities, and local governments. Heat wave risk will continue to increase across all states and under all scenarios to midcentury with Florida particularly exposed.
- ***Wildfires are already a risk.*** Western and southeastern states are most highly exposed to wildfire risk now. Sixteen counties in Oregon, Wyoming, Montana, Minnesota, and New Mexico see the greatest increase in exposure through 2050.
- ***Sea level rise and river flooding is most severe in Louisiana.*** The state has the greatest number of counties affected by sea level rise and river flooding to 2050 under the RCP8.5 scenario. Other states are also highly exposed. Without adaptation, entities will remain exposed to these hazards.

Continue reading.

24 Aug, 2020

The Lunacy Of Using City Streets To Collateralize New Municipal Bond Deals.

I felt my hair on fire as I read a *Bond Buyer* article about cities, with underfunded pensions, issuing taxable municipal bonds using city streets as collateral. I mean the *actual physical streets* complete with traffic lights, striping, stop signs. The works. This is no joke.

The two California cities featured in this article are West Covina and Torrance. Torrance happens to be in my own back yard. Who knew they were up to such pension shenanigans? They intend using the bond proceeds to catch up on unfunded pension obligations.

Over the years, I've tried never to skip a chance of sharing my disdain for Pension Obligation Bonds (POBs). Those are taxable municipal bonds issued to investors of which the proceeds go into various public pension funds to improve their funding ratios. The pension investment managers then invest in stocks, bonds, and real estate in order to meet their liabilities as public employees retire.

So, this relatively new twist on things has red flags posted all over it. First, since city streets are pledged as collateral and if a default occurs, what happens? Unclear. Can bondholders order toll booths set up on what just became *their* street to raise the money needed to make them whole? Who knows? Sure, Southern California has Express Lanes and a few toll roads. But tolls on city streets sounds absurd, unworkable and downright stupid.

The city fathers may believe these lease revenue bonds are the cure for underfunded pension incompetency we've witnessed over the last few decades. Paper over and borrow over the unfunded pension obligations is no solution. This is a bad idea that should get no traction from investors.

Apparently, the Torrance deal can be up to $350 million and may come to market in October. West Covina already issued their bonds in July. The Official Statement specifically states, "The Leased

Property consists of City streets constituting an estimated 303 miles of streets, with 557 lane miles, and 47,267,942 square feet of pavement." You're probably wondering along with me just how 47 million square feet of pavement could generate cash to repay bondholders. Even more absurd, the Official Statement goes on to say:

"Limited Remedies. The City has not granted any security interest in the Leased Property for the benefit of the owners of the 2020A bonds, and there is no remedy of foreclosure on the Leased Property upon the occurrence of an Event of Default under the Indenture or the lease. If an event of default occurs under the Lease, there is no right for the Authority, the Trustee, or the Owners to terminate the Lease and re-let the Leased Property."

From this, it sounds like West Covina could decide to stop paying bondholders without any available remedy whatsoever. I wouldn't touch these bonds with a 10-foot pole. But investors did. The bonds sold.

My message is simple: If you desire taxable income for your IRA , pension plan or just to supplement your income, then invest in corporate bonds. Do not buy lease revenue pension bonds collateralized by city streets.

With corporates you know where you stand in the pecking order of default. With corporates you can follow quarterly earnings, balance sheets, and news. With municipals, if you're lucky, the issuer will post their financial results just a year later.

This is truly a bad idea and even worse timing with stocks at all-time highs and bond yields at all-time lows.

Forbes

by Marilyn Cohen

Aug 28, 2020

Is Your State in Financial Trouble? Here's How All 50 Stack Up.

Covid-19 is decimating tax revenue for states, but the pain is hardly spread evenly. Some states are in much better financial shape than others.

Barron's asked asset-manager Eaton Vance to rank all 50 states based on creditworthiness. Idaho, Wyoming and South Dakota lead the pack, while New Jersey and Illinois bring up the rear. While Wyoming's rainy day fund is equal to a year's worth of revenue, Illinois' is down to zero, the ranking shows.

The ranking is based on crunching essential financial and economic data from the past fiscal year, ended June 2019, including debt levels and pension liabilities. The table includes updated numbers on projected budget shortfalls, unemployment rates and rainy day funds.

Continue reading.

Barron's

By Leslie P, Norton

Aug. 31, 2020 8:51 am ET

S&P: U.S. Public Finance Housing Mid-Year Sector View: Uncertainty Lies Ahead

Key Takeaways

- The COVID-19 pandemic is hitting some U.S. public finance (USPF) housing subsectors harder than others.
- As enhanced benefits start to phase out, we expect some households will struggle to meet their housing payments, challenging housing issues' certainty to meet debt service payments.
- Age-restricted and unenhanced rental housing properties, typically volatile, have become even more so as the pandemic and shutdown have intensified financial stress.

Continue reading.

27 Aug, 2020

Fitch: Resilient Air Cargo Volumes Benefit Some Airports Amid Pandemic

Fitch Ratings-New York-26 August 2020: Air cargo volumes have been more resilient to coronavirus pandemic-related effects than passenger traffic activity, but the overall effect on stabilizing airport revenues is mostly limited to the largest cargo hubs, given smaller cargo revenue contributions at the majority of US airports, says Fitch Ratings. At the 10-largest US cargo airports, passenger volumes were down 80%-90% in the initial period of peak declines after March 2020, while cargo volumes have seen more mild declines or, in a few cases, significant growth.

Despite the negative economic fallout of the pandemic, stay-at-home orders and increased ecommerce and online purchases have bolstered cargo volumes in the short-term. However, Fitch believes volumes could soften over the medium term due to global economic uncertainties. Historically, air cargo trends have exhibited a strong correlation with GDP growth, suggesting that volumes are susceptible to declines in the event of prolonged economic downturns.

Continue reading.

Fitch Ratings Releases 2020 Median Ratios for Not-for-Profit Life Plan Communities.

Fitch Ratings-New York-01 September 2020: Fitch Ratings has released its 2020 Median Ratios for Not-for-Profit Life Plan Communities (LPCs). The data presented in this report are limited solely to audited fiscal 2019 results.

'The sector is trying to regain a place of stability – a new normal, which for at least the remainder of 2020, will include the impact of the coronavirus', says Margaret Johnson, Director. 'The pandemic has resulted in increased expenses and lower revenues as a result of a decline in post-acute rehabilitation volumes and pressured cash flows. However, none of this impact is captured in this set of medians, as the impact from the coronavirus is only first seen in 1Q20, which will be captured in next year's median report.'

As of Aug. 18, 2020, Fitch rated a total of 158 LPC providers, of which 156 are included in the median ratio calculations. The median rating is 'BBB' and the number of ratings in the 'BBB' rating category remains the most numerous at 76 (or about 49%) versus 37 (or 24%) in the 'A' rating category. Within Fitch's median portfolio, Type A contract providers remain the plurality with 62 (about 40% of the portfolio), followed by Type C contract providers and Type B contract providers.

Contact:

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

Ryan Pami, CFA
Director
+1 212 908 0803

Gary Sokolow
Director
+1 212 908 9186

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

Additional information is available on www.fitchratings.com

---

23 Muni Bond Payment Defaults Sets Record for Retirement Community Sector.

Twenty-three retirement communities have reported first-time payment defaults on municipal bonds in 2020.

Since 2009, the retirement sector has never before posted more than 22 defaults in a given calendar year, according to a recently released report from Municipal Market Analytics (MMA). That previous high of 22 was recorded in 2016.

So far in 2020, 52 muni borrowers across all sectors have recorded first-time payment defaults, representing $5.04 billion of outstanding principal, the MMA report showed. The retirement sector has been the hardest hit. In addition to having the most first-time payment defaults, the sector also has had the most emergency draws (13) on contingent security provisions such as reserve funds and bond insurance to avoid default.

Continue reading.

Senior Housing News

By Tim Mullaney | August 24, 2020

Rural Hospitals Are Sinking Under COVID-19 Financial Pressures.

Jerome Antone says he is one of the lucky ones.

After becoming ill with COVID-19, Antone was hospitalized only 65 miles away from his small Alabama town. He is the mayor of Georgiana — population 1,700.

"It hit our rural community so rabid," Antone says. The town's hospital closed last year. If hospitals in nearby communities don't have beds available, "you may have to go four or five hours away."

As COVID-19 continues to spread, an increasing number of rural communities in the U.S. find themselves without their hospital or on the brink of losing already cash-strapped facilities.

Continue reading.

WABE

SARAH JANE TRIBBLE • AUG 22, 2020

Fitch: Pandemic Likely to Sting Over Time for U.S. NFP Hospitals

Related Fitch Ratings Content: 2020 Median Ratios (Not-for-Profit Hospitals and Healthcare Systems)

Fitch Ratings-Austin-01 September 2020: Median ratios improved for a second straight year for U.S. not-for-profit hospitals and health systems, though the unprecedented coronavirus pandemic will still likely stress healthcare providers as the pandemic continues, and as future pandemic readiness requirements and payor mix shifts erode margins over time, according to Fitch Ratings in a new report.

"Additionally, capital spending will generally be reduced in the initial years post-pandemic as organizations scrutinize every dollar of capital spending," said Senior Director Kevin Holloran. "However, we expect that providers who emerge from the pandemic as strong as they are now or stronger will ultimately accelerate spending in anticipated merger, acquisition and expansion activity."

2020 median operating margins and operating EBITDA increased incrementally to 2.3% and 8.7%, respectively, from 2.1% and 8.6% in the prior year. Median operating profitability also improved for the second straight year following prior years of operating income declines. Additionally, days cash on hand increased approximately five days (2.3%) to 219.8, compared to 214.9 in the prior year.

The across-the-board median improvements obviously do not yet address the direct impact of coronavirus on hospitals, with the first signs likely to emerge in Fitch's 2021 medians update. "'Health organizations will be trying to adapt to a new normal in moving further away from traditional fee-for-service reimbursement due to their experience during the coronavirus pandemic which results in no services and no fees," said Holloran. "The pandemic is already resulting in increased expenses, initially significantly lower revenues and significant questions about the path forward for the remainder of the year."

In order to shed some light on what lies ahead, Fitch conducted a brief prospective analysis of the fallout that the coronavirus is likely to create for the sector. Absent stimulus relief and re-bounding elective procedural volumes, hospitals would have taken a considerable shock to all key financial metrics. Thus, it is safe to say that the pandemic fallout will be felt by hospitals for some time to come. "With Medicaid likely to be cut by states balancing their own budgets, additional federal assistance is likely still to come in order to help hospitals stem the proverbial bleeding that the pandemic has and will continue to precipitate.

Contact:

Kevin Holloran
Senior Director, Head of U.S. NFP Hospitals & Health Systems
+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

Munis in Focus: Bloomberg Radio

Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses his newsletter "New York Aint Dead But It Should Be Thankful Rates are Low."

Play Episode

August 28, 2020

Ransomware Attacks Demanding Larger Payouts from Local Governments.

The average ransom demanded of a local government in a cyberattack grew from $30,000 to $380,000, according to one cybersecurity firm.

Hackers carrying out ransomware attacks against local governments are demanding larger sums of money and finding that smaller municipalities are willing to pay up, according to cybersecurity experts.

The ransom demands made on local governments after computer systems are breached or private data is stolen have increased from an average of $30,000 in 2017 to $380,000 in 2019, according to a report published this month by BlueVoyant cybersecurity firm. Several ransom demands exceeded $1 million last year.

The increased monetary demands reflect a shift in technique among hackers, according to the report. Ransomware attacks on local governments were previously opportunistic in nature, exploiting vulnerabilities for the possibility of a quick payout. But more recent attacks are “targeted ransomware intrusions focused on larger organizations, with critical digital services, that could be ransomed for high amounts,” the BlueVoyant report states.

The firm analyzed 108 attacks on state and local governments going back to 2017 to better understand cybersecurity issues facing local governments.

Another [report](), released Thursday, found that the number of ransomware attacks affecting local governments has decreased over the last 12 months. The cybersecurity company Barracuda found that hackers made ransom demands against 33 municipal governments in the last 12 months compared to 55 attacks the year before.

But smaller municipalities have come under increasing attack as hackers exploit their vulnerabilities and lack of resources, said Fleming Shi, the chief technology officer of Barracuda. At least 15% of the 33 municipalities attacked in the last 12 months paid the demanded ransom, with payments ranging from $45,000 to $250,000, the Barracuda report found.

“All the municipalities studied that made payments had populations less than 50,000, and they deemed the cost and labor associated with manually recovering from the ransomware attacks too high,” the Barracuda report states. “That’s a significant change compared to last year, when practically none of the municipalities attacked paid any ransom.”

While prior ransomware attacks have often centered on locking government officials out of their own computer systems and demanding payment to let them back in, Shi said hackers now more likely steal private information from local governments and to demand payment not to release it.

“Data breaches and exposing very private or critical data is becoming part of their tactic,” he said.

To protect themselves from ransomware attacks, the BlueVoyant report recommends local governments conduct cybersecurity risk assessments and consider purchasing cyber insurance or working with a managed security service.

Managed service providers have increasingly come to the aid of smaller municipalities to help them recover their data or restore access to computer systems, Shi said.

“Without any help, they are likely to pay because they don’t have the infrastructure to remediate or recover data,” Shi said.

Andrea Noble is a staff correspondent with Route Fifty.

Route Fifty

By Andrea Noble

AUGUST 27, 2020

[Hurricane Laura's Impact on the Muni Market.]()

Christopher Brigati, Advisors Asset Management head of municipals, discusses how Hurricane Laura is impacting the municipal bond market with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

[Watch video.]

Bloomberg Markets

August 27th, 2020, 3:04 PM PDT

[FEMA Spends More Preparing for Terrorism Than Hurricanes.]

Readiness grants aimed at hurricanes and floods have for years been far smaller than those for counter-terrorism.

In the days and hours before Hurricane Laura reached the Gulf Coast, emergency personnel took up positions in Texas and Louisiana and readied half a million meals and 800,000 liters of water. It's the role of the Federal Emergency Management Agency to coordinate the immediate response to storms, floods and wildfires, all of which have become more common as a result of global warming. But even though scientists have warned of increasingly extreme weather, preparation for climate-related disasters hasn't been FEMA's top spending priority.

An analysis of preparedness grants disbursed by FEMA shows the agency spends far more on counter-terror than natural disasters. In 2019, for example, the U.S. Government Accountability Office found more than $1 billion in FEMA grants assigned to counter-terror preparation and only $315 million in readiness for natural disasters.

Most Americans think of FEMA as the agency that responds to major storms. Its role is most visible in aftermath of hurricane like Laura, which forecasters described as the worst in a century to hit the western U.S. From 2005 to 2019, FEMA spent at least $460 billion to clean up and rebuild after natural disasters, according to the GAO. That's about $30 billion per year, on average.

FEMA is part of the Homeland Security Department, so preparation for terrorism threats is also part of its job. The current spending disparity is a result of laws passed after the Sept. 11 terrorist attacks. "Most preparedness grants since 9/11 have been spent on counter-terrorism," said Chris Currie, a director in GAO's homeland security team who wrote a recent report on FEMA disbursements. FEMA did not respond to a request for comment.

Only one of FEMA's three main preparedness grant programs allows money to be spent without meeting a terrorism requirement. That program, the Emergency Management Preparedness Grant, has been funded sporadically over the years and, unlike the two counter-terror grants, requires a 50/50 matching expenditure from localities receiving the funds. As a result, poorer municipalities have less access to preparedness money for storms and floods.

There are new FEMA grant programs for 2020 that will disburse $660 million in funding for what the agency calls "pre-disaster mitigation," focusing on resiliency against flooding and the relocation of vulnerable communities. Last year, however, approximately 75% of FEMA's total preparedness grants went to the programs with counter-terrorism links, according to the GAO report.

The agency's Sept. 11-influenced spending priorities weren't adjusted all that much even after Hurricanes Florence and Michael caused over $50 billion of damage in 2018 across the Carolinas and Florida. A review of FEMA grant requests made by the latter state for 2019 through 2020 shows that a large chunk of the nearly $14 million has been sought for law enforcement communication, SWAT training, and bomb detection.

“The state uses this grant to prepare for all hazards, including terrorism, cybersecurity, hurricanes, floods, wildfires,” said Samantha Bequer, spokeswoman for the Florida Division of Emergency Management. “Although [Hurricane Michael] was a natural disaster, many first responders relied upon Department of Homeland Security’s grant-funded training, equipment and technology for response and recovery efforts.”

Craig Fugate, who was FEMA administrator under President Obama, agreed that preparedness grants are flexible enough to allow local officials to build up search-and-rescue and emergency management capabilities that would be as helpful in a terrorist attack as a hurricane. And counter-terrorism spending can help with another critical problem: mass shootings. Fugate pointed to the 2015 hostage situation that took place in San Bernadino, California. “A lot of the equipment—everything from robotics, drones, vehicles to get in close, and the training and exercises beforehand—are things funded with Homeland Security money,” he said.

Still, security-focused grants aren’t the best way to make communities more resilient against storms and floods. The recent GAO report cited “long-standing capability gaps” caused in part by counter-terror requirements. And, of course, there have been far more disasters caused by extreme weather than terrorist attacks. This year alone the U.S. is facing record wildfires in California and a hurricane season on pace to be among the most active ever.

FEMA’s funding has also been caught up in the policy response to the coronavirus pandemic. The Trump administration recently ordered FEMA to divert $44 billion from the agency’s disaster-relief fund to pay for federal unemployment benefits. The measure was a stopgap after Congress failed to enact another Covid-19 stimulus package.

Federal emergency managers maintain their readiness to help states and localities meet the moment, and President Trump declared national emergencies in Texas, Mississippi, Puerto Rico and Louisiana ahead of Hurricane Laura’s landfall. “I don’t think people should be worried about FEMA running out of money during the initial response,” Fugate said in an interview Wednesday evening on Bloomberg Television.

To outside observers, though, FEMA’s preparedness priorities are out of step with the need to defend against global warming. “We need to invest much more in the people and programs we rely upon for these efforts,” said Rob Moore, a senior policy analyst with expertise on preparedness at the Natural Resources Defense Council, an environmental group. “If we don’t, we’re going to stay stuck behind an ever steepening curve of climate-fueled disasters.”

Bloomberg Green

By Leslie Kaufman

August 27, 2020, 2:00 AM PDT

— With assistance by Ari Natter

Managing Hurricane Risk in a Bond Portfolio.

Below is a slide from a presentation by our good friend Tom Doe, who heads up Municipal Market Advisors (http://www.mma-research.com). Tom's firm does in-depth quantitative and qualitative research on the muni market, and we show the slide with their permission.

Continue reading.

Herald Tribune

By John Mousseau and Patricia Healy

August 26, 2020

MUB: National Munis Face Covid Pressures, But The Market Ignores Them

Summary

- Municipal bonds continue to attract investor interest, even in hard-hit areas like New York, which was the center of the pandemic in March.
- The market appears to be pricing in robust federal support for the muni sector, but President Trump and the Republican-led Senate seem resistant to this idea.
- As yields decline, so has MUB's income stream. While the tax benefits of munis remain relevant, I see a limited total return in the months ahead.

Continue reading.

Seeking Alpha

Aug. 29, 2020

For Muni Investors, COVID-19 Provides Lessons In Liquidity.

Summary

- Over the years, individual investors have flocked to municipal bonds to meet safety, income and after-tax return goals. The recent coronavirus-driven liquidity crunch underscores that investors should also think carefully about how they gain exposure to the asset class.
- Not only have municipal bonds provided a higher historical risk-adjusted return than stocks even before taxes, but they have also zigged when equity markets zagged-serving as a buffer when it's needed most.
- But what investors need to know about municipal bonds doesn't begin and end with an attractive risk/return profile. Market liquidity also matters.

Continue reading.

Seeking Alpha

Aug. 27, 2020

[Municipal Bond Funds Rebound After Covid-19 Collapse.]

After collapsing in March, municipal bond funds have clawed their way back. For the year, returns are largely in the black, despite concerns about downgrades for the sector given the state of the economy.

Even as state and local governments grapple with big revenue declines in the wake of the Covid-19 pandemic, muni bonds have sprung higher as the Federal Reserve keeps interest rates low. Make no mistake: There will be consequences for bondholders.

Tom Kozlik of Hilltop Securities, a well-known muni analyst, notes that public finance downgrades outpaced upgrades after the 2008-2009 financial crisis all the way until 2014. Kozlik thinks the number of downgrades could peak as soon as next year, but they could still outnumber upgrades for some time to come.

Continue reading.

Barron's

By Leslie P. Norton

Aug. 28, 2020 5:26 pm ET

[BondView Releases COVID-19 Credit Ratings Tool to Help Investors Check If Their Municipal Bonds Will Survive The COVID Pandemic.]

NEW YORK, Aug. 18, 2020 /PRNewswire/ — BondView, a leading provider of bond and fund information, today launched their new COVID Impact Ratings to help investors assess the economic exposure of municipal bonds to the potential impact of the pandemic. BondView's COVID Impact Ratings are free during the COVID crisis and available now here: https://cms.bondview.com/landing-page-ratings.

BondView's COVID Impact Ratings help municipal bond investors and financial professionals stay abreast of fast moving COVID driven trends impacting their investments. The ratings are updated daily and focus on five key factors that help identify COVID risk for each municipal bond. These are: 1) Sector of Issuance, 2) Material Events, 3) Geography, 4) Marketplace Perspective and 5) Bond Liquidity. Based on in-depth research and BondView's automated intelligent analyst platform, the ratings are easy to understand and available in both summary and detailed views.

The consequences of the COVID pandemic are likely to have a significant impact on parts of the municipal bond market. The nature and extent of this exposure may vary significantly between states, sectors and individual issuers. With over 1.5 million bonds in the municipal market, identifying and monitoring this impact is a major challenge for investors and professionals. Municipal bonds trade infrequently and credit ratings agencies have a large backlog of bonds that need to be re-rated. This has resulted in stale credit ratings that lag the economic realities of

COVID. BondView's COVID Impact Ratings offer an up to date, low-cost, market based measure of which bonds may be most impacted and on what scale.

BondView's COVID Impact Ratings help investors identify municipal bonds that might be most impacted by the COVID fallout and assess the scale of this impact. In the institutional market, fund managers can use this to rebalance their portfolios or mitigate risks, dealers can identify trading opportunities and muni analysts can supplement their fundamental approach. For financial advisors and retail investors, typically lacking the scale and sophisticated tools of institutional players, BondView's ratings offer a simple low-cost way of identifying and monitoring their municipal bond risk.

Robert Kane, CEO of BondView said, "BondView's COVID Impact Ratings is like having a professional bond manager keep a watchful eye over your bonds. The key benefit of the product enables professional and individual investors to identify and monitor fast moving trends that could impact their investments."

More Information: Contact Jim Walker, Press Inquiries, BondView, 245636@email4pr.com, PH 866-261-9533, https://cms.bondview.com/landing-page-ratings.

Congressional Panel Urges Fed and Treasury to Take More Risk With Main Street Program.

NEW YORK — A congressional panel overseeing the implementation of some coronavirus aid programs urged the Federal Reserve and Treasury to take more risk with taxpayer dollars and increase outreach efforts to deliver more aid to small and medium-sized businesses struggling because of the pandemic.

The bulk of the panel's recommendations centered around the $600 billion Main Street Lending Program, which has seen modest use since launching in July, more than three months after it was announced.

Some 522 lenders had registered with the program as of Aug. 10, though only 160 publicized they were accepting Main Street loan applications from new customers. The Fed had purchased $472 million in Main Street loans as of Wednesday, more than double the amount from a week earlier.

Boston Fed president Eric Rosengren, whose regional bank runs the program, said during a hearing with the congressional panel earlier this month that he expects more banks and businesses will sign up if the economy worsens.

The congressional oversight panel suggested the Fed consider using more of its regional banks, not just the Boston Fed, to improve operation of the program and experiment with potential changes.

The panel also encouraged the Fed to look at other ways to make money available to a broader set of companies, for example through "asset-backed lending and second-lien lending" against hotels or other commercial real estate. That could potentially make the Fed a mortgagee to real estate investment trusts, private equity firms and other property investors.

The oversight committee plans to hold a panel in the coming weeks about the Municipal Liquidity Facility, which supports state and local governments. New York's Metropolitan Transportation Authority (MTA) became the second issuer to tap the Fed's municipal lending program this week when it sold $450.7 million of debt to the facility, which is administered by the New York Fed.

By Reuters

Aug. 21, 2020

(Reporting by Jonnelle Marte and Howard Schneider; Editing by Chris Reese and Andrea Ricci)

Near Zero Muni-Bond Yields Signal Fed Loans to Remain a Rarity.

- **MTA, hard hit by shutdown, became second to borrow from Fed**
- **But Texas borrows over $7 billion for yield of 0.23%**

Bond analysts don't expect the phone lines at the Federal Reserve's municipal-lending arm to start ringing off the hook.

While New York's Metropolitan Transportation Authority Tuesday became the second to borrow from its $500 billion lending program for state and local government agencies after the bank cut the penalties it charges, the program is likely to remain a last resort only for those hit hardest by the steep economic contraction.

Few have been as financial battered by the coronavirus as the MTA, the bus, subway and train agency whose revenue tumbled as New York earlier this year became an epicenter of the pandemic. That triggered concern among investors that left it paying relatively steep penalties to borrow in the public bond market, making the 1.92% charged by the Fed a better deal.

Yet most others are currently able to sell short-term debt at the lowest yields in decades as cash pours in to mutual funds and bond buyers anticipate that the Fed will keep interest rates low to spur a recovery.

Texas had little trouble selling more than $7 billion of notes Wednesday despite the setback dealt to its economy, paying yields of just 0.23%, according to data compiled by Bloomberg. San Diego County, California paid just 0.16% this month.

Those low rates are in part the result of the Federal Reserve's first-ever intervention into the municipal market. Even with only two loans so far made, the bank's commitment to ensure that even the shakiest governments can raise funds gave investors confidence that the market wouldn't be roiled by the financial damage left by the pandemic.

Karel Citroen, head of the municipal credit research group at Conning, said the program would only make economic sense to municipal borrowers hovering near the precipice of having a junk-bond rating. Illinois, the only other to tap it since it was rolled out in April, is at the lowest investment-grade rank.

"If you think about the larger issuers there are not that many," he said. "If you think about market access in general I think that's still good."

That's in part because of a steady flow of money into mutual funds. Since May, state and local debt funds have received an average of $2 billion in new cash each week, according to the Investment Company Institute's figures.

Philadelphia plans to issue short-term notes to steel its budget from a potential second wave of the virus. But the city is confident it will be able to borrow in the open market at rates below what the Fed would charge.

"We're not considering it from a borrowing perspective," said Philadelphia Treasurer Christian Dunbar said. "We can get much more advantageous pricing in the market place by a significant amount. Maybe even 200 basis points."

Bloomberg Markets

By Fola Akinnibi

August 19, 2020, 11:21 AM PDT

Brian Chappatta on Fed's Muni Market Move (Podcast)

Bloomberg Opinion columnist Brian Chappatta presents a column explaining why the Federal Reserve's decision to reduce borrowing costs by 50 basis points in its Municipal Liquidity Facility is more than it seems, given the failure of Congressional leadership to come up with an aid package for state and local governments.

Listen to Podcast.

Bloomberg Opinion

August 19, 2020 — 7:39 AM PDT

Public Sector COVID-19 Recovery Assessment Tool.

The Baker Tilly Public Sector COVID-19 Recovery Assessment tool can help state and local government, utility and school district leaders assess the current impact of the coronavirus crisis on your entity and community, understand your level of preparedness for recovery in a possibly permanently altered environment and identify potential risks your entity may need to mitigate.

Click here to learn more and to access the tool.

Local Governments' Fiscal Resilience to be Tested Long After COVID-19.

All local governments throughout the United States are facing some serious fiscal and other challenges due to COVID-19, ultimately leading to an economic recession.

These challenges are primarily due to impaired revenue sources, like sales taxes, and liquidity pressures brought by revenue expenditure mismatches, which has led to serious budgetary shortfalls and reduction in services for not only the current year but years to come. In turn, these underlying revenue impairment issues are putting a downward pressure on the credit ratings for many local governments and potentially restricting or limiting their ability to access the capital markets.

In this article, we will take a closer look at how local governments' financial preparedness will be tested in the upcoming years.

Continue reading.

municipalbonds.com

by Jayden Sangha

Aug 20, 2020

Moody's Updates its Methodology for Rating US Municipal Joint Action Agencies (JAAs).

New York, August 19, 2020 — Moody's Investors Service has published an updated methodology for rating US municipal joint action agencies (JAAs), replacing the version from August 29, 2019.

In this update, Moody's has made changes to the scorecard for US municipal JAA take-or-pay projects, including converting the Competitiveness factor into a notching factor and rebalancing scorecard weights across the remaining factors. In the scorecard for all-requirement agencies, Moody's has modified one factor and one sub-factor to provide more clarity on how it scores Community Choice Aggregators (CCAs). In both scorecards, Moody's has more explicitly incorporated the risks associated with environmental regulation, expanded the scoring categories down to Ca, and also made some other minor modifications. Moody's has additionally made editorial changes to enhance readability. There were no substantive changes made to the methodology and there is no impact on current outstanding ratings as a result.

This press release is not intended to provide a summary of the methodology. For a full explanation, please consult "US Municipal Joint Action Agencies Methodology" now available on www.moodys.com and accessible at: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1207102.

HUD Issues Guidance for Coronavirus Relief Funds.

Department working with states and local units of governments to aid vulnerable populations amid outbreak

WASHINGTON – U.S. Department of Housing and Urban Development (HUD) Secretary Ben Carson today provided guidance and additional flexibility to states and units of local government who are utilizing their existing federal disaster recovery funds to support low- and moderate-income persons and vulnerable populations for disasters occurring in 2015, 2016, 2017, 2018, and 2019 during the coronavirus outbreak. The Federal Register notice published on August 17, 2020 grants extensions and clarifies submission deadlines for Community Development Block Grant disaster recovery (CDBG-DR) grantees.

“Helping Americans recover from the coronavirus pandemic is a top priority,” said Secretary Carson. “Today’s guidance underscores the Trump Administration’s commitment to offering countless flexibilities and accommodations so that states and localities can best respond to the needs of their communities.”

Key new flexibilities available to CDBG-DR Grantees are:

- Provided a one-year extension of its previously established expenditure deadline for CDBG-DR funds under certain public laws in response to a 2015, 2016, or 2017 disaster.
- Provided with the option to request an additional expenditure extension beyond the one-year extension, for a maximum of two years.
- Provided submission extensions to CDBG-DR grantees for their certifications, implementation plan and capacity assessment, and action plan in response to a 2018 or 2019 disaster. Also includes a new provision that allows grantees to request additional submission extensions.

For more information on HUD’s CDBG-DR program, please visit Hud.gov.

Public Housing Authorities across the Nation have jumped into action to help assist their tenants and their communities during this unprecedented time. Read more about their stories featured in HUD’s *Neighbors Helping Neighbors* campaign, here.

Fitch Ratings Updates U.S. Housing Finance Agency Loan Program Rating Criteria.

Related Fitch Ratings Content: U.S. Housing Finance Agency Loan Program Rating Criteria

Fitch Ratings-New York-19 August 2020: Fitch Ratings has published an updated criteria report titled “U.S. Housing Finance Agency (HFA) Loan Program Rating Criteria.” The report replaces the existing criteria dated June 27, 2019.

The criteria report sets out broad attributes for each key rating driver that is part of Fitch’s general methodology for assigning ratings for HFA affordable housing loan securitization programs. The three appendices more fully define the key attributes and provide indicative metrics and stress levels for the following HFA loan programs: (1) single-family loan programs; (2) pooled multifamily loan programs; and (3) mortgage backed security (MBS) pass-through programs.

The updates to the criteria include the use of additional stress scenario analysis with revised assumptions to allow for a timely response to unforeseen macroeconomic or industry developments including catastrophic events and pandemics. Only affected key rating assumptions will be adjusted while all other elements of the criteria, including what are the key rating drivers and the mechanisms for how the criteria is applied, will remain unchanged.

The updates to the criteria also clarify Fitch’s analytical approach to evaluating loan loss assumptions for second lien loans that are included in Fitch-rated single family loan programs. The criteria also provide more explicit methodology for Fitch’s evaluation of projects with Low Income Housing Tax Credit (LIHTC) equity in the debt service coverage benchmarking approach for subsidized verses unsubsidized pooled multifamily transactions.

The unforeseen circumstances stress scenario analysis in the criteria report replaces the stresses outlined in “Fitch Ratings: USPF Housing Defines Coronavirus Scenarios for Loan Program Models” dated April 30, 2020.

No changes to the ratings of existing transactions are anticipated as a result of the application of the consolidated rating criteria.

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

Contact:

Mikiyon Alexander
Senior Director
+1-646-582-4796
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Kasia Reed
Analytical Consultant
+1-646-582-4864

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. Not-For-Profit Health Care System Median Financial Ratios -- 2019 vs. 2018

Table of Contents

Health care systems generally follow median trends exhibited across the acute care sector, however with benefits from increased economic, business, and geographic dispersion that can lower volatility, the trends can sometimes be more moderate. This has led to a generally stable rating distribution overall compared with the distribution in August 2019 (see chart 1). However, a longer three-year view shows incremental shifts away from the ‘AA’ category and increases in the ‘BBB’ category.

While these financial medians do not yet reflect financial stress from the COVID-19 pandemic, we are already seeing a negative shift in the outlook distribution, which we believe could unfavorably influence the future rating distribution and fiscal 2020 medians. The June 30 health care system outlook distribution is significantly less favorable this year compared to the distribution published last year with 17% of health care systems carrying a negative rating outlook compared with just 5% last year (see chart 2). The number of positive outlooks has been relatively modest over the years, but has also been declining. While we have seen a rise in negative outlooks assigned to health care systems, the percent of negative outlooks is still lower when compared with our stand-alone hospitals.

The medians for all health care systems in 2019 remained generally stable overall compared with 2018 (see table 1). Notable exceptions include a four-year decline in operating EBIDA margin, although solid improvement of nonoperating revenue helped cushion debt service coverage.

Additionally, unrestricted reserves relative to contingent liabilities continues a multi-year trend of improvement accelerated by recently low interest rates incentivizing long term public fixed rate financings. The defined benefit pension plan funding ratio dipped slightly due to declining discount rates. Rating trends by category (see table 2) and rating level (see tables 3A and 3B) are similar and especially consistent at the 'A' and 'AA' rating levels and categories. We have excluded medians on the speculative grade systems due to the small sample size of two.

S&P Global Ratings has ratings outstanding on 153 health care systems of which 146 (95%) are included in these median ratios. The number of rated health care systems has been fairly stable (we rated 151 systems last year), although revenue growth has been healthy as systems continue to actively participate in mergers and acquisitions.

Continue reading.

S&P: Checkup On Not-For-Profit Health Care SBPA-Backed VRDOs In The COVID-19 Era

Key Takeaways

- The U.S. public finance health care sector currently accounts for about $7 billion or 10% of the $69.8 billion VRDOs backed by SBPAs that we rate.
- Our sector outlooks for all public finance sectors are now negative, and, as of July 31, we had negative rating outlooks on 26% of the stand-alone not-for-profit health care providers and 17% of the not-for-profit health care systems we rate.
  Not-for-profit health care providers in the 'AA' rating category continue to have access to the SBPA market, though pricing has increased somewhat and tenors have shortened.
- Although unlikely, remarketing failures and draws on SBPA providers could increase if bondholders elect to tender their bonds due to impact of the pandemic and investors' concerns about obligors' overall credit quality and the potential loss of put options if SBPAs terminate without notice.

Continue reading.

24 Aug, 2020

S&P U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios -- 2019 vs. 2018

Table of Contents

Small hospitals (defined as a subset of stand-alone hospitals and representing those hospitals with $150 million or less total operating revenue) typically have stronger financial metrics compared with similarly rated stand-alone hospitals, in part to compensate for increased risk and volatility associated with modestly sized organizations. The added risk is reflected in a rating distribution that skews toward the lower end of the rating spectrum, with 41% of the small hospitals rated in the speculative grade categories compared with just 13% of all stand-alone hospitals (see chart 1). The outlook distribution, with almost half of the small hospitals carrying a negative outlook (see chart 2), also reflects these risks.

Historically, the outlook distribution for small hospitals and stand-alone hospitals has been similar, however a significantly higher percentage of small hospitals carry negative outlooks at June 30 compared with stand-alone hospitals. This is partially due to the multi-credit action we took in mid-April that affected many small hospitals (see “Outlooks Revised On Certain U.S. Not-For-Profit Health Care Organizations Due To Potential COVID-19 Impact,” published April 21, 2020, on RatingsDirect). We expect that the financial repercussions associated with the pandemic, which have largely triggered unfavorable rating and outlook actions throughout the sector this year, will be evident in the medians based on fiscal 2020 results published in 2021.

The relatively limited sample size of small hospitals and the movement of credits from one rating category to the other can affect medians from year to year. Between 2019 and 2018 there has been some improvement within the ‘A’ category on many financial metrics, while the ‘BBB’ and speculative grade category medians are more mixed (see table 1). This is consistent with rising volatility as credits move down the rating scale.

In general, small hospitals face unique risks that differentiate them from their larger stand-alone counterparts. Typical risks associated with small hospitals include weaker enterprise profiles, inclusive of demographics and economic characteristics, more-limited physician staffs that can have higher turnover and recruitment difficulty, and smaller clinical volume that can create vulnerability to changes in clinical practice such as inpatient-to-outpatient shifts. With total operating revenues of less than $150 million, small hospitals also can have fewer opportunities to offset revenue pressures or reduce costs during periods of operating stress. As a result, in order to offset these inherent risks, small hospitals generally need to have stronger financial metrics than their larger stand-alone counterparts to achieve comparable ratings (see table 2). This traditionally includes healthier balance sheets with higher unrestricted reserves and lower leverage. We view this balance sheet strength as a key offset to the volatility inherent in the business profiles of small hospitals.

Continue reading.

19 Aug, 2020 | 18:43

S&P U.S. Not-For-Profit Health Care System Median Financial Ratios -- 2019 vs. 2018

Table of Contents

Health care systems generally follow median trends exhibited across the acute care sector, however with benefits from increased economic, business, and geographic dispersion that can lower volatility, the trends can sometimes be more moderate. This has led to a generally stable rating distribution overall compared with the distribution in August 2019 (see chart 1). However, a longer three-year view shows incremental shifts away from the ‘AA’ category and increases in the ‘BBB’ category.

While these financial medians do not yet reflect financial stress from the COVID-19 pandemic, we are already seeing a negative shift in the outlook distribution, which we believe could unfavorably influence the future rating distribution and fiscal 2020 medians. The June 30 health care system outlook distribution is significantly less favorable this year compared to the distribution published last year with 17% of health care systems carrying a negative rating outlook compared with just 5% last year (see chart 2). The number of positive outlooks has been relatively modest over the years, but has also been declining. While we have seen a rise in negative outlooks assigned to health care systems, the percent of negative outlooks is still lower when compared with our stand-alone hospitals.

The medians for all health care systems in 2019 remained generally stable overall compared with 2018 (see table 1). Notable exceptions include a four-year decline in operating EBIDA margin, although solid improvement of nonoperating revenue helped cushion debt service coverage. Additionally, unrestricted reserves relative to contingent liabilities continues a multi-year trend of improvement accelerated by recently low interest rates incentivizing long term public fixed rate financings. The defined benefit pension plan funding ratio dipped slightly due to declining discount rates. Rating trends by category (see table 2) and rating level (see tables 3A and 3B) are similar and especially consistent at the 'A' and 'AA' rating levels and categories. We have excluded medians on the speculative grade systems due to the small sample size of two.

S&P Global Ratings has ratings outstanding on 153 health care systems of which 146 (95%) are included in these median ratios. The number of rated health care systems has been fairly stable (we rated 151 systems last year), although revenue growth has been healthy as systems continue to actively participate in mergers and acquisitions.

Continue reading.

19 Aug, 2020 | 18:41

S&P U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios -- 2019 vs. 2018

Table of Contents

The rating distribution for stand-alone hospitals remains generally stable overall compared with the distribution in August 2019 (see chart 1). However, a longer multi-year view shows incremental shifts away from the 'A' and 'BBB' categories and into speculative grade. We expect future shifts based on the high number of non-stable outlooks.

While the financial medians do not yet reflect financial stress from the COVID-19 pandemic, the June 30 outlook distribution is significantly less favorable compared to the distribution published last year (see chart 2) and with outlooks on health care systems. Currently 27% of stand-alone hospitals carry a negative rating outlook compared with just 16% last year. This is partially due to a mid-April action that revised 42 outlooks to negative from stable or to stable from positive (see "Outlooks Revised On Certain U.S. Not-For-Profit Health Care Organizations Due To Potential COVID-19 Impact," published April 21, 2020, on RatingsDirect) based on their speculative grade ratings and limited balance sheet flexibility (less than 100 days' cash on hand).

Based on fiscal 2019 data, stand-alone hospitals rated by S&P Global Ratings exhibited slightly improved debt service coverage and a lower debt burden in every rating category, due in part to rising revenue but also reflecting a favorable interest rate environment that yielded refinancing savings and generally affordable access to capital (see table 1). Balance sheet metrics showed generally widespread improvement in the 'AA' and 'A' rating levels but more mixed metrics in the

‘BBB’ and speculative grade categories.

Medians at the individual rating levels remained remarkably stable year over year (see tables 2A and 2B). At most rating levels, defined benefit pension plan funding weakened primarily due to declining discount rates. We expect that the financial repercussions associated with the pandemic, which have contributed to the trend of unfavorable rating and outlook actions throughout the sector this year, will be evident in the medians based on fiscal 2020 results published in 2021.

S&P Global Ratings has outstanding rating on approximately 265 stand-alone hospitals, of which 249 (94%) are included in these median ratios. The number of stand-alone hospitals we rate declined from 279 last year, which we believe reflects ongoing mergers and acquisitions.

Continue reading.

S&P U.S. Not-For-Profit Health Care Children’s Hospital Median Financial Ratios -- 2019 vs. 2018

Table of Contents

Based on fiscal 2019 data, children’s hospitals rated by S&P Global Ratings exhibited healthy credit characteristics based on generally favorable enterprise profiles that typically lead to robust balance sheets, often supported by strong fundraising programs. As a result, a larger percent are rated in the higher rating categories relative to the entire universe of ratings and one children’s hospital is rated ‘AA+’, which is the highest rating assigned to any U.S. not-for-profit acute health care provider.

While these medians do not yet reflect financial stress from the COVID-19 pandemic, children’s hospitals are not immune to other industry challenges. Although the June 30 rating distribution is comparable (see chart 1), 5% of children’s hospitals carry a negative outlook at June 30 (see chart 2) compared with none last year. We expect that the financial repercussions associated with the pandemic, which have largely 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 published in 2021.

Most children’s hospitals did not treat a significant number of COVID-19 patients. However, the hospitals were still subject to mandatory shutdown of non-emergent and non-essential care and associated revenue and expense pressure. In addition, the recession may trigger further revenue stress with rising Medicaid volumes due to higher unemployment rates and potentially lower Medicaid rates as states consider reimbursement cuts to address their own budget shortfalls. We view these trends as unfavorable since Medicaid is traditionally a weak payer.

While our relatively small sample size of rated children’s hospitals could affect the median ratios year to year (including the movement of credits from one rating category to another), the 2019 medians are generally comparable to 2018 medians with some weakness evident in the operating EBIDA margin and mixed results between categories relative to unrestricted reserve ratios (see table 1). In addition, by many financial measures children’s hospitals continue to compare favorably to stand-alone counterparts with similar ratings, particularly in the ‘AA’ category (see table 2). Because of the small sample size, we do not calculate financial medians at the individual rating levels and have excluded a single ‘BBB+’ provider from the medians.

Continue reading.

S&P U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios -- 2019 vs. 2018

Table of Contents

We define speculative grade ratings as those rated 'BB+' and below. Within speculative grade, and consistent with the rating distribution last year, a majority, or almost half, of the health care organizations are rated 'BB+' (see chart 1). However, there has been a material unfavorable shift in the outlook distribution with just 13% of speculative grade credits carrying a stable outlook compared with almost two-thirds last year. At June 30, a vast majority of speculative grade ratings carry a negative outlook, which represents a material rise from about one-third last year (see chart 2). This partially represents fundamentally weaker credit fundamentals that lead to more rating and outlook changes. However, the high number of negative outlooks was also influenced by our multi-credit action that unfavorably revised outlooks on many speculative grade credits and those with less than 100 days' cash on hand due to likely pandemic related challenges (see "Outlooks Revised On Certain U.S. Not-For-Profit Health Care Organizations Due To Potential COVID-19 Impact," published April 21, 2020, on RatingsDirect). We believe that the financial repercussions associated with the pandemic will be evident in the medians based on fiscal 2020 results published in 2021.

We expect to see continued unfavorable rating and outlook revisions for the remainder of this year and into next year as pandemic related pressures accelerate underlying credit weakness. However, the 2019 medians show that the speculative grade credits as a group have generally strengthened financial metrics overall, which could help cushion financial profiles during the current challenging environment (see table 1). Between 2017 and 2019, debt service coverage, debt burden, operating margin, unrestricted reserves relative to debt, and the defined benefit pension plan funding status all improved. There is less consistency relative to days' cash on hand, which remained generally flat in 2019 relative to 2017 after a spike in 2018.

Certain 'BB+' speculative grade financial medians, such as margins and coverage ratios, compare favorably to the 'BBB-' stand-alone hospital medians (see table 2). However 'BBB-' rated credits have meaningfully higher unrestricted reserves relative to both operating expenses and long term debt, which provides significant cushion to an organization that might be experiencing operating pressure. In addition, credits rated 'BB+' may still be establishing a longer track record of improvement prior to moving to investment grade or may have weaker enterprise profiles that preclude an upgrade to investment grade despite solid financial performance.

Continue reading.

Imposed Fee and Fine Use by Local Governments: GFOA Report

A local government's revenue system needs to treat people fairly to maintain the public's trust. **GFOA's Code of Ethics requires that finance officers support equitable provision of services and call out unfair discrimination.** But some local governments use and rely on revenue from imposed fees and fines that make socioeconomic and racial inequities worse.

Fines and imposed fees should not be used as revenue raising or cost-recovery tools. Using them this way can worsen problems that governments services are meant to solve. For example, unpaid fees can hurt a citizen's credit score, which makes it harder for that person to find housing, get a job, or apply for credit. In another example, studies have found that local governments can end up spending more on collecting court fees than they raise in revenues, given the cost of jail time for nonpayment.

GFOA has released a new research report that provides tools for local government finance officers to use in evaluating their own existing policies, along with guidance and policy templates for drafting new policies. Trust is a government's most valuable asset, and finance officers play a big role in safeguarding this by promoting transparency and accountability. Finance officers also need to ensure equity and fairness.

Continue reading.

Deserted College Dorms Sow Trouble for $14 Billion in Muni Bonds.

- **Online classes to pressure dorms financed in muni market**
- **S&P may downgrade 16 privatized student housing projects**

Less than a third of the rooms in a new $90 million dorm set to open this month at the California College of the Arts in San Francisco are taken. An opulent apartment tower financed by $228 million in municipal bonds at Florida International University, with a rooftop pool and gym, hasn't yet met tenant projections.

It's a scene playing out on campuses across the U.S. as families skip the usual college move-in frenzy, leaving thousands of dorm rooms empty. That will cascade into the more than $14 billion of municipal bonds sold for student housing, particularly securities sold by private companies relying on rental and leasing revenue to pay bondholders. It's one of the first places where investors who bet on higher education can expect trouble because of the pandemic.

Colleges for years have been turning to private companies for student housing to shed costs and lure students with state-of-the-art facilities. The companies borrowed the money for construction from municipal bond investors, with a promise to repay with rent and lease revenue. But with schools switching to virtual learning or limiting the number of students who can live on campus, the bonds that are often already risky are facing a major threat.

"This is where we could see more credit stress first, and the reason is because of the bond securitization," said Jessica Wood, a higher education analyst at S&P Global Ratings. "Student housing projects are structured very lean."

S&P warned it may have to lower its credit rating on 16 privatized student housing projects. Municipal Market Analytics, an independent research firm, said more student housing projects are likely to default in addition to four already this year. One of the defaults includes a municipal-bond financed luxury dorm at the University of Oklahoma that was struggling before Covid-19.

The National Campus and Community Development Corp., a nonprofit that finances dorms, sold the nearly $90 million in junk-rated bonds for the California College of the Arts dorm in 2019. Rooms with two beds and a mini fridge were slated to cost about $1,400 per month, a price marketed as an affordable option for students in a city with notoriously high real estate prices, according to bond documents. But because of Covid-19, the school has had to limit one student to a room. The dorm was only 29% pre-leased at the end of July, according to a regulatory filing.

Prices on thinly traded bonds sold for the dorm that come due in 2039 had plunged almost 15% in a year by mid-August, according to data compiled by Bloomberg.

A nonprofit that borrowed $132 million for a five-story dorm at the University of Massachusetts Dartmouth — one of the 16 projects cited by S&P for potential downgrade — said that capitalized interest will cover debt payments in 2020. At one point in April, Provident Resources Group said in filings for its dorm properties that it received over 300 inquiries from investors.

At the UMass Dartmouth campus, only students who have to travel from far away for required on-campus instruction or need on-campus services are allowed to live in residence halls, according to a university update on Aug. 10.

In some cases, the colleges are helping to support the bond-financed projects. At a Collegiate Housing Foundation property at the University of California at Irvine, the company agreed not to charge students cancellation fees or rent if they terminate their housing in exchange for the university leasing beds there to support the project, according to a securities filing.

"Undoubtedly, many of our projects are facing difficulties as universities adopt policies to proceed with instruction partially or entirely on line and/or to limit occupancy in residence halls for social distancing purposes," William Givhan, president of the Collegiate Housing Foundation, which owns 35 student housing facilities across the U.S., said in an email.

In a Miami suburb, the developer of the Florida International University dorm had pre-leased about 77% of the apartments earlier this month, while it was expecting more than 90%.

Brian Pearl, principal at Global City Development, said he expects the project to meet its debt service covenants this year, adding that construction was completed on time. He said he expects the pre-leasing figure to reach the mid-80% range at least. The bonds, which rarely trade, have risen in price after falling in June.

The coronavirus recession could make the luxury space a tougher sell to students. Still, Pearl said he expects that students will be drawn to the dorm experience where they can make friends.

"Having the opportunity to do that, I think, is very important," he said.

Bloomberg Markets

By Amanda Albright and Danielle Moran

August 21, 2020, 6:00 AM PDT

— With assistance by Emmy Lucas

Muni Bonds Sold by Phantom Agency Draw Texas Town's Scrutiny.

- **Wisconsin authority sold $24 million of bonds for Hutto**
- **Debt financed commercial and residential development projects**

City officials in a fast-growing suburb of Austin, Texas, hired a law firm to review two municipal-bond deals sold through a Wisconsin agency to help finance residential and commercial development.

Hutto, Texas, population 30,000, hired bond counsel Norton Rose Fulbright LLP to examine whether the deals, issued in late 2018 and early 2019 through the Madison, Wisconsin-based Public Finance Authority are valid under state law and can be refinanced. In selling $24 million bonds through the PFA, the city and developers bypassed a Texas Attorney General's review of the bonds.

Norton Rose asked the Attorney General's Public Finance Division whether it had any concerns with the structure of the PFA deals, according to a July 24 letter, obtained through a public records request.

"If everybody out there is going through the AG, why would you go outside the AG?" said city council member Mike Snyder, who was elected in 2019 after the PFA bonds were issued. "It could completely be above board and that's great."

The Public Finance Authority, started by the Wisconsin Counties Association with approval by state lawmakers in 2010, has issued $11.6 billion municipal bonds mostly for speculative projects, such as the American Dream mall and entertainment complex in New Jersey, cancer treatment centers and senior living facilities. The agency, which has no employees and farms out work to a financial advisory firm in California, has come under scrutiny from some public officials who say it can allow borrowers to skirt their oversight.

Law firm Orrick Herrington & Sutcliffe LLP helped draft the PFA's enabling legislation and has served as bond counsel on $3.5 billion of PFA bond issues, including the Hutto deals, more than any other law firm, according to data compiled by Bloomberg.

The PFA, which charges fees for issuing debt, is responsible for a high percentage of defaults in the normally safe $3.9 trillion municipal market. In the last three years, 10% of payment defaults were borrowers through the PFA, much higher than any other issuer, according to Municipal Market Analytics. The Hutto bonds haven't defaulted.

The bonds Hutto's public development districts issued through the PFA are payable from assessments on property owners within the development, known as Co-Op and Cross Creek. The authority loaned the proceeds of the bonds to a local development corporation, which in turn paid developers for building infrastructure such as sewers, streets and parks as part of the overall development.

The developers are now in the process of selling the improvements to the city, structured as an installment sales contract. The structure was intended to "address the lack of clear statutory authority" to levy assessments to pay for for underwriters, lawyers, financial advisers on the deal as well as capitalized interest since the the bonds weren't sold by a Texas issuer, according to Norton Rose's July 24 letter.

Paul Braden, head of Norton Rose's public finance practice, wasn't available to comment. Kayleigh Date, a spokeswoman for the Texas Attorney General, said the office couldn't comment on potential or ongoing matters.

The Public Finance Authority relied on Orrick's opinion that the bonds were valid under Texas law, said Andy Phillips, an attorney for the PFA. Norton Rose has served as bond counsel for PFA deals both inside and outside Texas and is aware of what oversight is required under Texas law, he said.

PFA is authorized to issue municipal bonds in all states under Wisconsin statutes, and relies on bond counsel, underwriters and sophisticated investors to determine how much risk they want to take, Phillips said.

Orrick attorneys weren't available to comment, said Adi Weisman, a spokeswoman.

Hutto used the PFA because the city's attorneys and financial advisers recommended it to city council, said Odis Jones, the city's former city manager, who currently runs Missouri City, Texas.

"I think they were concerned about credit risk exposure" to the city, Jones said. "They decided this stuff is kind of new, we're not going to take any risk."

Preston Hollow Capital, a direct lender to municipalities, purchased the $6.6 million of Cross Creek bonds, according to offering document for the securities. Preston Hollow sold the bonds July 1. The firm still holds $17.4 million of debt issued for the Co-Op development, said Greg May, Preston Hollow's managing director of corporate development.

Bloomberg Markets

By Martin Z Braun

August 19, 2020, 6:40 AM PDT

— With assistance by Natalia Lenkiewicz

Wall Street Firms Growing Cautious on Muni Bonds After Big Rally.

- **UBS says 'deteriorating' fundamentals not priced in some bonds**
- **BlackRock says it is adopting a more cautious stance**

Some big Wall Street firms say municipal-bond yields have fallen so steeply that investors don't appear to be compensated for the risks that are piling up.

With Congress failing to come through with the hundreds of billions of dollars that states and cities are seeking to contend with a deepening financial crisis, and prices of even the riskiest securities rebounding sharply since March, UBS AG analysts said they don't think the market is adequately pricing in the risk for some borrowers hit hardest by the recession. BlackRock Inc., the world's biggest asset manager, expressed similar concerns about valuations last week, when it said it was adopting a more cautious stance toward the $3.9 trillion market.

UBS analysts said in a note to clients that they "don't believe that deteriorating credit fundamentals are fully priced in for weaker borrowers," leading the firm to focus on higher-rated securities. But AllianceBernstein, the money manager, said that benchmark muni yields have also sunk so much that Treasuries may be a better bet ahead of the fall, when the seasonal increase in demand caused by a wave of debt payments subsides.

"We've had a strong run, a consistent run for about three and a half months," Kathleen McNamara, senior municipal-bond strategist at UBS's wealth management arm, said in an interview. "The technicals are set to weaken in September following a very strong August."

The yields on municipal bonds have tumbled to the lowest since the early 1950s, with top-rated 10-

year securities paying 0.6%, even as the deep economic contraction slashes government tax collections and the revenue of airports, public transportation systems, stadiums and others that have borrowed in the market.

The price run up has been fueled in part by the Federal Reserve's interest rate cuts and commitment to lend to governments if needed, a step that arrested March's selloff by improving investors' confidence. Cash has also been flowing into mutual funds just as bondholders receive debt payments that they typically seek to reinvest, increasing demand for new debt issues.

Those factors have blunted concerns about the impacts of the coronavirus pandemic, which has left states facing budget shortfalls estimated at about $555 billion through 2022. Municipal market analysts expected Congress to come through with hundreds of billions of dollars in aid for states and local governments, only to see lawmakers adjourn without reaching agreement on another economic stimulus measure. Even so, yields have been little changed.

"We were waiting for Washington to agree on a stimulus package and that hasn't happened," McNamara said.

"What's surprising is that it's delayed and the fact that the muni market hasn't reacted negatively as of yet on a price basis," she said. "At this stage, if there are a couple of catalysts it wouldn't be a surprise the market would back up a little bit."

Bloomberg Markets

By Shruti Singh

August 17, 2020, 11:14 AM PDT

Junk-Muni Boom Sets Up Historic Distress for Billions of Debt.

- **Pandemic hitting Elvis's Graceland, luxury hotel in Washington**
- **The stress emerging is 'really just starting,' analyst says**

Businesses that flooded the municipal-bond market with debt sold through government agencies are helping drag the industry into its biggest wave of financial distress in nearly a decade.

The risky corporate ventures aren't what one typically associates with the $3.9 trillion haven backed largely by states and cities, which are at little risk of defaulting even during economic calamities like the one that's gripped the nation for the past five months.

But companies eligible for federal subsidies issued tens of billions of dollars of tax-exempt debt in recent years, seizing on a surge of cash into the junk-bond market as investors chased bigger returns.

Now, with the economy rocked by the biggest collapse since World War II, a small but growing number are struggling to repay what they borrowed, threatening to roil that corner of the muni market and add to the corporate bankruptcies piling up across America. Among those in trouble, there's a biofuel factory in Maine, the Mandarin Oriental hotel near the banks of the Potomac River in Washington, D.C., and Graceland, the Elvis Presley shrine hit by less tourists due to the coronavirus.

This year, more than 50 municipal-bond issues worth $5 billion have defaulted, the most since 2011, according to Municipal Market Analytics, an independent research firm. Nearly two dozen more have drawn on reserve funds since the start of the year to cover debt payments when revenue fell short, a potential sign of more stress to come, according to data compiled by Bloomberg.

"They're really just starting," said Lisa Washburn, chief credit officer at Municipal Market Analytics, which tracks municipal-bond defaults. "It was just more than the deals could handle."

The increased distress belies the relative calm in even the riskiest segment of the municipal market, where investors have continued to pile in despite the downturn set off by the coronavirus. While the first waves of shutdowns set off a steep selloff in March, high-yield municipal bonds have since fully rebounded, tracking the rally across markets as the Federal Reserve eased monetary policy aggressively.

That has caused yields in the state and local debt market to slide to the lowest since the early 1950s, maintaining the low borrowing costs that fueled a record wave of junk-bond deals — many of which are now facing their first major test.

Sales of high-yield debt by state and local government agencies — for projects like nursing homes, charter schools and real estate development — surged by 31% in 2019 to nearly $17 billion, the most since at least 2012, according to Bank of America Corp. More than $10 billion was sold only to big institutional buyers able to handle the risk, according to data compiled by Bloomberg.

The flood of easy money bankrolling speculative projects already meant that some distress was inevitable, but the pandemic is presenting an added challenge, said Bill Black, a senior portfolio manager at City National Rochdale.

"There's certainly more to come," he said, though he added that he expects it to be contained enough that the performance of the broader high-yield market won't be imperiled.

Much of the distress tracked by Bloomberg since the pandemic's spread to the U.S. has come from assisted-living centers and continuing-care retirement communities, both of which are dealing with both the public health and financial challenges of Covid-19.

But the stress has expanded to other sectors, too. A novel sector of the health-care industry focused on cancer has struggled from patients putting off treatments because of the pandemic. So-called proton-therapy centers have sold about $1.5 billion of municipal debt since 2014, about $900 million of which is now considered distressed, according to data compiled by Bloomberg. Among them is one in Maryland that sold debt in 2018 and last month had to draw down a reserve fund to pay bondholders.

The pandemic has stung some speculative projects already struggling to get up and running. Columbia Pulp I, which has borrowed about $200 million since 2017 for a waste-to-pulp plant that has struggled with delays, suspended operations in March due to Covid-19 and is negotiating on a forbearance plan as pulp prices decline.

The hit to tourism and shutdowns of mass gatherings have also taken a toll. In Memphis, Tennessee, there's been fewer tourists showing up at Graceland, the museum in Elvis Presley's former home that borrowed in 2017 for an expansion. The agency that sold the debt had to tap reserves when debt payments were due in July and the securities were cut to junk this month by S&P Global Ratings.

In Riverside County, California, a horse and soccer complex called SilverLakes that raised money in the municipal market three times since 2015 was already struggling before the pandemic, with revenue just 30% of projections when it sold securities in 2018.

Balboa Management Group, the developer of the complex, in July skipped a debt payment, and future payments to investors will be deferred under an agreement with creditors lasting until 2021, according to a securities filing. Richard J. Brandes, who formed Balboa and provided a personal guaranty on the bonds, did not respond to requests for comment.

Other big projects are being closely watched by investors. The still-closed American Dream mall and entertainment complex in New Jersey, financed with $1.1 billion in debt, has seen bond prices sink to about 87 cents on the dollar in early July amid doubts about whether it will draw crowds in the wake of the pandemic.

Washburn, the analyst with Municipal Market Analytics, said she's expecting the stress to continue to pile up.

"Going into 2021, you'll probably see even more pressure on more safe sector credits," she said.

Bloomberg Markets

By Amanda Albright

August 17, 2020, 7:00 AM PDT

— With assistance by Natalia Lenkiewicz, Trevor Rowe, Olivia Whalen, and Danielle Moran

---

No Federal Relief Leaves States, Cities Facing Big Deficits.

State and local government officials across the U.S. have been on edge for months about how to keep basic services running while covering rising costs related to the coronavirus outbreak as tax revenue plummeted.

It's now clear that anxiety will last a lot longer. Congressional talks over another coronavirus relief package have failed, with no immediate prospects for a restart.

The negotiation meltdown raises the prospect of more layoffs and furloughs of government workers and cuts to health care, social services, infrastructure and other core programs. Lack of money to boost school safety measures also will make it harder for districts to send kids back to the classroom.

On Monday, governors, lawmakers, mayors, teachers and others said they were going to keep pushing members of Congress to revive talks on another rescue package.

"Congress and the White House made a commitment to the governors that there would be a second round of relief for states — we are going to hold their feet to the fire until they uphold that commitment," New Hampshire Gov. Chris Sununu, a Republican, said in a statement.

How soon that might happen is anyone's guess. Congress has gone home, and President Donald Trump over the weekend took executive action to address what had been a key part of the negotiations. He extended an extra benefit for the jobless but cut it by a third — to $400 a week — and told states they would have to pick up 25% of the cost.

New Jersey Gov. Phil Murphy, a Democrat, urged Congress to restart negotiations, boost the jobless benefit back to $600 and immediately provide more aid to state and local governments.

“Let’s be clear about something: States are going broke and millions of Americans are unemployed, yet the solution called for states to create a new program we cannot afford and don’t know how to administer because of this uncertainty,” he said.

Stay-at-home orders in the spring, business shutdowns and tight restrictions on businesses that have reopened are slamming state and local government revenue. In a June report, Moody’s Analytics found that states would need an additional $312 billion to balance their budgets over the next two years while local governments would need close to $200 billion.

Many states already are staring at ledgers of red ink. Texas is projecting a $4.6 billion deficit. In Pennsylvania, it’s $6 billion. In Washington, the deficit is expected to be nearly $9 billion through 2023. California’s budget includes more than $11 billion in cuts to colleges and universities, the court system, housing programs and state worker salaries.

The pandemic’s fallout also has trickled down to towns and cities, many of which are considering layoffs of police, firefighters and other essential workers. The association representing municipal governments in California said 90 percent of the state’s 482 cities will have to cut staff or services.

Grass Valley, a town of about 13,000 east of Sacramento in the Sierra foothills, has laid off four employees and frozen seven unfilled positions — including in the police and fire departments.

“It is heartbreaking to have to cut services and lay off staff that are so integral to making Grass Valley a wonderful, vibrant place to live,” Councilwoman Jan Arbuckle said in a statement. “This could be avoided if we had strong federal support.”

Officials say the $150 billion for state and other governments in a congressional aid bill passed in late March is not enough to keep them afloat and came with too many restrictions. Many governors have pressed Congress to allow them to use it to help balance their budgets.

The U.S. House of Representatives, where Democrats hold the majority, passed a coronavirus relief bill in May worth more than $3 trillion, with close to one-third of that going to state and local governments. In the Senate, which Republicans control, some senators didn’t want a new round of aid at all, in part because they were concerned about the ballooning federal deficit.

Without Congress stepping in, the budget situation is growing worse in many places, especially with a surge in COVID-19 cases throughout the country leading to another round of restrictions.

In Arlington, Texas, Mayor Jeff Williams expects a $20 million shortfall in the fiscal year that begins Oct. 1, which is about 4 percent of the annual budget. For the year after that, the budget gap is expected to be between $30 million and $50 million.

“We’ll be cutting every department,” Williams said.

He has been one of the leaders of the U.S. Conference of Mayors’ push for more federal help, arguing that big cuts to city governments would only deepen the recession.

Another mayor involved in that effort, Dayton, Ohio’s Nan Whaley, already has approved employee buyouts and furloughs, and canceled some infrastructure projects to get through the year. Cuts to the police department — a major expense for most local governments — are likely, she said.

“The irony is that the person who will defund the police is Donald Trump,” Whaley said.

Richard Sheets, deputy director of the Missouri Municipal League, said local governments there need to be allowed more time to use the federal aid they’ve received so far. Currently, it all must be spent this year.

North Carolina’s 550 local governments anticipate a combined $600 million cumulative drop in revenue for the coming fiscal year, according to estimates from the state’s League of Municipalities.

Rick Schuettler, executive director of the Pennsylvania Municipal League, said many of his 116 member governments have not received any federal aid so far. That will translate into cuts to police, fire, parks and basic services.

“If you think the impact on local government isn’t going to affect the overall economy, it is,” he said.

Among the biggest needs is more money to make schools safe so teachers and students can get back in the classroom. In many districts across the country, learning will be done remotely when classes resume for the new year.

Several groups have been pushing for at least $100 billion more to help schools deal with the pandemic.

Cheryl Bost, a teacher and president of the Maryland State Education Association, said schools need money to buy protective gear and cleaning supplies, test students and staff, and upgrade air ventilation systems.

“School systems can’t achieve these necessary standards with reduced funding,” she said.

By The Associated Press

Aug. 10, 2020

Associated Press writers Scott Bauer in Madison, Wis.; Adam Beam and Don Thompson in Sacramento, California; Mike Catalini in Trenton, N.J.; David Eggert in Lansing, Michigan; Rachel La Corte in Olympia, Wash.; Marc Levy in Harrisburg, Pa.; David A. Lieb in Jefferson City, Missouri; Holly Ramer in Hopkinton, N.H.; Gary Robertson in Raleigh, North Carolina; and Paul Weber in Austin, Texas, contributed to this report.

State-Aid Disagreement Proves Big Hurdle for Coronavirus Talks.

Democrats seek $915 billion in anticipation of long slump, while Republicans say a fraction of that is needed now

WASHINGTON—How much aid to give state and local governments has emerged as one of the widest chasms between negotiators in stalled coronavirus relief talks, with Democrats pressing for more than $900 billion to fill several years’ worth of budget holes and Republicans seeking a more modest patch.

Top Democrats and Trump administration officials ended formal negotiations last week with no agreement on another bill, even as programs providing aid for small businesses and expanded unemployment payments created in the spring have expired. The stalemate persisted through the week, with both the Senate and House now scheduled to be out of Washington through the rest of August, and White House and Democratic negotiators have rejected overtures to come back to the table.

While Republicans and Democrats harbor disagreements on a host of issues in the relief negotiations, the difference between the two parties is perhaps the greatest on aid for state and local governments. Facing both increased costs for responding to the pandemic and a decreased tax revenue caused by the recession, state and local governments have already started making a number of spending reductions, including cutting more than one million jobs from March through July.

House Speaker Nancy Pelosi (D., Calif.) said Thursday that heavy state and local aid was needed to keep schools and local services running, and to avoid more layoffs.

“Without an infusion, they will be furloughing or firing people,” she said. “They will go on unemployment insurance. So what are we saving there?”

Senate Majority Leader Mitch McConnell (R., Ky.) has derided the Democrats’ plan as a “trillion-dollar slush fund” for state and local governments and said their negotiating stance amounts to political gamesmanship.

The two sides started far apart and have moved only slightly to close the gap.

In their initial $1 trillion overall proposal for the next bill, Republicans included no new funding for state and local governments, though they did grant those entities more flexibility in using money leftover from the $150 billion Congress approved for them in March. But during meetings with Mrs. Pelosi and Senate Minority Leader Chuck Schumer (D., N.Y.) last week, Treasury Secretary Steven Mnuchin and White House chief of staff Mark Meadows offered $150 billion in more funding.

The Democratic negotiators rejected that offer, insisting that the bill include at least $915 billion for states and municipalities.

The split between Democrats and Republicans over how much aid states and cities need is explained in part by how long they think aid will be needed.

Democrats argue that double-digit unemployment and the risks of a second wave of outbreaks will put pressure on state and municipal finances for years to come. Their proposal would cover expected shortfalls over three fiscal years, well into 2022, when the Congressional Budget Office estimates the jobless rate will still be twice as high as it was in February before the pandemic began.

“There was an understanding that we should do it all in the beginning, that was what the economists were telling us: Don’t do it little by little,” said Rep. Don Beyer (D., Va.), vice chairman of the Joint Economic Committee.

Republicans, by contrast, have held firm in their view that the economy will rebound strongly by the end of the year as a vaccine becomes available, social-distancing measures abate and businesses are able to rehire workers laid off earlier this year.

Mr. Mnuchin said in a Fox Business Network interview this week that the additional $150 billion Republicans have offered, along with the easing of restrictions on earlier funds, is “more than enough money for the majority of the states.” He said Congress could approve more aid later if a narrower bill fell short, an approach Democrats have so far rejected.

Economists have estimated the need is somewhere in the middle of Democratic and Republican proposals. Moody's Analytics said the state and local budget shortfalls, including lost revenues and increased health-care costs, would total $500 billion over fiscal years 2020, 2021 and 2022, with the biggest hit coming during the current fiscal year that began July 1. If the economic situation deteriorates, that number could rise to $750 billion, they said.

Finding a compromise on the issue will likely come down to deciding how long the money should last. Rep. Tom Reed (R., N.Y.), a leader of the bipartisan Problem Solvers Caucus, supports offering $500 billion to state and local governments—but doesn't want the aid to last beyond the immediate future.

"When you start getting into two-, three-year type of windows to get assistance through today's package—for two or three years down the road—that is opening Pandora's box," he said.

Rep. Dean Phillips (D., Minn.), who faces re-election in a competitive district this fall, said that Democrats should narrow the time-frame for the state and local aid to move toward reaching an agreement.

"Many of us believe that speed is so important we should be focused on getting us through at least the next sixth months and then reassess," he said. "The length of the time is one way to trim the expense."

Some Republicans have been wary of providing any new aid to state and local governments, calling it a bailout. While some states entered the pandemic with fiscal challenges, the looming shortfalls are driven primarily by the virus and are likely to hit every state to varying degrees, economists say. Most U.S. cities expect they will face even deeper financial troubles in the coming year than they did earlier in the coronavirus crisis.

"There is not a situation where states misspent or misallocated or got themselves into this situation," Federal Reserve Bank of San Francisco President Mary Daly said on a call with reporters Wednesday, adding that states will need more assistance. "It's a pandemic. It's a shock not of their making."

The Wall Street Journal

By Andrew Duehren and Kate Davidson

Updated Aug. 14, 2020 10:36 am ET

Muni Defaults Surge, but Yields Don't Follow.

Even with coronavirus losses weighing on state and city coffers, investors are piling back into municipal debt

The coronavirus has dealt a harsh blow to state and local government finances. But the municipal bond market rolls on.

Yields there have hit their lowest level since 1982, reflecting a significant increase in bond prices, despite the largest run of municipal-bond defaults in nearly a decade.

The rally has been driven by dynamics new and old, ranging from the extraordinary efforts of the Federal Reserve to backstop the U.S. economy to the continued aversion of many voters to new municipal issuance. That resistance might result in borrowers missing out on one of the great issuance opportunities on record, at a time when many are being crushed by the falloff in taxes, fees and other revenues.

Continue reading.

The Wall Street Journal

By Sebastian Pellejero

Aug. 14, 2020 8:21 am ET

MTA Is Poised to Test Whether Fed Loans Beat Wall Street.

- **Fed cut rates on $500 billion government loan facility**
- **With market yields lower, Illinois is so far the only borrower**

The municipal-bond market will soon get a test of whether the Federal Reserve's decision to lower the price of its loans will draw governments to its virtually unused $500 billion lending program.

New York's Metropolitan Transportation Authority, among the agencies hardest hit financially by the coronavirus shutdowns, is planning to auction off $465 million of three-year notes on Aug. 18, according to bond offering documents released late Tuesday. The transit agency will accept bids from Wall Street banks — and then decide whether it will get a better deal if it borrows from the Fed instead.

That may be the first gauge of whether the central bank's announcement on Tuesday to cut the interest rates on its short-term loans by 50 basis points will spur more borrowing from it. The Fed has been criticized for the strict terms on its loans to states and cities, which can borrow at far lower rates in the open market.

Because of that, the Fed's first foray into the market has had little direct impact. It has extended only one loan, to Illinois, since it was announced in April, according to the central bank's most recent disclosures.

Yet the mere prospect of the Fed stepping in to act as lender of last resort arrested the steep selloff in March by reassuring investors that the market wouldn't be rocked by another liquidity crisis.Interest rates have since plunged to virtually zero for the highest-rated governments, benefiting those that are looking to raise cash to cover deficits or to find savings by refinancing existing debt. One-year municipal-bond debt yields 0.07% as of Wednesday morning, down from as high as 2.83% in March.

The MTA will sell transportation revenue bond-anticipation notes that will mature in 2023. The transit agency's transportation revenue bonds are rated A2 by Moody's Investors Service, A+ by Fitch Ratings, BBB+ by S&P Global Ratings, and AA+ by Kroll Bond Rating Agency, according to its website.

The Fed's term sheet for the Municipal Liquidity Facility says it will determine pricing for split ratings by calculating an average rating. Using the pricing laid out in the term sheet, that could put the potential interest-rate spread on the MTA's debt at about 200 basis points above an overnight index swap with a comparable maturity. The MTA must also pay an origination fee.

Given those terms, it's likely the MTA would come out ahead by tapping the Fed. An MTA bond-anticipation note maturing in 2023 traded at an average yield of 2.72% on Aug. 11.

Bloomberg Markets

By Amanda Albright

August 12, 2020, 8:02 AM PDT

Morgan Stanley Wealth Sees Risks in Credit on U.S. Stimulus Woes.

The standoff in Washington over the flow of stimulus money to state and local municipal governments is adding more risk to U.S. credit markets, according to Morgan Stanley Wealth Management.

State and local government budgets have been severely damaged by the Covid-19 pandemic due to lost tax revenue and rapidly rising expenses, and that may have ramifications for investors, Morgan Stanley Wealth Management strategists Scott Helfstein and Monica Guerra wrote in a note Tuesday.

"Though municipal budgets are strained, muni bond yields have reached historic lows due to constructive seasonals and risk-off sentiment," the strategists wrote. "Failure to secure aid for state and local governments presents downside risk for bonds of low credit quality at a time when investors are willing to move down the credit curve."

A $600 enhanced weekly benefit for unemployment insurance expired at the end of July, and negotiations between Congress and the Trump Administration haven't progressed much. President Trump announced an executive order that would offer $400 a week in jobless benefits, with states covering 25% of the cost, as one of several moves that he may lack the authority to make unilaterally.

Another area flagged by Morgan Stanley Wealth was in student loans, where deferral of principal and interest payments was automatically extended to Dec. 31 for some federal loans.

"Those with private loans get no reprieve from payment due on principal and interest," the strategists said. "Thus, we believe that securities backed by private student loans with speculative grade credit quality and tranches with few enhancements may experience pressure."

Bloomberg Markets

By Joanna Ossinger

August 12, 2020, 8:58 AM PDT

— With assistance by Christopher Maloney

Stimulus Talks Are Stuck in $1 Trillion Ditch Over Aid to States.

- **Democrats warn cities and states face severe cuts to services**
- **GOP argues money would go to bail out poorly-managed states**

Sign up here for our daily coronavirus newsletter on what you need to know, and subscribe to our Covid-19 podcast for the latest news and analysis.

There's little chance of agreement on a new federal coronavirus relief plan without a compromise on the roughly $1 trillion in aid to beleaguered state and local government that Democrats demand and the White House opposes.

Democrats have offered to cut their original stimulus proposal totaling $3.5 trillion by roughly one third, but insist on keeping help for states, cities and other municipalities. President Donald Trump's negotiators, in addition to rejecting the Democrats' topline number, have offered to put in no more than $150 billion for local assistance.

Negotiations are at a standstill heading into two weeks in which the Democratic Party then the Republican Party hold their respective presidential nominating conventions.

Senate Majority Leader Mitch McConnell said Thursday the Senate is in recess and will not hold votes until Sept. 8 — although senators, like members of the House, can be called back on 24 hours notice if a stimulus deal has been made.

"I'm still hoping we'll have some kind of bipartisan agreement here, some time in the coming weeks," McConnell said as he left the Senate floor.

The chasm between the two sides, and potential for the impasse to stretch well into September, has governors and mayors from both parties on the edge.

"This is not about 'bailing out' red states or blue states for pension problems or to make up for previous policy failures of other states — this is about delivering rapid relief for states so the governors can manage and provide flexibility for their residents," New Hampshire's Republican Governor Chris Sununu tweeted this week.

"If we do not get federal help we have very difficult, no-win choices to make on the cut on local services, particularly our police and fire services," Dayton, Ohio, Mayor Nan Whaley, a Democrat, said on a recent conference call organized by the U.S. Conference of Mayors.

Although there are other areas of disagreement — among them, McConnell's plan to shield employers from liability for Covid-19 infections, and House Speaker Nancy Pelosi's drive to bolster the U.S. Postal Service — the question of state aid may be the biggest stumbling block.

Senate Republicans included no aid for local governments in their initial proposal for the next stimulus bill released at the end of July. It did include $105 billion for schools, which are mostly funded by states and cities, and $16 billion in grants to states for coronavirus testing, contact tracing and surveillance.

Unspent Money

The Republican plan also would give states and municipalities more flexibility on how to use unspent portions of the $150 billion provided in the virus relief bill passed in March.

The GOP language would block any of the money going to state pension funds. Republicans insist that generous deals struck over the years by Democratic mayors and governors with public employee unions have caused their fiscal woes, and don't intend to plug what in some cases are huge funding holes.

"Democrats think they smell an opening they have wanted for years, to make Uncle Sam bail out decades of mismanagement and broken policies in places like New York, New Jersey and California," McConnell said this week, citing three solidly Democratic states.

In negotiations last week, Treasury Secretary Steven Mnuchin offered an additional $150 billion for state and local aid.

Pelosi rejected that as insufficient. She said that she and Senate Democratic Leader Chuck Schumer are willing to meet Republicans at some "middle ground," but that, "it's no use sitting in a room and let them tell us that states should go bankrupt."

$915 Billion

The Democratic plan passed by the House in May would provide $915 billion in state and local aid. More than half would go to states and Washington D.C, with the first portion awarded within 30 days of enactment and the rest no later than May 3.

Local governments would get $375 billion. Of that, $131.25 billion would be for cities that have a population greater than 50,000 or are the principal city of a metropolitan statistical area; $56.25 billion for local governments other than counties or parishes; and $187.5 billion for counties based on population. There is also $20 billion for U.S. territories and $20 billion for tribal governments.

The National Governors Association has made a plea for $500 billion in unrestricted aid just for states. The organization in a statement Thursday said that a failure by Congress to take action "would lead to massive cuts to the very services that are sustaining millions of Americans during the pandemic and recession, and that are necessary for a rapid and sustainable recovery."

To that point, a Moody's Analytics report released June 25 said without more assistance, state and local governments will be forced to make budget cuts that could shave as much as 3 percentage points from the pace of economic growth and result in the loss of about 4 million jobs.

Pittsburgh's Democratic mayor, Bill Peduto, said during the mayor's conference call that his city is facing a shortfall this year of about $100 million with few ways to make it up.

"The vast majority of our funding goes to public safety services," Peduto said. "Across-the-board cuts throughout every department would be mandatory. It is very difficult to raise taxes on people who are losing their jobs."

Bloomberg Politics

By Billy House

August 14, 2020, 1:00 AM PDT

— With assistance by Skylar Woodhouse, Daniel Flatley, Laura Litvan, and Erik Wasson

For Cities, Path to Financial Recovery Could Be a Long One.

"It takes years for cities to recover lost revenue," said one of the authors of a new report that surveys the financial affairs of nearly 500 cities across the U.S.

The National League of Cities released its latest annual survey of city fiscal conditions on Thursday. Unsurprisingly, it presents a bleak picture of how municipal budgets are faring in the coronavirus era, with revenues collapsing and finance officers pessimistic about the year ahead.

But along with the headline findings are reminders of how long it took for cities to bounce back from the Great Recession. It was a lengthy slog. The NLC report shows that revenues it tracks took about 12 years to recover to where they were in 2007, before that prior downturn.

"If the Great Recession provides a lesson, it is that it takes years for cities to recover lost revenue," said Michael Pagano, director of the Government Finance Research Center at the University of Illinois at Chicago, and a co-author of the report.

Continue reading.

Route Fifty

By Bill Lucia

AUGUST 13, 2020

NLC City Fiscal Conditions 2020 Report.

In its 35th year, the City Fiscal Conditions report continues to provide insight into the fiscal health of cities, towns and villages from across the nation. The findings in this year's report reveals that America's cities are experiencing the fiscal consequences of this pandemic-downturn at an unprecedented speed – and like recent recessions, it will take years for municipal budgets recover from the impact of COVID-19.

By diving deeper into the survey results from 485 cities from across the country, we can see just how the coronavirus pandemic has affected the lives of residents and why direct funding is critical to the financial health of our nation.

Download Report.

The Recession Is About To Slam Cities.

The coronavirus recession will erode city budgets in many insidious ways. It will slash the casino revenues that Detroit relies on. It will squeeze the state aid that is a lifeblood to Rochester and Buffalo in upstate New York. It will cut the sales tax revenue in New Orleans and Baton Rouge, Louisiana, where a healthy government depends on people buying things.

The crisis has arrived faster than the damage from the Great Recession ever did. And it will cut deep in the fiscal year ahead, with many communities likely to lose 10% or more of the revenue they would have seen without the pandemic, according to a new analysis. That's enough for residents to experience short-staffed libraries, strained parks departments and fewer road projects. The hardest-hit cities like Rochester and Buffalo could face 20% losses.

"The Great Recession was a story of long, drawn-out fiscal pain — this is sharper," said Howard Chernick, a professor emeritus of economics at Hunter College and the Graduate Center at the City University of New York, who worked on the new analysis estimating revenue shortfalls for 150 major cities across the nation.

These numbers give a sense of the possible economic pain for cities if Congress and the White House fail to agree on a new relief package that includes aid to state and local governments. It also rebuts some of the prevailing, largely Republican arguments that have stalled those negotiations: that federal help will bail out only blue cities and those that have mismanaged their finances.

Many cities facing steep losses are in states represented by Republican senators, like Florida or Louisiana. And the analysis found little relationship between whether a place was fiscally healthy before the pandemic and the most dire projections of revenue shortfalls.

What matters more in this pandemic moment is how a city generates money: Those highly dependent on tourism, on direct state aid or on volatile sales taxes will hurt the most. Cities like Boston, which rely heavily on property taxes that offer the most stable revenue, are in the strongest position — for now.

The estimates, to be published in the National Tax Journal by Chernick, David Copeland at Georgia State University and Andrew Reschovsky at the University of Wisconsin, are based on the mix of local revenue sources, the importance of state aid and the composition of jobs and wages in each city. The researchers predict average revenue shortfalls in the 2021 fiscal year of about 5.5% in a less severe scenario, or 9% in a more severe one.

These projections cover not just municipal budgets but also every local government entity that spends money on services to residents in a given city, including counties and sewer or school districts (those budgets are adjusted for the share of residents who live within city borders). As the pandemic has worsened in many parts of the country this summer, the researchers now believe their severe forecasts are more likely.

Cities heavily dependent on sales taxes felt the implosion of the economy more immediately than cities that count on income or property taxes. Revenue from income taxes will lag behind unemployment; property taxes are set a year or two in advance. Consumer spending, particularly by the biggest spenders, dropped sharply early in the pandemic. And it is expected to fall now for millions of workers whose added $600 federal unemployment benefits expired at the end of July.

Broad shifts in how Americans eat during the pandemic have affected tax receipts as well: Restaurant meals are taxed, but in most states the groceries people cook at home are not.

In Colorado Springs, which relies heavily on sales taxes, those revenues plummeted in late March and April. But they crept back in May and, to everyone's surprise, the city saw slightly more in sales tax revenues in June than it did in June of last year. Mayor John Suthers attributes that to the resilience of the local military and defense sectors — and to all the online shopping residents have been doing.

Thanks to a 2018 court ruling, states can now collect sales taxes on purchases through Amazon or other online retailers, regardless of whether those retailers have a physical presence locally. That's a silver lining.

"Without the Supreme Court's intervention, in the last three years this would have been a whole different ballgame for us," Suthers said.

Orlando, Florida, is projected to suffer about as much as Colorado Springs in these estimates. But with the county responsible for many services, the Orlando municipal government will be spared the worst of the pain. Orlando City Hall's revenues rely heavily on property taxes, which were already set to grow next year. And, like Colorado Springs, the Orlando area has long benefited from population growth and a construction boom — the other side of broad demographic shifts toward the Sun Belt that have left Northeastern cities like Rochester more vulnerable.

"Maybe Orlando isn't in the same dire situation as other places," said Chris McCullion, the city's chief financial officer. But he, too, is calling for direct federal aid, as is Suthers, a Republican mayor. "This is really, really important for the long-term health of cities and states," McCullion said.

At risk is not just services for local residents in any given city, but the possibility that disparities will widen between cities that can weather this crisis and those that can't, if they are largely left on their own.

"One legacy of the Great Recession was exposing and increasing inequities between communities," said Amanda Kass, associate director of the Government Finance Research Center at the University of Illinois at Chicago. Now those disparities could grow even wider.

The New York Times

August 17, 2020 3:33 pm

Fed to Lower Rates for Cities, States Seeking Short-Term Loans.

Interest-rate spread on tax-exempt notes will be reduced by 0.5 percentage point

The Federal Reserve said Tuesday it would reduce the rates it charges cities and states seeking short-term loans from an emergency lending program that has seen little takeup so far.

Changes to the program must be agreed upon by the Treasury Department, which has approved $35 billion to cover losses on up to $500 billion in loans extended by the Fed.

Municipal bond strategists and some Democratic lawmakers have expressed disappointment in recent weeks over the degree to which the Fed positioned the program as a backstop, though Fed officials say the mere announcement of the program in April helped reduce borrowing costs significantly for highly rated municipal issuers.

With Tuesday's changes, the Fed will reduce by 0.5 percentage point the interest-rate spread on tax-exempt notes, and it will also reduce the amount by which rates for taxable notes are adjusted relative to tax-exempt notes.

The Fed is walking a careful line in a series of lending programs it has created to backstop credit markets. It announced the programs in late March and early April when many markets weren't functioning well, but the announcement of those programs has encouraged private investors to lend, reducing demand for Fed loans.

That is raising difficult questions for the Fed and Treasury over how aggressively to use money approved by Congress to encourage additional lending. In June, the Fed tweaked its corporate-debt lending program to actively purchase bonds from nearly 800 eligible firms even if they haven't sought Fed help.

The Fed has repeatedly broadened the number of local governments eligible for the lending program to allow more than 300 municipal issuers. So far, the Fed has purchased only one such note. The state of Illinois sold $1.2 billion of debt to the central bank in June at a rate more than 1 percentage point below the rate at which it was previously able to access markets in May.

Both the municipal program and a separate Fed program to jump start corporate debt issuance have seen very little takeup. But critics have said the lack of demand for municipal debt is a problem because local governments are already responding to the downturn with layoffs and cutbacks in services that could be avoided if borrowing from the Fed's program were cheaper.

More than 50 House Democrats called on Fed Chairman Jerome Powell in a letter last week to buy municipal debt of up to five years, from the current limit of three years, and to reduce rates to near zero.

"At present, the harsh terms and penalty rates for the [program] make it functionally unusable for the vast majority of the state and local governments that are technically eligible, which severely undermines the program's intent to help states and cities struggling from unprecedented financial hardship," the letter said.

Chicago Fed President Charles Evans said last week he was sympathetic to that criticism but suggested the Treasury, not the Fed, needed to also be convinced of the need for any changes.

"I do take the point—I've heard it from others—that it is not a very attractive setting, so something that is a lower interest rate would be more welcome," he said. Such lending programs require a partnership with the Treasury, "and I think sometimes there are differences of perspective there," Mr. Evans said.

For the highest-rated municipal borrowers, yields have returned to their pre-pandemic levels and are now near all-time lows. But yields on lower-rated securities are still somewhat higher than before the pandemic.

Fed officials have said that demand for emergency credit from the central bank could hinge on how much aid Congress provides states in any future economic-relief legislation.

Talks over another round of fiscal help have broken down, and a dispute over how much relief is needed for cities and states is at the center of the impasse. House Democrats approved legislation in May to provide $1 trillion in aid, but Senate Republicans last month didn't include any such relief in their proposal.

"There is a tension that's brewing where the fiscal follow-through is not really coming to fruition, so there needs to be more thinking about how they can use the authority they have," said Skanda Amarnath, research director at Employ America, a liberal advocacy group. "They're caught in a hard place."

Earlier measures have approved more than $200 billion, primarily to address costs related to the coronavirus pandemic, but cities and states face larger budget shortfalls because the virus has led to big revenue declines on everything from sales tax receipts to public transit fees.

“Getting liquidity is helpful, but it doesn’t solve their bigger problem, which is they have a fiscal hole,” Dallas Fed President Robert Kaplan said in an interview last month.

“They need grants, and if they don’t get some fiscal relief, they’re going to need to cut back at a time when they’re at the forefront of trying to get schools reopened and…spend more on a whole range of services in their states and in their communities to help fight the virus.”

The Wall Street Journal

By Nick Timiraos

Updated Aug. 11, 2020 6:28 pm ET

Fed Announces Reduced Borrowing Costs for Municipal Issuers.

- **Fed is lowering spread on tax-exempt bonds by 50 basis points**
- **Terms of the emergency Fed lending program had been criticized**

The Federal Reserve said Tuesday it would reduce borrowing costs in its Municipal Liquidity Facility, an emergency lending program for state and local government issuers launched in response to the coronavirus pandemic.

“The revised pricing reduces the interest-rate spread on tax-exempt notes for each credit rating category by 50 basis points and reduces the amount by which the interest rate for taxable notes is adjusted relative to tax-exempt notes,” the Fed said in a statement. “Today’s changes will ensure the MLF continues to provide an effective backstop to assist U.S. states and local governments as they weather the pandemic.”

The program was announced in April but has only made a single loan so far, despite the dire fiscal situation facing state and local governments due to lost tax revenues and increased expenditures amid the pandemic. The state of Illinois said in June that it would draw $1.2 billion from the Fed facility at an interest rate of 3.82%.

Barclays Plc municipal strategist Mikhail Foux said the change is a “step in the right direction” but added the central bank should cut rates further if it wants to foster the usage of the facility. “The rates still need to be adjusted,” Foux said.

Too Pricey

Tuesday’s adjustment follows criticism of the program on the grounds that the cost of borrowing was prohibitive. House Democrats led by Washington Representative Pramila Jayapal and Wisconsin Representative Mark Pocan sent Fed Chair Jerome Powell a letter on Aug. 5 requesting that the pricing be reduced to encourage more borrowing.

State and local debt recorded a massive selloff in March but has since recovered after the Fed announced the program. Yields on one-year AAA-rated municipal debt have plunged to 0.06%.

There's one big borrower that may be able to soon take advantage of the lower borrowing costs. New York's Metropolitan Transportation Authority, facing a plunge in ridership and massive shortfall, may sell debt to the Federal Reserve as part of an upcoming bond-anticipation note sale, according to a Moody's Investors Service report.

Bloomberg Markets

By Matthew Boesler and Amanda Albright

August 11, 2020, 2:01 PM PDT Updated on August 11, 2020, 2:53 PM PDT

Federal Reserve Reduces Borrowing Costs for States, Municipalities.

The Federal Reserve announced Tuesday that it is reducing borrowing costs by half of a percentage point for state and local governments that use its municipal liquidity facility.

Municipalities that want to borrow from the Fed will now need to pay between 1.0 and 5.4 percentage points above benchmark interest rates for loans of up to three years.

So far, the only state and local government that has used the facility is Illinois. The financially troubled state sold $1.2 billion of debt to the Fed in June.

"Today's changes will ensure the [municipal liquidity facility] continues to provide an effective backstop to assist U.S. states and local governments as they weather the pandemic," the Fed said in its statement.

The Fed's move comes just as technical factors that have supported the market—notably, a wave of cash from investors reinvesting the principal of matured bonds—are expected to start waning. Supply is expected to pick up in coming weeks as well.

As a refresher, the Fed announced in April it would set up a special purpose vehicle to buy up to $500 billion in municipal debt as part of its coronavirus relief efforts.

When it introduced the facility, the central bank said it would charge a "penalty rate" or spread over benchmark interest rates—unlike its corporate bond facilities.

Top-rated tax-exempt municipal debt often yields less than Treasuries, since Treasuries are taxable. For example, 10-year AAA-rated municipal bonds yielded 0.60% on Tuesday, while 10-year Treasuries closed with yields of 0.64%.

So the current costs of the Fed facility remain substantially higher than market rates. Three-year AAA-rated municipal bonds yielded 0.09% on Tuesday, according to Bloomberg data. The implied interest rate for a AAA-rated muni using the Fed's facilities—using benchmark interest rates in derivatives markets and the new pricing schedule—would be about 1.24%.

The Fed also reduced the size of the interest-rate adjustment for taxable municipal debt compared to tax-exempt debt.

Because of the onerous terms and high costs of the Fed's muni facility, strategists such as Citigroup's Vikram Rai have been calling for the central bank to provide more support. The iShares National Muni Bond Exchange-Traded Fund (MUB) is up 2.8% so far this year, while the iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD) is up 7.5%. (To compare, the S&P 500 is up 3.2% year to date.)

Still, considering the concerns about what the pandemic may do to state and local government budgets, the municipal bond market has posted decent returns this year. In a note from mid-July, Tom Kozlik, head of municipal strategy and credit at Hilltop Securities, attributed that performance to a widespread expectation that the Fed would eventually step in to expand its aid to muni markets.

"There has been extensive Federal Reserve support of other markets to date, and we do not think the support for municipals…comes close to what has been provided in those other cases," he wrote. "More could and should be done by the U.S. Federal Reserve now to prepare for a municipal market dislocation from liquidity concerns or anxiety over credit. Investors could be assuming that because there is room for the Fed to act in support of the municipal market, that it could act, and make up ground in comparison to the support for other markets."

Barron's

By Alexandra Scaggs

Aug. 11, 2020 6:45 pm ET

S&P U.S. Not-For-Profit Acute Health Care Mid-Year Sector View: Recovery Continues, Likely Uneven For The Rest Of The Year

Key Takeaways

- Ongoing, but slow recovery for hospitals and health care systems as COVID-19 surges may continue into fall;
- Revenues and expenses will likely be under longer-term pressure while reserves may tread in place, at best, or possibly decline;
- The credit quality gap may widen and the stronger credits will likely be better positioned when COVID-19 subsides;
  COVID-19 will exacerbate existing pressures on the industry, and could further accelerate the pace of change.

Continue reading.

13 Aug, 2020

Fitch US NFP Hospitals' Stable Rating Outlook Unchanged, Sector Outlook Negative.

Fitch Ratings-New York-13 August 2020: The Rating Outlook for US not-for-profit (NFP) hospitals and healthcare systems is expected to be Stable for the remainder of the year, Fitch Ratings says. We maintained our Stable Rating Outlook for the sector but revised the Sector Outlook to Negative in March as the pandemic began to disrupt operations for healthcare providers. Reviews of NFP hospital and healthcare system issuers from March 15 through July 31 have resulted in downward rating actions, 10% of which were downgrades, and 3% were affirmations with an Outlook revision to Negative from Stable or Stable from Positive.

Continue reading.

Facing Pandemic Squeeze, Universities Hit Bond Markets for Cheap Cash

Universities, waiting to see how hard the coronavirus pandemic will hit overseas enrollments and government grants, have gone on a borrowing spree in the bond markets this year that outpaces a rise in companies' bond sales.

The COVID-19 crisis is threatening to redefine higher education around the world, with students sent home and classes moved online. But the economic fallout will also hit universities' finances as tuition fees, especially from overseas students, is likely to fall while funding from governments could also be hit.

Yet that has not stopped investors from lending to universities at record-low rates. And the institutions have rushed to capitalise on the availability of cheap funding.

Bond issuance by universities is only a tiny part of the global bond market, but sales by universities worldwide are more than double full-year 2019 levels at $11.4 billion in the year to date, Dealogic data shows.

In comparison, global debt issuance by companies is at around 75% of 2019 volumes, based on Dealogic data.

Graphic: Global bond sales by universities and colleges in 2020 https://fingfx.thomsonreuters.com/gfx/mkt/oakpemlzmpr/IzD41-global-bond-sales-by-universities-and-colleges-in-2020.png

"We're seeing a lot of what we call pull-forward issuance," as universities brace for another lockdown in autumn, said Fitch analyst Emily Wadwhani, who specialises in higher education finance.

Among those to issue was the AAA-rated University of Virginia, which raised $600 million in July to fund projects such as new dormitories. It paid a 2.256% yield, the lowest ever for a 30-year "taxable" university issue.

Taxable corporate debt attracts a broader investor pool than municipal bonds, another source of funding for U.S. universities.

"The market was incredibly advantageous. We have both (current and future) capital needs, but we also thought that given the opportunity to go into the market, we could advance fund," J.J. Davis, chief operating officer at the University of Virginia, said.

"At these rates, why wouldn't you?"

While U.S. universities accounted for 24 deals in the year-to-date, based on Dealogic data, institutions from Canada, Brazil, Singapore and Australia also sold bonds.

The market in publicly disclosed university bonds is about $50 billion-plus, according to Dealogic.

Of this, $36.3 billon is from U.S. universities, which typically get a lower level of state support compared with European peers.

Existing university issues, especially from top-tier names such as Oxford and MIT, have shared in this year's broader bond market rally. Yields on the S&P Municipal Bond Higher Education Index have fallen to 2.7%, near record lows.

'HAVES AND HAVE-NOTS'

The coronavirus crisis may widen the gap between top-tier universities and lesser-known ones. This year's borrowers mostly comprise top-rated names such as Virginia, Harvard and Stanford.

"The market is starting to distinguish between the haves and the have-nots," said Cooper Howard, fixed income strategy director at Charles Schwab, which manages $3.25 trillion of assets.

Credit rating agency Moody's said in March in a report on U.S. higher education that the outlook for the U.S. education sector was changing to negative from stable.

"For fiscal 2021, universities face unprecedented enrollment uncertainty, risks to multiple revenue streams, and potential material erosion in their balance sheets."

Even university issuers with high credit ratings have had to show investors how they will tackle the pandemic hit.

"(Issuers) have done a ton of work around stress-scenario analysis," a U.S. banker involved in some of the deals said.

He said 30-40 universities with lower credit ratings were waiting for clarity on admissions and tuition fees before issuing debt.

British universities, already facing an added Brexit complication, have been absent from fundraising via the bond market this year, though they often favour hard-to-track private placements.

Dialogue around bond financing fell away amid spring uncertainty, said Fraser Dixon, JPMorgan's head of UK and Ireland debt capital markets, who arranged Oxford's debut bond deal in 2017.

Financial pressures are increasing. A report from the University and College Union – the union for university staff in Britain – predicted British universities will lose 2.5 billion pounds next year in tuition fees alone.

And in the United States, student enrolments will decline by 5-20% this year, Fitch predicted.

"It's certainly difficult to judge what the university experience might look like in the future," JPM's Dixon said.

By Reuters

Aug. 11, 2020

(Reporting by Yoruk Bahceli; editing by Sujata Rao and Jane Merriman)

Municipal Bond Market Update - August Edition

The incremental reopening of the economy and improving labor market conditions contributed positively to equity market performance in July, however the path of recovery remains uncertain and highly dependent on the course of the virus.

As the economy gradually reopens, state and local governments may see improvement in tax collections as workers continue to return to their jobs. The Bureau of Labor Statistics released its latest report on the state of the labor market on August 7. The unemployment rate declined to 10.2% in July, adding 1.8 million jobs to the economy. However, concerns of a second wave, coupled with a resurgence in infections in states such as Texas, Florida, Arizona, and California, may slow the pace of re-openings. As phase 4 stimulus negotiations continue, many municipal market participants have turned their attention to Washington. Investors are particularly interested in the potential state and local government aid that could be included in the next package. Sector-specific aid, such as education, transportation, and healthcare will be closely monitored as well.

Continue reading.

municipalbonds.com

by Corey Boller

Aug 10, 2020

Municipal Bond Investing In The COVID-19 Era.

Summary

- This is a follow up to my first article on this topic published in April 2019.
- It gives some updated ideas when buying individual muni bonds and muni bond funds.
- Other considerations for bond investors.

Continue reading.

Seeking Alpha

Aug. 12, 2020

Bank of America Sees Dwindling Muni Yields Nearing Major Test.

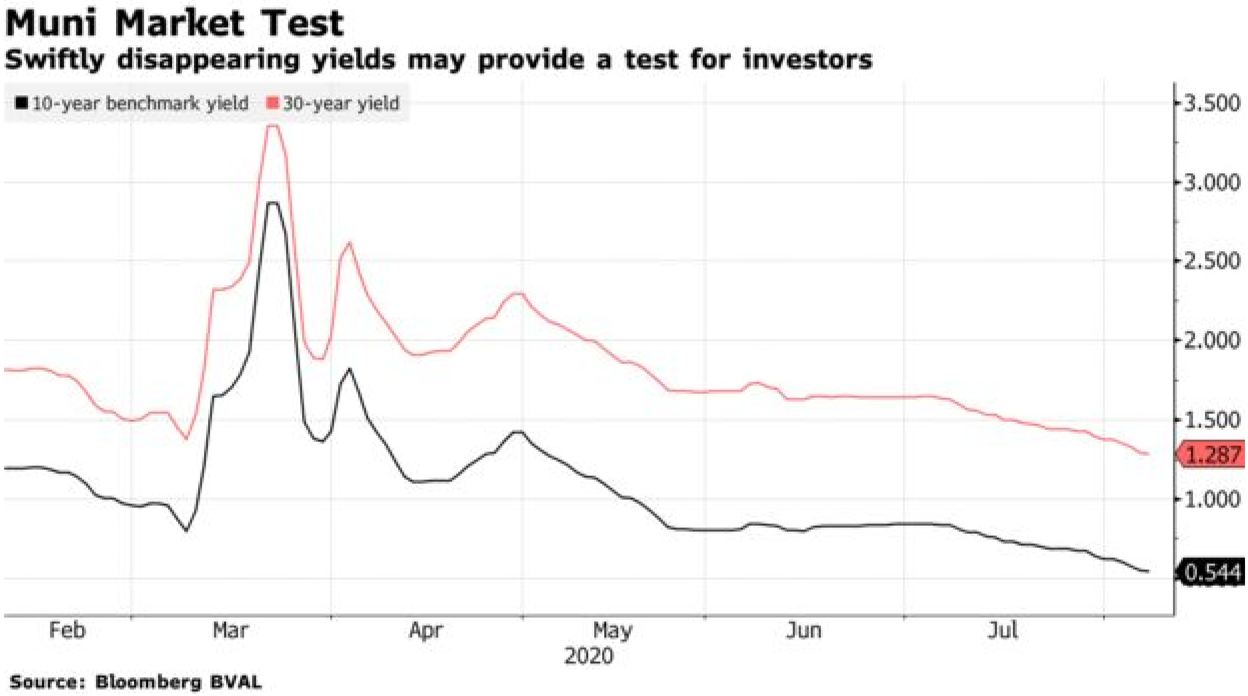
- **Analysts say 10-year yields of 0.5% an inflection point**
- **Market is dominated by cash from buy-and-hold investors**

The largest underwriter in the $3.9 trillion municipal-bond market says the rally is about to face a crucial hurdle.

Bank of America Corp. analysts Yingchen Li and Ian Rogow said they're watching to see what happens if 10-year benchmark yields hit 0.5% — a threshold that may mark a test of whether investors continue stampeding into the market.

Such pricing milestones are often watched in other markets, from stocks to mortgages, as a sort of psychological test of whether investors will shift gear if prices seem to heady or payouts too low.

Prices in the state and local government bond market have rebounded sharply since March as investors poured billions of dollars back into mutual funds, sending yields tumbling to the lowest in decades. That's raised a question of whether the buy-and-hold investors who dominate the market will pull back if yields keep dropping, especially given the steady drumbeat of news about the financial hit the pandemic is dealing to states and cities.



Bloomberg's 10-year benchmark yield has slipped to 0.54%, the lowest since it was started in 2011 and near Bank of America's threshold.

"By the time it gets there, it may bounce back if there's not enough demand," Li said in a telephone interview. "If the demand for muni market is overwhelming, it will go right through it."

"It's eye catching," he said.

They said 30-year yields are already around such an inflection point, with the next test seen once it hits 1%.]

Bloomberg Markets

By Shruti Singh

August 7, 2020, 11:06 AM PDT

[Muni Yields Hit Lowest Since 1952 as Fiscal Crisis Tests a Haven.]()

- **Budget crisis for states, cities seen worse than 2008**
- **'The market is very complacent,' Deutsche Bank's Pollack says**

America's municipal bondholders have never been paid so little for taking on so much risk.

The yields on state and local government bonds have steadily dwindled over the past month, even as the resurgent coronavirus pandemic is threatening to prolong the deep recession that's dealing a financial setback to borrowers in virtually every corner of the $3.9 trillion market.

The oldest gauge of municipal yields, the Bond Buyer index of those on 20-year general-obligation bonds, now stands at 2.09%, the lowest since 1952. The Bloomberg 10-year benchmark slipped below 0.6% on Wednesday, the least since at least 2011. And MMD's measure of 30-year yields has dropped to the lowest since it was started in 1982, according to Greg Saulnier, a managing analyst at Refinitiv.

The disappearing yields aren't unique to the municipal market. With the Federal Reserve injecting cash into the financial markets to stoke the economy, those on corporate bonds, mortgages and U.S. Treasuries have tumbled, too.

But the drop in the municipal market is leaving investors receiving far less compensation than they did when the Fed cut rates near zero after the last recession, even though the current rout is projected to drive states and cities into what may be the biggest budget crisis in memory. Many bonds have been issued for ventures like hotels, stadiums, airports and public transit systems that are also highly sensitive to the downturn.

Yet investors appear to expect municipal bonds will continue to remain one of the world's safest investments, given how rare defaults are by governments that can raise taxes or by agencies seen as too vital to fail.

Moody's Investors Service said in a report last month that it didn't expect bonds that it rates to default in 2020 due to the pandemic, aside from the two small borrowers that had done so already. That suggests the lapses, at least for now, will be confined to riskier borrowers that forgo credit ratings to avoid the stigma of being labeled junk.

Gary Pollack, head of fixed income for private wealth management at Deutsche Bank, said investors' confidence reflects how municipalities have weathered crises like the last recession, when defaults and bankruptcies remained rare.

While municipal bonds recorded a loss of 2.5% in 2008, they rebounded with a nearly 13% gain in 2009, according to Bloomberg Barclays indexes.

"Having lived through the 2008 crisis, the market is more comfortable with muni credits in general," Pollack said.

Still, he thinks the pandemic may be tougher on municipal credits than the 2008 downturn was. "The market is very complacent, I would say, with how municipalities will get through this," he said.

Wall Street analysts have also been confident that Congress will extend large amounts of aid to states and cities, a prospect that's now uncertain in the face of opposition from President Donald Trump.

Some firms have started warning that the plan could fall short. Barclays Plc strategists said in a report on Tuesday that the package is likely to be $1.5 trillion or less given the divisions between

Democrats and Republicans, “which would leave state and local governments with less money than the market initially projected.”

Bloomberg Markets

By Amanda Albright

August 5, 2020, 10:42 AM PDT
