
Bringing Order to Chaos: AI in the Municipal Bond Market

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By some estimates, there are over one million fixed-income securities issued by U.S. state and local governments to fund projects like schools, highways, and utilities. Each of these securities has unique tax treatment, credit ratings, and yield structures. They primarily trade in an "over-th--counter (OTC) " market with transactions occurring directly between parties rather than on centralized exchanges.

This decentralized structure leads to less frequent trading, as many investors adopt a "buy and hold" strategy, resulting in few daily trades. Some bonds are even less liquid, trading only by appointment. This means they don't trade continuously like stocks. Instead, trades occur when a buyer and a seller agree on a price, which can happen sporadically. Because they trade OTC, pricing is determined through negotiation rather than a centralized exchange.

Each municipal bond has unique characteristics – issuers, maturities, credit ratings, and potential tax treatments – making price discovery more challenging than for liquid, standardized securities like Treasuries. Unlike corporate bonds, municipal issuers follow different accounting standards, making financial comparisons difficult. Legal protections for bondholders vary by state, and political factors like pension liabilities and tax policies impact creditworthiness. This structure has historically led to wide bid-ask spreads, meaning the difference between what buyers pay and what sellers want can be larger. Most municipal bond trades require an intermediary, such as a broker, to facilitate transactions. Investors looking to buy or sell municipal bonds must often work with brokers, and buy on the offer, rather than executing trades instantly.

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by John Sweeney, 2/24/25

Breaking Tradition: Vanguard's Bold Bet on Active Fixed-Income ETFs

For many investors, indexing and Vanguard go hand-in-hand. After all, the asset manager pioneered the concept of tracking a stock market index and was one of the first firms to embrace ETFs as part of its line-up. It even has its own indexing fanbase, known as "Bogleheads", named after its founder John Bogle. So, when Vanguard takes an active approach to managing a fund, it's kind of a big deal.

When it launches several new active funds? Investors need to take notice.

And that's just what has been happening. Vanguard continues to launch a variety of new active ETFs covering the fixed-income space, with four new funds launched over the last few months. For investors, these launches underscore how powerful active ETFs and active management can be in the bond space.

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by Aaron Levitt

Feb 21, 2025

WSJ: Municipal Bonds Markets Fear Trump Tax Cuts Could Clip Momentum

The tax debate comes as the munis landscape looks bright

The Trump administration's efforts to cut taxes are threatening to upend the U.S. $4 trillion municipal bond market.

The potential change comes as local governments are increasingly relying on munis to finance public works. Municipal bonds issuance is growing, after a post-pandemic lull. Investors, in turn, have sought the low-risk securities to buffer their fixed-income portfolios while reducing their tax load.

"We truly benefit from a strong and sort of voracious market wanting to invest in safe, liquid and nearly riskless assets," said Emily Brock, a lobbyist for the Government Finance Officers Association, a national organization of state and municipal finance officials.

The momentum in munis could now wane, as lawmakers look for ways to increase federal revenues and offset wide tax cuts proposed by President Trump. Tax exemptions that for generations have made municipal bonds attractive could be eliminated, pushing investors to demand higher payouts to finance infrastructure including schools, sewage systems, roads, airports and more.

"Far and away, the biggest risk [for munis] is a change in the tax system this year," said Matt Fabian, partner at research firm Municipal Market Analytics.

The tax debate comes as the munis landscape looks bright. Local budgets are healthy after states and municipalities used part of Covid-related federal transfers to beef-up their rainy day funds, while volatile markets bolster demand from investors for this type of low-risk assets.

"We are very comfortable right now that the municipal bond market is starting [2025] from a position of strength," said Matthew Norton, chief investment officer of municipal bonds at AllianceBernstein. Norton said AB research shows that munis finance around 75% of the U.S.'s infrastructure.

Municipal bonds typically offer lower yields than other fixed-income options, including Treasurys. The ICE US Municipal Securities Index effective yield was 3.4% on Feb. 13, compared to 4.5% on the ICE BofA U.S. Treasury Index.

It is the tax advantage that makes them attractive, particularly to high-income individuals and institutional investors.

The Securities Industry and Financial Markets Association estimates there were $4.2 trillion outstanding munis in the third quarter of 2024, 3% more than a year earlier. According to SIFMA, $36.3 billion in munis were issued last month, the highest January issuance in records going back to 1980.

Using SIFMA data, the National Association of Bond Lawyers estimates that the vast majority, or around $3.5 trillion of outstanding munis, are tax-exempt.

The concerns about exemptions stem from discussions regarding the Tax Cuts and Jobs Act approved in 2017 with Republican support. Some cuts expire by year end and are widely expected to be extended or even deepened. But given the growing federal budget deficit, lawmakers face pressure to find alternative revenue sources.

Nixing tax exemptions on interest earned by municipal bondholders has been mentioned by the House Ways and Means Committee as a way to save $250 billion over 10 years. Local authorities are trying to dissuade lawmakers from doing so, arguing it would do more harm than good.

"There is a good chance, maybe 50% chance, that the Republicans remove the tax exemption entirely…to pay for extension of the TCJA," Fabian said, referring to the 2017 Tax Cuts and Jobs Act.

The critical role munis play in reducing local governments' reliance on federal handouts, however, makes some investors believe that the tax exemptions will survive.

Dan Close, head of municipals at Nuveen, said he is monitoring developments in Washington. "We are always concerned every time there is discussion about tax exemptions," he said. But Close is confident that incentives will survive. He expects issuance to be around $500 billion this year —about the same as in 2024— with returns also unchanged. He isn't changing strategy or holding cash.

The Wall Street Journal

By Paulo Trevisani

Feb. 14, 2025

Write to Paulo Trevisani at paulo.trevisani@wsj.com

Fitch: U.S. Economic Growth to Slow with Evolving Risk Environment

Fitch Ratings-New York-11 February 2025: Resilient consumer spending momentum supports U.S. economic growth, although growth will decelerate in 2025 due to the effects of higher U.S. import tariffs and slower investment and government spending growth. The risk environment continues to evolve with shifts in key federal policy, according to Fitch Ratings in the 1Q25 U.S. Credit Brief. Ratings with Negative Outlooks exceed those with Positive Outlooks, largely driven by sub-investment-grade ratings on Negative Outlook.

Continue reading.

DOGE Effect Stings Muni Bonds Backed by Federal Lease Payments.

Elon Musk’s aggressive push to cancel federal leases is pressuring some municipal bonds backed by payments from the US government.

The White House has urged the General Services Administration, the government’s real estate manager, to cut federal office space. The efforts are part of the crusade by President Donald Trump and Musk to lower spending, creating turmoil at federal agencies. Musk’s Department of Government Efficiency has tweeted about some lease cancellations already.

There is a subsection of the $4 trillion state and local government debt market backed by federal lease payments. It’s hard to tally how much debt is impacted, but investors have funded hundreds of millions of dollars of debt tied to buildings like NASA’s DC headquarters and an office for the Social Security Administration in Baltimore.

The campaign to cut costs and reduce the US government’s office footprint is already spurring some bonds tied to GSA leases to start to sell off, amid concerns that the contracts won’t be renewed. Taxable debt sold in 2022 to refinance obligations for the US space agency headquarters traded on Wednesday at a roughly 26% yield, or about 55 cents on the dollar, according to trading data collected by Bloomberg. That is about 11 percentage points wider than where the bonds traded before November’s presidential election.

“These leases are kind of a political football right now,” said Nicholos Venditti, senior portfolio manager at Allspring Global Investments. “You’ve started to see price reaction to these news stories,” he said.

The NASA bonds aren’t the only securities to widen. Junk-rated taxable debt sold for the Social Security Administration’s office in Birmingham, Alabama, have also sold off. Those bonds traded at a yield of 27% on Feb. 11, compared to about 16% in October, data compiled by Bloomberg show. The federal government’s lease on the building expires in early 2028. And bonds sold for an FBI field office in San Diego have also dropped – the General Services Administration has a lease on the building until April 2033. Even debt sold for a veterans’ affairs clinic changed hands at a lower price in February.

Still, some of the trades are smaller in size, making it harder to gauge how investors across the board are evaluating the credits. Some of the bonds had lower credit ratings to begin with, in the BBB or junk range, so they already traded at elevated yields.

The falling prices for some government-lease backed bonds illustrate how the Trump administration’s push to cull spending is reverberating across the US. The public finance sector is already reeling from the myriad of executive orders, with colleges and universities bracing for a reduction in research funding, and state officials challenging a proposed halt in federal grants.

Moody’s Ratings downgraded the NASA bonds to junk in March 2024, and on Monday cut the ratings again to B2, five levels below investment grade. The analysts said they see full lease renewal as less likely in 2028. The $275 million of principal is due in 2028, and it could be harder to refinance the debt given those uncertainties, according to Moody’s. “The downgrade also reflects emerging uncertainties in the GSA’s general leasing strategies more broadly,” according to the rating firm’s report.

There are longstanding concerns with the federal government’s use of office space. Biden in early

January signed legislation with provisions to reform the GSA and consolidate office space, according to a press release from Rep. Scott Perry, a Republican from Pennsylvania. The Government Accountability Office found in 2023 that federal offices were underutilized amid the rise of telework. Federal agencies spend about $2 billion a year to operate and maintain their office buildings regardless of how often they are used, the report said.

Arnold & Porter, a law firm, said in a report that there are limits on the GSA's ability to cancel leases. During what's known as the firm term of the lease, the government has limited cancellation rights, according to the report. The NASA building, financed with a $275 million bond sale in 2022, is still in its firm term of the lease until 2028, Moody's said.

The "Trump effect" is apparent in the trading of the federal lease-backed bonds, said Jason Appleson, head of municipals for PGIM. But even before his election, Appleson said there were concerns about the federal government's office space needs, and bond valuations were starting to reflect that.

In mid-November, NASA had said it was searching for a new headquarters facility in DC. The bonds dropped in December, but the decline has been steeper more recently with the DOGE cost-cutting.

The federal government's lease payments backing the bonds can be "generous," at above-market rates, Appleson said. "If you had to re-let the building, it's questionable what you could get and what the underlying real estate could be worth," he said.

The NASA headquarters lease is one of the largest GSA leases by rent and square footage, according to Moody's.

The fallout isn't just limited to muni bond debt. About $12 billion of loans tied to commercial mortgage bonds are also at risk, according to a Barclays Plc report last week.

Bloomberg Markets

By Amanda Albright and Danielle Moran

February 14, 2025

— With assistance from Immanual John Milton

Research Universities Face Credit Risk from NIH Funding Cut.

- **Policy change would reduce research funding for universities**
- **Federal judge temporarily blocked the Trump-directed cuts**

Proposed cuts by the Trump administration to a type of federal funding from the National Institutes of Health would pose a credit challenge to universities that receive the funds, analysts at JPMorgan Chase & Co. said.

The NIH has been ordered to slash funding for research at universities and hospitals, though on Monday a federal judge temporarily paused the change. A hearing date is scheduled for Feb. 21.

"The announcement is another demonstration of the new administration's focus on cost cutting, reinforcing our view that credits with significant direct exposure to the federal government warrant a higher degree of credit scrutiny," JPMorgan analysts led by Peter DeGroot wrote.

Some schools have warned about the cuts. Such a drop would lower the University of Pennsylvania's annual federal funding by about $240 million, interim president J. Larry Jameson said in a statement on Tuesday to the school community. Stanford said the change will create a reduction in NIH funding of approximately $160 million per year.

Still, most of the universities threatened by efforts to pare back government spending currently have high-grade credit ratings, according to Barclays Plc. strategists including Mikhail Foux and Bobby Zauner. The exception is the Icahn School of Medicine at Mount Sinai. The school has $411 million in outstanding municipal debt and is operating with thin margins and increasingly higher leverage due to new capital leases, according to Foux. It received $95 million in federal contracts during fiscal year 2023.

The school is rated Baa3 after being downgraded by Moody's Ratings from Baa1 in August.

"The school relies on the hospital for a sizable portion of patient care revenue and interim liquidity," Foux said. "In our view, possible government contract cancellations might have a negative effect on this credit."

Lucia Lee, a spokesperson for Mount Sinai, said the health system conducts lifesaving biomedical research. "These investments are important, and the indirect costs are real costs," she said in an emailed statement.

Bloomberg Industries

By Elizabeth Rembert

February 12, 2025

[S&P U.S. Municipal Water & Sewer Utilities Rating Actions, Fourth-Quarter 2024]()

Overview

S&P Global Ratings took 59 rating actions, made 26 outlook revisions, and placed five ratings on CreditWatch within the U.S. municipal water and sewer utilities sector in fourth-quarter 2024. We also affirmed eighty-two ratings with no outlook revisions.

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10 Feb, 2025

[A Fix for America's Infrastructure Paralysis]()

Mandatory processes and detailed rules have increasingly constrained officials' discretion, leading to endless lawsuits, decadeslong project delays and multibillion-dollar cost overruns. There's a better way.

In recent weeks, Elon Musk's Department of Government Efficiency (DOGE) has moved to eliminate the U.S. Agency for International Development, while President Trump prepared an executive order to wind down the U.S. Department of Education. It's the latest attempt to make government more efficient by eliminating things that it does. Merely shuttering departments, however, won't get to the heart of the problem DOGE seeks to correct: The American public sector, at any level of government, can't get things done in a time-effective and efficient manner.

A new Manhattan Institute report provides an antidote to this public malaise in the context of infrastructure. Its author, Philip K. Howard, offers a new governing vision that authorizes officials to weigh tradeoffs and make decisions for the public's benefit.

Decades ago, Democrats and Republicans both understood the need for a well-functioning, results-oriented government to provide public goods. On Nov. 15, 1933, Harry Hopkins, overseer of much of the New Deal, called governors and mayors to Washington to request that they submit proposals to get their residents working again. By Nov. 26, he had approved 920 projects just for Indiana and begun employing nearly 50,000 of its residents to repave streets, roads and airport runways. In the early 1940s, the 6.5 million-square-foot Pentagon was built in just 16 months.

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governing.com

OPINION | Feb. 14, 2025 • John Ketcham, Manhattan Institute

Muni Bonds Trailing Treasuries Turn Cheapest Since November.

Long-maturity municipal bonds are the cheapest since November relative to Treasuries as investors in the market for US state and local debt confront questions around tax policy and absorb swelling issuance.

Yields on 30-year, top-rated munis were about 85% of the level of similar-maturity Treasury rates as of Thursday, the highest since right after President Donald Trump's election victory in November, data compiled by Bloomberg show. A climbing ratio shows munis are underperforming US government debt.

Long-term muni supply is up 27% in February from a year earlier, to about $21 billion, data compiled by Bloomberg show. That's fed into the weakness, and some investors are starting to see value. State and local securities tend to offer lower yields than Treasuries because of the tax-free interest they pay.

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Bloomberg Markets

By Elizabeth Rembert and Shruti Singh

February 14, 2025

[Sustainability Makes SMAs Tick: Bloomberg Masters of the Muniverse]

Despite economic data once again signaling inflation is on the rise, the future of rate cuts becoming uncertain and an evolving fiscal policy landscape, there is much to be optimistic about within the muni market. On this month's Masters of the Muniverse podcast, hosts and Bloomberg Intelligence analysts Eric Kazatsky and Karen Altamirano talk to Tim Coffin, Director of Sustainability at Breckinridge Capital Advisors. We discuss the rise in separately managed accounts and how the demand for sustainable investing is unlikely to wane.

Listen to audio.

Feb 14, 2025

[The Investor's Guide to Muni Bond Opportunities in 2025.]

Municipal bond funds may be a compelling opportunity in 2025, as muni bonds are currently offering the highest yields in the past decade.

Fortunately, for investors, there are currently opportunities to be found in various segments of munis. This means that investors can target the level of interest rate risk they're comfortable taking on based on their personal investment outlook.

"Some opportunities are more present further out the curve. Some are more present on the shorter end," Elizah McLaughlin, portfolio manager at Fidelity Investments, said during VettaFi's Q1 2025 Fixed Income Symposium.

For investors looking to take on less interest rate volatility, Fidelity offers the Fidelity Limited Term Municipal Income Fund (FSTFX). FSTFX is one of the firm's shorter duration funds, McLaughlin said.

Next, the Fidelity Intermediate Municipal Income Fund (FLMTX) and the Fidelity Sustainable Intermediate Municipal Income Fund (FSIKX) each target the two to 20-year range of duration risk.

Finally, McLaughlin said the Fidelity Tax-Free Bond Fund (FTABX) focuses on three-plus-year durations.

Muni Bond Sectors Well Positioned in 2025

"There are a number of opportunities that we have been investing in lately," McLaughlin said.

The hospital sector is one area that currently looks attractive. Fidelity has a strong research team with extensive experience in that sector, McLaughlin said. "They have been able to steer us into those names they think are going to perform well," she added.

The airports segment is another area that continues to be priced relatively cheap.

"Those are typically solid credits, but they're subject to AMT tax treatment," McLaughlin said. "Many of you are aware that the 2017 Tax Cuts and Jobs Act has provisions that are scheduled to expire at the end of this year. Many of the provisions that are relating to the individual AMT will need to be renegotiated this year.”

This means that investors need to evaluate their current AMT risk and what makes sense for their individual risk profile.

Looking At Housing Bonds

Finally, housing bonds, including bonds issued to fund both multi-family and single-family projects, are an interesting opportunity in the current environment.

The sector underperformed quite a bit when the Fed was raising rates because people stopped prepaying their mortgages, McLaughlin said. “They liked those low rates on their mortgages. We saw the maturities of a lot of those bonds back up.”

However, that has started to reverse now, creating opportunity for experienced managers.

“This is an area where you have to be able to do prepayment modeling,” McLaughlin said. “It’s one that really kind of lends itself to professional management. But there is a lot of opportunity in that sector as well.”

etftrends.com

by Elle Caruso

February 14, 2025

For more news, information, and strategy, visit the ETF Investing Channel.

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Muni Market is 'Moving Toward ETFs.' What Are the Risks and Yields?

‘I think you’re going to see more and more of the muni space moving toward ETFs,’ says Morgan Stanley’s Craig Brandon

Hello! For this week’s ETF Wrap, Morgan Stanley and BlackRock provide some perspective on investing in the municipal-bond market.

Please send feedback and tips to christine.idzelis@marketwatch.com or isabel.wang@marketwatch.com. You can also follow me on X at @cidzelis and find me on LinkedIn. Isabel Wang is at @Isabelxwang.

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By Christine Idzelis

Provided by Dow Jones Feb 13, 2025 5:13pm

BlackRock Bolsters Municipal Bond Suite with Launch of High Yield Muni ETF.

Marks completion of the conversion of the BlackRock High Yield Municipal Fund into the iShares High Yield Muni Active ETF

NEW YORK–(BUSINESS WIRE)–Today, BlackRock announced the conversion of the BlackRock High Yield Municipal Fund into an active ETF, creating the iShares® High Yield Muni Active ETF (CBOE: HIMU). HIMU harnesses the expertise of BlackRock's Municipal Bond Group to provide more choice and flexibility to clients seeking high yield, tax-exempt solutions in the convenience of an ETF.

"Today's higher interest rate environment provides a generational opportunity to capture income, particularly in the municipal bond market," said **Pat Haskell, Head of the Municipal Bond Group at BlackRock**. "Through the ETF wrapper, HIMU aims to take advantage of the attractive yield levels and strong credit quality in municipal bonds, delivering alpha to our clients in an efficient and transparent manner."

The new ETF seeks to maintain identical investment objectives and fundamental investment policies as its predecessor mutual fund. HIMU aims to maximize federal tax-exempt current income and capital appreciation by investing in high yield municipal securities across a variety of sectors. The mutual fund was launched in 2006 and delivered top quartile performance over the one-, five-, ten- and fifteen-year periods as of December 31, 2024.1

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Distributed by Business Wire

10th February 2025

BlackRock Converts High-Yield Muni Fund to ETF.

BlackRock Inc. (BLK) announced Monday it is turning its High Yield Municipal Fund into an exchange-traded fund, the latest sign that major asset managers are embracing ETFs to give investors a more tax-friendly and flexible way to tap into the muni bond market.

The transition of the $1.5 billion fund into the iShares High Yield Muni Active ETF (HIMU) comes as BlackRock projects global active ETF assets will surge to $4 trillion by 2030 from $900 billion in June 2024, the company said in a statement announcing the conversion.

The shift underscores how ETFs are becoming a preferred structure for investors looking for greater trading flexibility and potential tax advantages compared to traditional mutual funds. By moving the fund into an ETF, BlackRock, the world's largest asset manager with more than $11 trillion in AUM, is giving investors a way to access high-yield municipal bonds while benefiting from lower costs and real-time market pricing.

Continue reading.

etftrends.com

by DJ Shaw

Feb 10, 2025

Reviewed by: Paul Curcio

Edited by: James Rubin

UBS Spotlight: Steady Growth for Municipal Bond ETFs.

Municipal bond ETFs have exhibited steady growth since their introduction in September 2007. The municipal ETF market now consists of 112 ETFs that combine for USD 141bn in assets. The number of issuers has expanded, and there are now 36 issuers of municipal bond ETFs.

At a glance

- Municipal bond ETFs have exhibited steady growth since their introduction in September 2007. The municipal ETF market now consists of 112 ETFs that combine for USD 141bn in assets.
- CIO suspects that the outperformance of the high yield municipal market last year was a major driver of the increased demand.
- The growing need for customization among high net worth retail and institutional investors and technological advancements facilitating easier client communications and investment administration have driven SMA growth, a trend CIO expects will continue.

Continue reading.

by UBS Editorial Team

11 Feb 2025

Fitch: U.S. States' Credit Quality Remains Resilient Despite Mixed Revenue Trends

Fitch Ratings-New York-10 February 2025: Weak tax revenue growth in fiscal 2025 is not expected to broadly affect states' credit quality, Fitch Ratings says. We expect fiscal resilience to remain strong despite a challenging budgetary environment due to the end of pandemic-era assistance and potential reductions in federal grants, although any federal spending cuts remain unclear. Despite slower growth, states are generally maintaining record-high dedicated operating reserves.

State tax revenue growth has slowed following robust post-pandemic gains. The National Association of State Budget Officers (NASBO) reported median projected growth in general fund revenues, predominantly taxes, of 0.3% in fiscal 2025, down from 1.3% in fiscal 2024 and 15% in fiscal 2022. Despite this slowdown, state rainy-day funds increased to a median of 13.5% of expenditures in fiscal 2024, with NASBO projecting an increase to 14.4% in fiscal 2025. On a calendar year basis from January to November, the Urban Institute reported growth in states' cumulative tax collections narrowed recently, trending below expenditure growth. However, average annual growth of more than 5% since 2019 supported expansion of reserves.

Continue reading.

US Airports Expected to Turn to Muni Debt If Federal Grants Wane.

- **Airport sector saw more than $20 billion of sales last year**
- **Fitch Ratings says smaller airports would be most impacted**

US airports may turn to the municipal bond market for financing if federal funding for infrastructure is rolled back as part of President Donald Trump's push to cull government spending.

Many facilities rely on federal grants to help fund renovations of aging infrastructure. Former President Joe Biden's administration earmarked $14.5 billion over five years to modernize facilities and improve service amid a boom in air travel after the pandemic. A decline in such funding would force airports to fill the gap themselves — through borrowing or other measures, or make them scale back projects, said Seth Lehman, a senior director in the global infrastructure group for Fitch Ratings.

"For some airports, it may be that less grants means more debt borrowing to get the job done," Lehman said.

Airports already are major issuers of municipal bonds, borrowing more than $20 billion of debt in 2024, according to data compiled by Bloomberg. Much of those sales came from the country's largest hubs, like New York City's John F. Kennedy International Airport or Orlando International Airport in Florida.But Lehman said smaller facilities would be most impacted by a reduction in federal grants. Facilities in tourist hot-spots like Key West, Florida, and Myrtle Beach, South Carolina, tend to rely on grants rather than debt and may have to reconsider their funding strategies, he said.

"If we start to see a decrease in annual funding, that puts more pressure" on airports, he said. But for projects that are needed, airports can tap the muni market. "They know they can go to the capital markets," he said.

Lehman expects airport issuance to range between $15 billion and $20 billion this year, especially since many borrowers already sold bonds in 2024.

Bloomberg Industries

By Aashna Shah

February 7, 2025

S&P CreditWeek: How Could U.S. Public Finance And Insurance Issuers Be Affected Post-L.A. Wildfires?

One month after the Los Angeles County wildfires began, the catastrophic event that burned thousands of acres, caused millions in damages, and devastated communities, they are nearly 100%

contained. But in their aftermath (and as smaller, adjacent fires have sparked), the near- and long-term credit implications could pose significant financial and operational risks for U.S. public finance issuers—alongside implications for insurers.

What We're Watching

Given California's arid conditions and Santa Ana winds, wildfire conditions have become more frequent and severe, which could pose significant credit risk for the state's local governments and not-for-profit and investor-owned utilities. Legal liabilities, damage to infrastructure, and lower long-term population and economic trends following physical climate risks could weaken credit fundamentals.

As the L.A. County wildfires are poised to become the largest insured wildfire event in history (with loss estimates of $20 billion-$50 billion), total economic damages could surpass $250 billion. Looking forward, the shift in wildfires to urbanized from rural areas in California will require local governments and utilities to **meet a higher standard of risk resilience** for infrastructure, services, and financial preparedness. As wildfire risks increase—many of them caused, at least in part, by climate change—we are reassessing whether utilities' liquidity, insurance, asset adequacy, resilience, and emergency preparedness are insufficient or outdated.

Many U.S. public finance and regulated utility entities we rate—including not-for-profit public power and water and sewer utilities; investor-owned utilities; local governments; and school districts—have assets and tax bases in the fire-affected areas. While more insight on the Palisades, Eaton, Sunset, Hurst, and Kennedy fires is available, final determination on what led to the L.A. County wildfires' ignition remains an open question.

Ultimately, the potential for litigation, particularly brought against not-for-profit and investor-owned utilities , could pose substantial financial liabilities that may outpace costs required for infrastructure repair. For example, the 2018 Camp Fire resulted in $30 billion in wildfire liabilities for Pacific Gas & Electric and it eventually made a $13.5 billion settlement.

What We Think And Why

As physical climate risks have increased, the California insurance market has evolved and in recent years resulted in an exodus of commercial insurers. The state's insurance regulator recently made changes in hopes of retaining and luring providers back—allowing insurers to use a catastrophe model to justify premium increases and giving providers the ability to pass reinsurance costs to policyholders.

In our view, insurance in California will be more costly post-event as remaining property insurance carriers are likely to **raise premiums or deductibles and/or reduce coverage options**, which help insurers maintain profitability. However, wildfire-related claims, including those in connection with property damage and business interruption, have contributed to a **broader trend of insurers' reconsidering risk exposure** in catastrophe-prone regions. We believe limited availability for insurance and higher premium costs contribute to a wide swath of affordability issues we've observed in the U.S., including food inflation and higher utility rates.

Reinsurers are expected to **carry a meaningful portion** of associated costs, which are mostly expected to originate from personal lines (about 80%-85% of the total insured losses) rather than commercial lines (about 15%-20%). These early losses associated with the California wildfires are likely to be absorbed within the reinsurance industry players' annual earnings, albeit leaving less catastrophe budget for the remainder of 2025. The impact from the wildfires is, in our view, manageable for our rated global reinsurers, with no significant effect on earnings due to the event's magnitude and timing.

What Could Change

We continue monitoring new information to inform our credit rating analysis and potential rating actions. Because utilities have unique exposures and specific mitigation approaches, our ratings are reviewed case-by-case.

S&P Global Ratings lowered its long-term and underlying ratings on the Los Angeles Department of Water and Power on Jan. 14 (with both ratings placed on CreditWatch with negative implications) due to our view of heightened risk for both systems. We placed our 'AA' long-term rating on the City of Los Angeles' bonds on CreditWatch with negative implications on Jan. 15, to account for the city's weakening financial trends and the introduction of additional credit risk tied to the wildfires. On Jan. 16, we placed our 'AA-' underlying rating (SPUR) on Altadena Library District Community Facilities District No. 2020-1, Calif.'s 2022 special tax bonds on CreditWatch with negative implications. The placement reflects our view of potential acute credit risk tied to the Eaton Fire that began on Jan. 7, 2025.

On Jan. 28, we revised our outlook on Pasadena Water & Power to negative from stable and affirmed its 'AA' long-term rating, reflecting our view that the credit risks posed by California wildfires are increasing. We revised our outlook on Edison International to negative from stable on Feb. 3 to reflect the possibility of material depletion of the California Wildfire Fund, which is a fundamental aspect of how we assess credit ratings for all investor-owned utilities in the state. We rate local governments and water and sewer utilities within the wildfire boundaries, and are evaluating potential near-term effects on associated service areas and longer-term implications for underlying infrastructure.

In our view, the state of California and Los Angeles County have a notably strong economic and tax base, and as such will be resilient through this disaster. We maintain our 'AA-' credit rating with a stable outlook on the state of California, which is slightly below average for U.S. states (with our median rating for the state sector being 'AA+'). However, the City of Los Angeles and/or the county may need to help cover recovery costs depending upon the pace and amount of reimbursement from FEMA. In addition, any permanent and meaningful outmigration, coupled with rising insurance costs and mounting affordability challenges, could weigh on the regional entities' and state's creditworthiness over time.

Writer: Molly Mintz

This report does not constitute a rating action.

7 Feb, 2025 | 00:22

No Department of Education? What It Means for Municipal Bonds.

Eliminating the DOE will have little impact on municipal bonds, as schools rely mostly on state and local funding, though short-term disruptions in grants and student loans are possible.

We believe the elimination of the federal Department of Education (DOE) will have a muted impact on the municipal market.

Public school districts, charter schools, private schools, colleges, universities, and community colleges borrow money in the municipal market. The bonds pay for facility improvements and are repaid through revenues – almost none of which originate from the federal government. If the federal Department of Education is eliminated, the closure will not impact these borrowers' long-term credit quality.

Elementary and secondary (K-12) education funding is the responsibility of states, and on average, state funds account for about half of a school's budget. An additional 40% of school budgets are funded by local governments, usually from property taxes. The typical K-12 school in the United States receives less than 10% of its funding from the federal government1. And much of that 10% isn't from the Department of Education. The USDA, for example, administers the National School Lunch Program, which provides free to reduced meals for students living near the poverty level. Head Start is funded through the Department of Health and Human Services.

The Department of Education does administer grants for K-12 schools, most notably through the Title I and IDEA programs. A school qualifies for Title I funding if a large percentage of students come from low-income homes. IDEA (Individuals with Disabilities Education Act) funds and related programs provide money for special education funding. Each program has a total budget of $18 billion and $15 billion, respectively, in 20232. There are other grant programs as well, but these are the two largest. In all, about $80 billion in grants were awarded in 2023 by the Department of Education to K-12 programs.

The elimination of the Department of Education doesn't eliminate funding for these programs, which would be a blow to the most vulnerable populations. We already see that funding for the public school system can come from multiple federal agencies. These programs can also be administered through other state agencies, like the Department of the Treasury.

The Department of Treasury would likely also take over the Department of Education's largest responsibility as well: the federal student loan program. The transition of the K-12 grant and loan programs to other agencies poses near-term credit concerns as the likelihood of funding delays, slower processing times, and errors are more likely as new teams get up to speed. For K-12 schools, delays are unlikely to result in bond defaults due to the small amount of the total budget these funds make up. Most school district debt is paid directly from property taxes as well.

Changes to the federal student loan program, Pell Grants, and federal student aid could significantly impact colleges and universities – whether the programs are administered in the Department of Education or the Department of Treasury. Delays will require colleges to rely upon their own liquidity, but the confusion from the transfer to another department will not have a long-term impact and should resolve in the near term. However, changes to the programs themselves could significantly impact institutions of higher education.

The student loan program ensures inexpensive funds are available for students to borrow to attend almost any higher education institution in the country. Beyond more expensive borrowing, a greater reliance on the private loan market means more discerning lenders with fewer dollars to lend. We do not know what changes, if any, will be considered, but we will continue to watch as events unfold.

VanEck

by Tamara Lowin Senior Municipal Credit Analyst

February 05, 2025

[A Third of U.S. States Now Eyeing Bitcoin and Crypto for Public Funds: Utah Leading the Charge]

A new financial trend is gaining momentum across the United States as more states explore integrating Bitcoin and other cryptocurrencies into their public funds strategy. With 16 states actively discussing or proposing legislation to include digital assets in their state budgets, it's clear that a shift in fiscal policy is underway. Utah is leading the charge, with its Blockchain and Digital Innovation Amendments bill gaining traction as one of the first concrete steps toward state-backed Bitcoin reserves.

Utah has emerged as the state closest to implementing a Bitcoin and cryptocurrency-based public fund policy. On January 28, 2025, Utah's Economic Development and Workforce Services Committee passed the Blockchain and Digital Innovation Amendments bill by an 8-1 majority vote, recommending it for a third reading in the House. The bill empowers the state treasurer to allocate up to 5% of certain public funds to "qualifying digital assets."

However, there is a crucial condition: the digital assets must have a market capitalization of over $500 billion, averaged over the past 12 months. While the bill does not directly mention Bitcoin, the cryptocurrency uniquely meets this threshold, making it the primary digital asset that could potentially benefit from the bill. Despite this, Bitcoin advocates have debated the specifics of the bill, with some pointing to potential legal obstacles due to Utah's Money Transmitter Act.

Continue reading.

thecurrencyanalytics.com

by Steven Anderson

February 8, 2025

[S&P: Three U.S. Public Pension Points To Watch In 2025]

Key Takeaways

- We expect U.S. public pension funded ratios will generally improve when measured as of the fiscal year ended June 30, 2024, and continue to improve in fiscal 2025 because of positive market results in the first half.
- U.S. public pensions face growing risks because assets funding the plans are based on increasingly diverse and opaque allocations.
- We expect pension contributions will increase due to inflation-driven salary growth, partially offset by cheaper new benefit tiers, a frequently used tactic that may no longer be viable.

Continue reading.

4 Feb, 2025

Schwab Launches Second Actively Managed Fixed-Income ETF.

This month Schwab Asset Management is launching its second actively managed bond ETF, one based on an existing strategy that has already garnered more than $100 million in assets.

The Schwab Core Bond ETF (SCCR) launches February 5, and its benchmark is the Bloomberg U.S. Aggregate Bond Index. Schwab said that in a sea of bond products, this one is unique because of its diversity, including its managers' use of taxable municipal bonds, among other investments.

Other funds might choose to outdo their benchmarks by overloading on loans or credit. Schwab's ETF tries a more diverse way, said David Lafferty, director of product management and innovation at Schwab Asset Management (the asset management arm of Charles Schwab). While other products use taxable bonds, he said it's not to the same extent as the new ETF, which focuses on that type of allocation to potentially increase yield within an attractive risk/return framework.

"We think this is a bit more diversifying way to do this," Lafferty said in an interview. "So this would be a great ETF to add to a model because we're trying to get you to the same place, but we're trying to get you there in a different way."

The goal of the ETF is to provide total returns while creating income by investing in U.S. dollar-denominated debt securities. It's modeled after the Wasmer Schroeder Core Bond Separately Managed Account that launched in January 2008.

Schwab acquired Wasmer in 2020 and the strategy has been popular, amassing more than $100 million in assets under management. With a lot of demand for core bond funds within ETF models, Schwab saw an opportunity to bring its successful strategy into an ETF and expose it to a wider audience.

"We know people like these Wasmer Schroeder strategies," Lafferty said. "It gives us an opportunity to bring Wasmer Schroeder and Schwab's expertise to a client that can't make the separate account minimums."

This is Schwab's second actively managed fixed-income ETF and its 12th fixed-income ETF overall out of 33 total ETFs.

While the firm saw the opportunity with the ETF to bring a specific Wasmer Schroeder strategy to a wider audience, it has no immediate plans to model any additional Wasmer Schroeder strategies for upcoming ETFs.

The new ETF has an expense ratio of 16 basis points, which is one of the lowest among core bond ETFs, Lafferty said. It will trade on the NYSE Arca platform.

It's meant to serve as a core allocation within a portfolio, Lafferty said, adding that it will appeal to a particular group of advisors.

"One of the things we wanted to do was to bring this to people who build ETF models," he said. "We think financial advisors will find it interesting because they tend to build models."

fa-mag.com

by Edward Hayes

February 3, 2025

Municipal Bonds Favored by Many Advisors.

Municipal bonds were a hot topic at last week's VettaFi Fixed Income Symposium — more than I expected them to be.

There were 491 live attendees at VettaFi's two-hour virtual event. You can catch the replay here. VettaFi moderated panels with industry experts about interest rates, whether to and how to take on credit risk, the potential benefits of active management, and more. Advisor attendees benefited from hearing from leading asset managers. However, together we also learned a lot about what's important to the community.

What Do Advisors Think About Municipal Bonds?
For example, we asked, "Which fixed income approach is most attractive to you in the first half of 2025?" While 28% chose investment-grade corporate bonds, 25% selected municipal bonds. Munis were ahead of private credit, high yield corporates, and Treasuries. This was a pleasant surprise to me.

We also asked, "Which best reflects your expected plans for muni bond investing in 2025?" Adding to muni bonds via ETFs (30%) was the most popular choice for those planning to add exposure. Access to the municipal bond market directly as well as via mutual funds were less popular.

Which best reflects your expectd plans for muni bond investing in 2025

ETFs and mutual funds provide diversification benefits for investors accessing the equity and bond markets. Mutual funds had long been the preferred vehicle for municipal bond investors. Indeed, while equity mutual funds continue to bleed assets, municipal bond mutual funds continue to gather net inflows in 2025, according to the Investment Company Institute. However, municipal bond ETFs are gaining ground too.

Understanding the Muni Bond ETF Landscape
The two largest municipal bond ETFs are the iShares National Muni Bond ETF (MUB) and the Vanguard Tax-Exempt Bond ETF (VTEB). Both funds are index-based and swelling in size. MUB manages $40 billion in assets, aided by $3.6 billion of net inflows in the past year. VTEB has $36 billion in assets and gathered $4.7 billion. MUB and VTEB own only investment-grade municipal bonds. There are many other established index-based ETFs with more than $1 billion from Invesco, iShares, State Street Global Advisors, and others.

During the VettaFi Fixed Income Symposium, we highlighted a few actively managed municipal bond ETFs that launched in 2024. A few examples include the Goldman Sachs Municipal Income ETF (GMUB) and the MFS Active Intermediate Municipal Bond ETF (MFSM). GMUB and MFSM came to market in July 2024 and December 2024, respectively

Benefits of an Active Approach
One of the benefits of investing in actively managed municipal bonds ETFs is tapping into the in-house credit analysis. The teams behind GMUB and MFSM conduct their own research to understand the likelihood of default by an issuer. In contrast, indexes tracked by MUB and VTEB leverage third-party credit rating agencies. GMUB recently had 17% of its assets in speculative-grade or nonrated securities. MFSM had 8.2% of its portfolio outside of investment-grade bonds.

Advisors looking to gain municipal bond exposure via ETFs should be happy. There are now several dozen municipal bond ETFs to consider including active products from Alliance Bernstein, Avantis, Dimensional Funds, Pimco, T. Rowe Price, and even Vanguard.

etftrends.com

by Todd Rosenbluth

February 10, 2025

[BlackRock Bolsters Municipal Bond Suite with Launch of High Yield Muni ETF.]()

Marks completion of the conversion of the BlackRock High Yield Municipal Fund into the iShares High Yield Muni Active ETF

NEW YORK, February 10, 2025–(BUSINESS WIRE)–Today, BlackRock announced the conversion of the BlackRock High Yield Municipal Fund into an active ETF, creating the iShares® High Yield Muni Active ETF (CBOE: HIMU). HIMU harnesses the expertise of BlackRock's Municipal Bond Group to provide more choice and flexibility to clients seeking high yield, tax-exempt solutions in the convenience of an ETF.

"Today's higher interest rate environment provides a generational opportunity to capture income, particularly in the municipal bond market," said Pat Haskell, Head of the Municipal Bond Group at BlackRock. "Through the ETF wrapper, HIMU aims to take advantage of the attractive yield levels and strong credit quality in municipal bonds, delivering alpha to our clients in an efficient and transparent manner."

The new ETF seeks to maintain identical investment objectives and fundamental investment policies as its predecessor mutual fund. HIMU aims to maximize federal tax-exempt current income and capital appreciation by investing in high yield municipal securities across a variety of sectors. The mutual fund was launched in 2006 and delivered top quartile performance over the one-, five-, ten- and fifteen-year periods as of December 31, 2024.1

Continue reading.

[Innovation and Resilience: Key Themes Shaping Not-for-Profit Healthcare - J.P.Morgan]()

How are health systems navigating evolving challenges in the not-for-profit healthcare sector? Find out.

The not-for-profit healthcare landscape is rapidly changing. To stay relevant, health systems are demonstrating innovation and resilience in the face of evolving challenges, with many focusing on their core identities, community impact, technological advancements and operational efficiency.

At the recent 43rd annual J.P. Morgan Healthcare Conference, presenters from some of the largest integrated providers in the U.S. shared their strategies and visions for the future of the industry, emphasizing their commitment to delivering consumer-centric, high-quality care. Read on to discover some of the key themes shaping not-for-profit healthcare in 2025 and beyond.

1. National scale and influence with regional relevance

Achieving scale has long been a common theme for health systems as size can be a determinant of performance. Scale also equates to national influence, leading to opportunities to partner with large, innovative companies, as well as creating healthier balance sheets for further investments.

Increasingly, the importance of achieving the right kind of scale is taking centerstage, with systems focused on investing in growth markets and making difficult decisions to rightsize their portfolios. Market expansion and divestiture strategies now revolve around the primary goal of becoming better, not just bigger.

2. Consumerism is an unstoppable force

Health systems have been shifting toward consumer-centric care models that prioritize the patient experience and convenience for some time now, such as by offering more outpatient and virtual care options. Some providers are highlighting the importance of personalization and exploring how data will transform the future, while others are seeking to stay aligned with an aging consumer base. Overall, it is clear that consumer advances will accelerate with AI.

3. Partnership and collaborations: Solutions perform better at scale

Today, collaborations with health systems, academic institutions and other players across the continuum of care are more prevalent than ever. Partnerships are aimed at enhancing service offerings, sharing resources and driving innovation, and they are expected to increase as healthcare organizations look for ways to gain value out of scale without full asset mergers.

4. The transformative power of AI

When it comes to AI, health systems are moving from implementation to seeing real returns on tech-enabled scalability. Many providers are focused on integrating technology to enhance patient care and operational efficiency. Some have managed to reduce administrative work by up to four hours a day, while others have freed up capacity for more patients without needing new investments in facilities. Overall, the utilization of AI is expected to increase exponentially across the industry over the next several years.

5. Financial resiliency and operational rigor

Health systems are emphasizing financial stability through strategic investments, cost management and capital allocation, resulting in improved margins and recurring synergies. Overall, the industry has seen an improvement in operations, but there continues to be haves and have-nots, with performance being influenced by market relevance, geography and size.

J.P.Morgan

February 10, 2025

BlackRock’s High-Yield Muni Fund Becomes an Actively-Managed ETF.

- **Prior to the conversion the fund had $1.6 billion in assets**
- **In 2024, asset managers launched a record number of muni ETFs**

BlackRock Inc. is converting its high-yield municipal bond fund into an actively-managed ETF in a bid to grow assets under management by providing a lower-cost and more liquid investment vehicle.

The new fund, called the iShares High Yield Muni Active ETF, is trading under the ticker HIMU. It will continue to invest in high-yield state and local government debt across a variety of sectors and seek to outperform its benchmark, according to a Monday statement from the investment firm.

“Through the ETF wrapper, HIMU aims to take advantage of the attractive yield levels and strong credit quality in municipal bonds,” said BlackRock’s head of municipal bonds Pat Haskell in the statement.

Continue reading.

Bloomberg Markets

By Erin Hudson

February 10, 2025

Trump's Federal Funding Pause Threatens State Financials.

- **Agencies were instructed to ‘pause’ financial assistance**
- **State and city federal grants totaled $1.1 trillion in 2023**

President Donald Trump’s federal funding pause threatens more than $1 trillion that flows to states, cities and other local governments, putting everything from transit infrastructure to housing projects at risk.

Trump’s acting budget director issued a memo directing all agencies to temporarily halt federal financial assistance while the government reviews if the spending complies with an onslaught of recent executive orders. The pause was expected to take effect on Tuesday at 5 p.m. Eastern Time, although a federal judge in Washington temporarily blocked the directive.

Freezing payments would be an unprecedented step and likely ripple across the country because states, cities and jurisdictions such as school districts rely on the federal government for significant amounts of cash.

Continue reading.

Bloomberg CityLab

By Laura Nahmias, Shruti Singh, and Sri Taylor

January 28, 2025

Rethinking Budgeting: A Transformative Approach for State and Local Governments

Given the fiscal realities that the majority of governments now face in the post-COVID era, they need to think differently about how they allocate their resources.

State and local governments across the U.S. are facing a growing financial crisis, with every state except Florida facing a budget deficit by 2025.

Rising costs, falling tax revenues, increasing demand for public services, and outdated infrastructure are putting intense pressure on budgets. COVID-19 made things worse, creating deficits and straining resources, which now threaten public services, delay infrastructure projects, and weaken trust in government.

The pandemic also exposed deep inequities in funding, now driving urgent calls to increase support to underserved communities. These challenges force tough decisions about what to fund and cut.

Continue reading.

Route Fifty

By Mark Funkhouser, Abhi Nemani and Nick Mastronardi

January 29, 2025

Cyber Threats in Public Finance: Protecting Transactions from Wire Fraud - Orrick

A recent cyberattack on a Michigan township has exposed weaknesses in the bond-closing process. In this incident, hackers stole over $25 million in bond proceeds by using spoofed email addresses to provide fraudulent wire instructions.

The Michigan attack is not unique — Costs of Issuance have been stolen in connection with other transactions using similar techniques. As hacking becomes more sophisticated, the public finance industry must act now to add enhanced controls during the closing process, including, but not limited to:

- Providing all wire information solely to the Trustee or Paying Agent at least five business days in advance of closing;
- Requiring that the Trustee or Paying Agent confirm such wire information by telephone using the contact information provided on the Interested Parties list;
- Using encrypted email channels and documents to transmit wire information; and
- Requiring two separate confirmations from different people by telephone to a trusted counterparty before making any changes to already-provided wire information.

For more detailed recommendations on minimizing the risk of misdirected wire transactions or business email compromise fraud, please reach out to any of the authors: Aravind Swaminathan, Jenna Magan, Joseph Santiesteban, John Palmer, Sean Yates.

January.30.2025

NFMA Draft Best Practices for Public Power - Comments Due February 15

The NFMA Disclosure Committee released the Draft Recommended Best Practices in Disclosure for Public Power Electric Utilities & Joint Action Agencies (RBP) for public comment through February 15, 2025.

To download the paper, click here.

To read the press release, click here.

Quincy CFO Talks BlackRock Purchase of Blockchain-Powered Municipal Bond.

Eric Mason, the CFO of his hometown of Quincy, Massachusetts, has launched an unprecedented form of public debt issuance in the U.S. that combines "the old with the new."

While "unprecedented efficiency" and "local government" don't often intertwine, Quincy and its CFO have merged municipal bond issuance with blockchain technology in a nontraditional format. Back in the Spring of 2024, a municipal bond issued by the city was executed on JPMorgan's Onyx blockchain platform. Most recently in December, JPMorgan sold 65% of the $10 million bond to global investment giant BlackRock's iShares Short Maturity Municipal Bond Active ETF (MEAR).

Essentially, a BlackRock ETF (exchange-traded fund) purchased a tax-exempt, seven-year bond worth $6.5 million at varying year-over-year rates, with the highest yield at 3.67% in the bond's first year and decreasing to 3.04% in the final year. While the city received the funds when it issued the bond in May 2024 and used it for a public roadway just outside City Hall, Mason said BlackRock's purchase legitimizes the use of blockchain technology in public debt issuance. He said it also allows local government to do something it seldom does — set a new precedent in efficiency through leveraging emerging technology.

Blockchain's ability to increase trading, boost liquidity and promote reporting consistency

While "unprecedented efficiency" and "local government" don't often intertwine, Quincy and its CFO have merged municipal bond issuance with blockchain technology in a nontraditional format. Back in the Spring of 2024, a municipal bond issued by the city was executed on JPMorgan's Onyx blockchain platform. Most recently in December, JPMorgan sold 65% of the $10 million bond to global investment giant BlackRock's iShares Short Maturity Municipal Bond Active ETF (MEAR).

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leveraging emerging technology.

Blockchain's ability to increase trading, boost liquidity and promote reporting consistency
Though Mason is not a fan of cryptocurrency and has spoken extensively about his desire to decouple blockchain technology from assets like bitcoin, he said blockchain itself is something finance leaders in all industries should explore. To him, its value lies primarily in transparency, particularly in the issuance process and the liquidity upside for public debt.

"The real value comes from the fact that once you do this on a blockchain, the issuance process, the legality, the intrinsic documentation, live with that bond on the block forever," Mason said. "This allows the secondary market to come and kind of freely trade these things as if they were trading an equity or a corporate bond."

While traditional municipal bonds trade once or twice annually, public debt issued in this format allows for much more frequent trading. By increasing the potential for trading volume, the bond can simultaneously increase liquidity while reducing risk.

"If we reduce friction in the [trading process], that increases liquidity on the secondary market and whenever you increase liquidity, the risk of holding that bond goes down," Mason said. "Reducing liquidity barriers on [the bond's] secondary market is really appealing to me right now."

When referencing data from the Electronic Municipal Market Access (EMMA) service, Mason seemed excited about its current performance. "When you look at some of these PAR values [the fixed face value of a bond repaid at maturity], the bond is trading at 112% of par value," Mason said. "I think everybody would love [near] 112 PAR value on their bond on origination."

Costs and benefits

Mason said this process was not more expensive than a traditional bond issuance and did not negatively impact the bond's interest rate, but required significantly more diligence from all parties involved.

"As the finance leader of a municipality, I am not allowed to take on more risk," he said. "The SEC doesn't want us to take on more risk, JPMorgan didn't want us to take on more risk, because they wanted this to be a true municipal bond despite the issuance occurring on the blockchain."

"What's interesting about this is most leaders [in bond trading] understand the legal structure of this type of debt, that it's very robust and very technically proficient, but here there's a beautiful merging of old school and new school and the economists I talk to say they're fascinated by what's going to happen here on the secondary market."

Though the amount of debt issued and purchased was small in the world of public municipalities, Mason said the ability to access liquidity, improve liquidity on the secondary market and enhance transparency in reporting and buying makes this type of technology both useful and scalable.

"That's something I find interesting about this — when we talk about consistency in reporting, blockchain technology provides a strong ability to enforce replication and consistency in that process in a transparent format," Mason said. "That's why I think this is just the start and completely scalable."

"The biggest challenge is the sociological aspect — that people tie blockchain back to crypto," he said. "But I think there's a legitimate marketing challenge here for blockchain as an entity in the world of traditional corporate finance."

cfo.com

Published Jan. 31, 2025

[Fitch Updates Rating Criteria for U.S. State Governments and Territories Criteria.]

Fitch Ratings-New York-04 February 2025: Fitch Ratings has updated its rating criteria for U.S. Public Finance State Governments and Territories, replacing the previous criteria from April 2, 2024.

While there are multiple changes (outlined below), they do not materially alter Fitch's approach to rating U.S. state governments and territories from the previous version. As such, Fitch expects no rating changes resulting directly from these criteria changes. The revisions generally provide additional clarity regarding Fitch's current analytical approach. The most notable changes include the following:

–Revised the Key Rating Drivers on page 1 to align presentation with other Fitch rating criteria;
–Added descriptors for 'b'-level assessments;
–Changed discussion of Operating Performance assessments to clarify Fitch's analytical approach including our focus on a state's available fiscal management tools to manage a downturn and our expectations of their willingness to make use of those tools.
–Updated language describing our use of scenario analysis for states including a focus on relative revenue volatility, and more detail around our analysis of reserves including a definition for dedicated operating reserves.
–Revised charts and tables for the Scenario Analysis to be included in rating reports to focus on components which are more useful to our analytical approach including showing available fund balance as percentage of spending rather than net change in fund balance as percentage of spending.

The updated criteria report is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

S&P U.S. Not-For-Profit Acute Health Care Rating Actions, 2024 Year-End Review

S&P Global Ratings' 2024 U.S. not-for-profit acute health care rating and outlook actions reversed a three-year downward trend from 2021 through 2023, with fewer downgrades and a meaningful shift to favorable outlook revisions (stable to positive, negative to stable, or negative to positive) and away from unfavorable outlook revisions (stable to negative, positive to stable, or positive to negative). While we upgraded fewer entities in 2024 than in 2023, over half of the upgrades in each year were due to merger and acquisition activity. In addition, the stability of rated entities continues to increase, with 83% of ratings unchanged in 2024, which is comparable with 2022 but significantly improved from 79% in 2023 (see chart 1). At the end of 2024, most organizations carried stable outlooks (77%), up from 72% in 2023 (see chart 2). In our view, these trends support our decision to revise our sector outlook to stable from negative, although we also acknowledge that there are risks and pressures, particularly in the lower-rated categories.

Continue reading.

4 Feb, 2025

Muni Bonds Jump on Haven Rally After DeepSeek Upends Tech Market.

- **Bonds gain as China's DeepSeek sparks AI, tech concerns**
- **State and local debt present haven, attractive absolute yield**

Municipal bonds rose alongside Treasuries Monday as investors rushed into haven assets after the rapid ascent of a Chinese AI startup rattled the US stock market.

Benchmark state and local government yields fell as much as 6 basis points as of 4 p.m. New York Time on Monday. Those on 10-year securities dropped 6 basis points to 3.07%, the lowest since Dec. 18, according to data compiled by Bloomberg.

Investors sought safety in fixed income after Silicon Valley heaped praise on China's ChatGPT rival, DeepSeek, while technology behemoths Nvidia Corp. and Oracle Corp. plunged alongside chipmakers.

Continue reading.

Bloomberg Markets

By Elizabeth Rembert

January 27, 2025

Navigating Severe Weather Risks In The Municipal Bond Market

The scale and financial toll of the Los Angeles area wildfires reveal the escalating impact of natural disasters in the United States. Our thoughts remain with the affected communities as they confront this ongoing crisis and embark on the long and challenging path to recovery. With damages estimated in the billions, these events stand among the costliest wildfires in American history. Similar devastation has unfolded across the Southeast, where hurricanes like Helene in North Carolina and Milton in Florida have wreaked havoc on infrastructure and municipal systems. Together, these crises underscore the urgent need for comprehensive financial and risk management strategies in an era of intensifying climate challenges.

For investors, portfolio managers and wealth advisors, the question is no longer whether extreme weather events will occur but when. Are you prepared to safeguard your wealth, your portfolio and your family's financial future against life-altering scenarios?

Billion-Dollar Weather And Climate Disasters

Severe weather events are occurring with increasing frequency. According to the National Oceanic and Atmospheric Administration (NOAA), 2023 marked the fourth consecutive year of 18 or more billion-dollar disasters in the United States. These events strain municipal budgets, threaten credit stability and demand that investors assess the financial implications of climate risks on municipal bonds.

Continue reading.

fa-mag.com

January 23, 2025 • Jude R. Scaglione

S&P U.S. Brief: Los Angeles Wildfires And Variable-Rate Municipal Debt

Los Angeles area wildfires threatens utility-backed debt performance. Ongoing Wildfires pose prepayment risks for municipal bonds backed by California-based obligors.

What's Happening

Several wildfires erupted across the greater Los Angeles area on Jan. 7. Although the extent of the damages is still developing, with some figures estimating as high as $150 billion, credit deterioration has already begun. On Jan. 15, we lowered our long-term ratings on 20 municipal bonds issued by the Los Angeles Department of Water and Power, one of the largest variable-rate municipal issuers in the U.S., to 'A' (Power) and 'AA-' (Water) and placed the ratings on CreditWatch with negative implications. S&P Global Ratings currently rates 119 variable-rate demand obligations (VRDOs) and 91 tender option bond (TOB) certificates financing projects located in Los Angeles County and the surrounding area.

Why It Matters
Severe damages could lead to early prepayment of principal and interest. This is due to following factors:

- In VRDOs, severe damages could lead to a number of events, such as extraordinary redemption, that result in prepayment of principal and interest.
- If the physical project is damaged or destroyed, the obligor may receive insurance or condemnation proceeds to pay debtholders. Those funds could be considered part of the obligor's estate and present the risk of clawback in an obligor's bankruptcy. Therefore, we typically see redemptions funded by letter of credit (LOC) funds "to the extent" of receipt of insurance

proceeds, thus eliminating the clawback risk. Nineteen of our ratings on the VRDOs and TOBs are supported via self-liquidity by the obligor, which do not benefit from third-party support and exclusively rely on the obligor to ensure principal and interest to the certificateholders.
- For TOB certificates, in lieu of a supporting credit facility, the certificateholders should expect potential rating movement if the repackaged municipal bonds undergo credit stress.
- If the rating on a TOB falls below investment grade or ‘BBB-‘, the TOB trust will unwind and the bonds sold to cover principal, interest, and fees.
- For VRDOs that benefit from a liquidity facility, certificateholders will immediately lose their optional tender rights but not become subject to an immediate payment event.
- For joint and several ratings that benefit from support from both the municipal obligor and a credit facility, we will assess whether the downgrades on either party results in a lower joint and several rating.

What Comes Next

The overall credit impact on U.S. VRDOs and TOBs could be significant. The recent downgrades on the Los Angeles Department of Water and Power will likely have a meaningful impact on the overall performance of U.S. utilities-backed municipal debt. Although these downgrades account for only a small segment of all rated utilities-backed VRDOs and TOBs, not-fo--profit utilities comprise approximately 30% of the total outstanding principal balance. Further, of the 210 ratings exposed to Los Angeles County and the surrounding area, public transportation and not-for-profit health care, which both remain unaffected at this time, account for nearly 45%.

We will continue to monitor developments on the wildfires and the credit deterioration on affected obligors, and their potential impact on variable-rate municipal debt.

17 Jan, 2025

[S&P: Los Angeles Wildfires Highlight Evolving Risks And Challenges For Local Governments]

LA’s Regional Economy Will Recover, But The Higher Risk Of Future Events Complicates The Picture For Some Local Governments

Given the strength and resilience of the L.A. regional economy, S&P Global Ratings believes that the direct impact of the L.A. wildfires on local government credit quality will be limited, even as the area experiences significant damage and loss. Going forward, the increasing frequency and severity of wildfires in urbanized areas in California will require local governments and utilities to meet a higher standard of risk resilience for infrastructure and services. It also exposes them to greater liability compared with entities in other states with wildfire exposure. Beyond the horizon of this event, increased costs will likely push debt burdens higher and exacerbate tax and rate-setting pressures in a region already facing affordability constraints.

Continue reading.

21 Jan, 2025 | 17:15

[S&P Credit FAQ: What Are The Credit Implications Of The Los Angeles County Wildfires?]

The recent and still currently active Los Angeles County wildfires pose significant financial and operational risks for U.S. public finance and regulated utility issuers. S&P Global Ratings is closely monitoring the near-term effects and longer-term credit implications of the Palisades, Eaton, Sunset, Hurst, and Kennedy fires. Our analytical views consider how California's strict liability framework, its more frequent and severe physical climate risks, and utilities' and cities' approaches to adaptation and resiliency influence ratings.

The Los Angeles County wildfires could be California's costliest in economic losses. Many U.S. public finance and regulated utility entities we rate—including not-for-profit public power and water and sewer utilities; local governments; and school districts as well as investor-owned utilities—have assets and tax bases in the areas with recent or active fires. The associated substantial destruction could result in infrastructure damage, significant liabilities, and revenue losses from outages and customer dislocations.

Our U.S. public finance and regulated utility analysts answered market participants' questions about credit impacts of these wildfires in a webinar on Friday, Jan. 17, 2025. In this Credit FAQ, we provide comprehensive clarity on the credit implications for California public finance and regulated utility issuers affected by the wildfires.

Key Takeaways

- The growing frequency and severity of climate-related physical risks can affect the credit quality of some entities more than others. Californian utilities' liquidity, insurance, asset adequacy, resilience, and emergency preparedness can face acute credit risks from wildfires—and the potential for wildfire litigation could pose more substantial risks to entities than damage to infrastructure.
- Because utilities have unique exposures and specific mitigation approaches, our ratings are reviewed case-by-case. On Jan. 14, S&P Global Ratings lowered its long-term and underlying ratings on the Los Angeles Department of Water and Power, with both ratings placed on CreditWatch with negative implications, due to our view of heightened risk for both systems. Our current stable outlook on Edison International is predicated on the credit protections afforded to the electric utility through the California Wildfire Fund, which is a fundamental aspect of how we assess credit ratings for all investor-owned utilities in the state. We rate local governments and water and sewer utilities within the wildfire boundaries, and are evaluating potential near-term effects on associated service areas and longer-term implications for underlying infrastructure.
- In our view, the state of California and Los Angeles County's notably strong economic and tax base will support resilience through this disaster. Our Jan. 15 action placing our 'AA' long-term rating on the City of Los Angeles on CreditWatch with negative implications reflects our view that the city's general credit quality could weaken if utilities' credit quality materially weakens further, and acknowledges weakening financial trends existed before this wildfire event.
- Insurers will likely absorb the significant losses from the Los Angeles County fires, including California's Fair Access to Insurance Requirements plan. We believe our rated primary insurers can weather losses after strong results last year but may see earnings pressure later in 2025.

How does S&P Global Ratings assess overall credit risks associated with wildfires for utilities in California?

Wildfires pose significant credit risk in California due primarily to the associated legal liabilities and physical climate risks.

With California's strict legal framework, wildfire litigation risk is more problematic than the risk of damage to a utility's infrastructure assets. Utilities in the state can be liable for wildfire claims if its facilities were a contributing cause of a wildfire—regardless of negligence. California remains the only western U.S. state that supports this legal interpretation for utilities.

Additionally, physical climate risks are an increasing credit consideration. California experiences extreme wet and dry weather whiplash, increasingly aggressive windstorms (such as the Santa Ana wind phenomenon), and moderate to severe droughts—conditions that create perfect conditions for wildfires. Wildfires are becoming more severe and expansive, spreading quickly as winds carry burning embers into urban neighborhoods that were previously perceived as lower risk.

As these risks increase, many of them caused, at least in part, by climate change, we are reassessing whether utilities' liquidity, insurance, asset adequacy, resilience, and emergency preparedness are insufficient or outdated.

Our view and analysis of wildfire-related credit risks continues to evolve as we learn from such extreme weather events that are increasing in frequency and severity. Given that each utility we rate has both unique exposures and specific approaches to mitigating them, our ratings are reviewed case-by-case. Longer-term credit implications could materialize as we continue to consider the increasing frequency and severity of wildfire events.

What factors influenced S&P Global Ratings' lowering of its ratings on the Los Angeles Department of Water and Power utility?

On Tuesday, Jan. 14, S&P Global Ratings lowered its long-term and underlying ratings on the Los Angeles Department of Water & Power's (LADWP) power and water system by two notches—with the former to 'A' from 'AA-', and the latter to 'AA-' from 'AA+', with both ratings placed on CreditWatch with negative implications.

Our downgrade on the power system bonds reflects the increasing frequency and severity of highly destructive wildfires within LADWP's service territory, and recent spread into more urban areas, which highlights the utility's potential vulnerability to financial liability claims that could eclipse its liquidity and insurance coverage. Such vulnerabilities, alongside the various physical climate risks faced by utilities, and California's strict legal framework, led us to reassess the adequacy of the utilities' reserves and insurance coverage that we incorporated into the previous rating level.

While no determination of cause has been made for these recent wildfires, the department faces wildfire claims from a 2019 fire when its power lines were determined to be the cause of the Getty Fire (resulting in $81 million in claims that were covered by insurance). Claims for the ongoing Palisades Fire could be significantly larger if LADWP is implicated. According to LADWP's wildfire mitigation plan, the utility has in recent years indicated that they consider preemptive de-energization of overhead power lines during threatening conditions to have more significant adverse effects on customer health, safety, and quality of life that outweigh the potential benefits of taking this action. This is a notable difference in policy compared to most other electric utilities in the state that, in our view, creates credit risk—particularly given LADDP's exposures in high-risk wildfire zones.

If the power system is found liable and receives claims that far exceed its liquidity and insurance, it could potentially face additional downgrades, potentially by multiple notches—depending on the amount of the claims. It could create the possibility of Chapter 9 bankruptcy, which the power system could potentially avoid by issuing debt or a securitization—again, all depending on the size of claims.

While the water and power bonds are each separately secured, the two systems are under the same department, have common management, share a line of credit, and even use the same billing system. This highlights the many interdependencies between systems and prompts consideration of the risks facing municipal enterprises charged with providing essential public services.

The downgrade of the department's water system bonds reflects our view of heightened potential for litigation liabilities alongside escalating costs surrounding the adequacy of existing water system assets, resilience, and emergency preparedness—especially during these events. The lower rating also reflects the potential for contagion risk from the power system, as both systems are part of a singular department featuring a plethora of common interdependencies. As with the power system, these water system exposures have led us to reassess the adequacy of water system liquidity that can act as a resource or buffer for these potential liabilities and costs. The risk of litigation directed at LADWP for water supply mismanagement is already present, as lawsuits have been reported by various media.

We downgraded both the power and water systems by the same number of notches because, in our view, there is heightened risk for both systems. However, their creditworthiness can be different and there is no mechanical link between them.

Our CreditWatch placements reflect our view that, over the next 90 days, there is a 50% probability we could further lower our ratings on both the power system and on the water system. An additional downgrade on the power system could be by multiple notches if the utility infrastructure is identified as a source of ignition, or if there's significant additional damage and customer dislocation. We could lower our rating on the water system if the utilities' management of its operational preparedness is determined to have been deficient, if we believe contagion risks with the power system have increased materially, and/or if measures required to make system improvements will impair financial metrics or rate affordability.

If LADWP is found to have not been liable, we could remove the ratings from CreditWatch and assign a stable outlook. In the event we believe there are other credit risks, there could be additional negative rating actions. But regardless of any determination of liability, our downgrade was based on our belief that LADWP is more exposed to physical climate events, and that its insurance and reserves were inadequate at the prior level.

Why does Edison International have a stable outlook, and how does the California Wildfire Fund support credit quality for investor-owned utilities?

At present, our credit rating on Edison International is 'BBB' with a stable outlook. We are continuing to carefully monitor the risk to Edison and could update our views on the ratings or outlook as the situation develops.

To date, Edison has filed two electric safety incident reports with the California Public Utilities Commission related to the Eaton and Hurst fires. Edison stated that it filed these reports out of an abundance of caution because the incidents may meet the Commission's technical reporting criteria.

Our primary focus is on the Eaton Fire that the California Department of Forestry and Fire Protection (CAL FIRE) estimates has damaged or destroyed more than 14,000 acres, about 10,500 structures, and is currently about 87% contained. Edison had reported that no interruptions or electrical or operational anomalies were identified until more than one hour after the wildfire's reported ignition time, based on its preliminary electrical circuit information for the energized transmission lines through that area. The company also reaffirmed this analysis in its public comments during subsequent interviews. To date, no fire agency has yet suggested that Edison's electrical facilities were involved in the ignition of the fire or requested the removal and retention of any of Edison's equipment.

Despite the company's assertions, several lawsuits have already been filed against Edison and its subsidiary Southern California Edison Co. Our stable outlook on Edison is predicated on the credit protections afforded to the company through the passage of AB 1054 in 2019, which established and funded a $21 billion Wildfire Fund for California's investor-owned utilities. This fund serves as a material source of liquidity and financial support in the event of a catastrophic wildfire. The California Wildfire Fund clearly differentiates Edison from investor-owned utilities that operate outside of California, underpinning our view of Edison's credit quality, and is the key credit-supportive component for our investment-grade rating.

Another credit supportive aspect of AB 1054 is the establishment of a liability cap that limits the investor-owned utilities' liabilities for catastrophic wildfires. This curbs Edison's exposure to approximately $4 billion—that, if fully funded with debt, would weaken Edison's funds from operations to debt by about 200 basis points. Edison's consolidated funds from operations to debt for the 12 months ending Sept. 30, 2024, was 14.9%, or about 90 basis points above our14% downgrade threshold.

Another important provision of AB 1054 is its revised standard for determining a utility's reasonable conduct, placing the initial burden of proof on the intervenor. Overall, we've consistently stated that we assess these measures in AB 1054 as highly credit-supportive for California's investor-owned utilities because they temper financial exposure to wildfire liability. Under California's interpretation of the legal doctrine of inverse condemnation, a Californian utility can be financially responsible for a wildfire if its facilities were a contributing cause of the fire irrespective of negligence.

However, we will continuously reevaluate Edison's credit risks. Notably, the California Wildfire Fund does not have an automatic replenishing mechanism. As the fund gradually depletes, credit quality would likely weaken. Under AB 1054, when the Wildfire fund is fully depleted, California's investor-owned utilities not only lose the credit benefit of using the fund as a source of liquidity and financial support—but also lose the credit protection of the liability cap. As such, as fund levels decline, this would likely hurt the credit quality of all of California's investor-owned utilities.

The severity of the current wildfire suggests the potential for a more challenging operating environment going forward due to the ongoing effects of climate change. The catastrophic Camp Fire of 2018 and a persistent increase in the frequency of severe wildfires of this scale, may lead us to reassess California's investor-owned utilities' risk exposure and would likely have a negative impact on ratings. As such, we will continue to actively monitor any subsequent developments and their implications for Edison's credit quality.

The mechanics for reimbursement through the California Wildfire Fund can be best explained through the case study of the 2021 Dixie Wildfire that was determined to be caused by PG&E's equipment. The company has since recorded liabilities of approximately $1.9 billion on its books and has paid out more than $1 billion in third-party claims. The fund has a third-party administrator that reviews all claims. Once the administrator determines that PG&E met its $1 billion deductible, PG&E can seek reimbursement from the Wildfire fund. After all claims are substantially settled, PG&E then undertakes a prudency review with the California Public Utilities Commission (which can typically take between 12-24 months). If the commission finds that PG&E acted prudently, then there would be no requirement for PG&E to reimburse the Wildfire fund.

Alternatively, if the commission determines that PG&E was imprudent or partially imprudent, the utility must reimburse the fund up to its liability cap. The cap is applicable only if the utility has a valid safety certificate, and if the administrator determines that the utility did not act in any manner that showed disregard for the rights and safety of others. For PG&E and Edison, the cap is approximately $4 billion.

In our view, if third-party settlements with Edison reach a significant threshold, Edison would likely follow a similar process. Edison has $1 billion in wildfire-specific insurance, which covers the fund's deductible. Edison also has a state-approved wildfire safety certification and wildfire mitigation plan in place. In assessing the thresholds for potential downgrades of investor-owned utilities, we will look at the key metrics of funds from operations to debt (or FFO, which we define as EBITDA less cash interest and taxes paid). For Edison, we have a downgrade threshold of FFO to debt below 14%.

Prior to the recent Southern California catastrophic wildfires, our base case assumed that Edison's FFO to debt would improve in 2025—incorporating their pending general rate case and recent settlements in the Thomas and Koenigstein fires and the Montecito mudslides that are pending approval with the California Public Utilities Commission.

Comparatively, our downgrade threshold for Sempra is FFO to debt below 15%. Our recent revision of our outlook on Sempra to negative from stable reflects the company's minimal financial cushion relative to its downgrade threshold. Sempra faces both high capital-spending needs and rising operating costs, which pressures its financial measures. Furthermore, Sempra's utilities recently received several rate case orders and after fully incorporating them into our base case, we expect that Sempra's consolidated FFO to debt will likely remain below our downgrade threshold.

Many factors support the California Wildfire Fund's stability, particularly that it depletes very gradually and over a prolonged process. First, third parties' lawsuits against utilities could take substantial time to fully resolve or to ultimately settle. Only after the claims are paid by the utility in an amount that exceeds their wildfire insurance does the utility then file for reimbursement from the fund. Even in the best-case scenario, this process is likely to take several years.

Additionally, the fund is administered by the California Earthquake Authority, which has the right to issue securitization bonds backed by the non-bypassable charge on electric customers' bills. If the authority decides to issue securitization bonds, that would ultimately increase the fund's assets to about $21 billion. To date, the authority has not made the decision to issue the securitization bonds, believing that it's not yet necessary.

Because availability and access to the fund is a fundamental aspect of credit quality for California's investor-owned utilities, a material depletion of the fund could potentially weaken ratings.

What factors may lead S&P Global Ratings to take rating actions in California's water and sewer sector?

We rate several large and small water and sewer utilities within the wildfire boundaries. We are evaluating the potential effects on the associated service areas in the near-term and underlying infrastructure over the longer-term. Additionally, we are assessing their likely impact on affordability and financial performance, especially considering California's limitations regarding rate-raising and cost of service.

Our criteria include an evaluation of both emergency preparedness (the effectiveness of communication; wildfire mitigation; planning, prevention, and response; and system redundancies; among others) and asset adequacy (including whether the assets are sufficient to provide and maintain basic services relative to the known risks and are hardened sufficiently to meet higher risks). This is handled directly through our operational management assessment, which is a critical credit driver and vulnerabilities can cap ratings.

In analyzing financial performance, we assess the costs associated with wildfire recovery in the service area and for system assets. The length of time it takes to rebuild could affect revenue collections, which we model and stress to determine potential consequences. One of the most common operating challenges associated with wildfires in the water and sewer utilities sector is contamination to existing supply—which can increase treatment costs, render reservoirs completely unusable, and can be prolonged for years. Secondly, we assess any reinvestment that will be necessary to harden infrastructure to the levels needed to meet heightened wildfire risks such as these.

Given the magnitude of this catastrophe, the statements made publicly regarding water sufficiency and operational deficiencies, and the governor's request for investigation, we believe it's likely that substantial system improvements will be required, many of which we expect will be costly. Lastly, we assess the exposure to increasing liabilities and litigation that's associated with the adequacy of assets and the response.

The evolving nature of the situation creates uncertainty and lack of clarity on the potential cost associated with the liabilities of litigation. In our view, LADWP faces heightened exposure for litigation, given media reports of legal action alleging mismanagement of supply during the Palisades Fire. While lawsuits don't necessarily mean claims will lead to liability outcomes, we view this risk as elevated.

Against this backdrop, several of these utilities also face challenging water supply issues and regulatory mandates, which compound these pressures and the already rapidly rising cost of service. We believe this could lead to greater repair fatigue or margin compression.

Short-term cost implications and long-term assumptions for future adaptation are the primary credit drivers for the water sector—with an already significant capital plan and associated financial capacity and affordability consequences.

How will insurers absorb losses associated with these wildfires?

Across the U.S., 32 states (including California) utilize the Fair Access to Insurance Requirements plan (FAIR)—which originated from the 1968 Civil Rights Act to aid homeowners facing discrimination in attaining homeowners' insurance to now also providing coverage for properties in disaster- and fire-prone areas where commercial providers are exiting. FAIR plans are authorized by state statute, with premiums paid at the time of annual renewal from policyholders and in some cases from private insurers as a right to provide coverage in the state. (FAIR is not operated by state agencies nor funded within state budgets or taxpayer dollars.)

While we do not rate FAIR plans, we monitor the growth of these plans as anecdotal to rising affordability issues.

According to California's latest FAIR plan reports, the state's total exposure was $458 billion as of September 2024—covering 250,000 dwellings and 8,000 commercial properties, and $1.4 billion in written premiums last year. California's FAIR plan policies cap coverage at $3 million for residential coverage and $20 million for commercial coverage. Considering that the average home value in the Pacific Palisades area was above this coverage capacity, the state FAIR plan has reported $5.89 billion in property value coverage there, as well as more losses from other fires (Altadena FAIR covered properties are valued close to $1 billion). The tremendous devastation in that area is evident, but the total amount of possible claims and losses is yet to be seen. The FAIR plan reportedly has $377 million in cash, and roughly $5.78 billion in reinsurance available to begin to address the coming claims.

Should that not be enough to cover claims, FAIR would raise written premiums on all plan holders and private policyholders and can assess the insurers themselves. FAIR has passed this assessment onto insurance before, most recently during the 1994 Northridge earthquake which saw significant damage in the Los Angeles area. California's insurance regulator has also announced that the first $2 billion beyond what FAIR is able to cover will be split evenly between assessments on insurance companies in the state and policyholders. Companies would contribute in-line with their percentage of the California market they insured in the state over the past two years. For example, if an insurer had 20% market share in California, they would be responsible for 20% of the assessment of the policy and the remaining would be assessed on the policyholders.

If the FAIR plan lacks necessary liquidity or in some way becomes insolvent, there's no obligation for the state of California to help in any financial way. Overall, we're expecting that the FAIR plan will have significant obligations to cover, but the structure of that entity and the design of its provisions to respond will be used to help cover those costs.

In our view, insurance in California will be more costly after these fires. As physical climate risks have increased, the California insurance market has evolved and in recent years we've observed an exodus of commercial insurers. Authorities have made regulatory enhancements in hopes of keeping and luring providers back—allowing insurers to use a catastrophe model to justify premium increases and allowing providers to pass reinsurance costs to policyholders. These provisions alone would likely have prompted some premiums to increase in the state, but the combination of the worsening wildfires and the potential for the FAIR plan to pass on assessments will likely see premiums increase even more.

The significant wildfire losses in the first two weeks this year could rapidly deplete the catastrophe budgets of U.S. primary insurers. This early strain may lead to earnings pressure later in the year, especially if 2025 proves to be above average for catastrophes. However, we believe our rated primary insurers can bear the brunt of the Los Angeles wildfire losses, after strong results in the first nine months of 2024 (and likely for the year), combined with a material reduction in policy coverage in wildfire prone areas in California.

The impact from the wildfires is, in our view, manageable for our rated global reinsurers, with no significant effect on earnings due to the event's magnitude and timing.

What is the status of the credit ratings for the state of California, the city of Los Angeles, and their local governments?

In our view, the state of California and Los Angeles County have a notably strong economic and tax base, and as such will be resilient through this disaster. We maintain a 'AA-' credit rating with a stable outlook on the state of California, which is slightly below average for U.S. states (with our median rating for the state sector being 'AA+').

Credit attributes we've cited for supporting that rating include California's dependency on volatile capital gains revenues, the frequency of physical climate disasters, and recovery costs, among others—which have recently affected the state's large and complex budget that was submitted in the same period as these wildfires started.

Governor Newsom released a proposed budget on Jan. 10 and now the legislature will begin deliberation. The fiscal 2026 proposal did not have many new programs, and we believe it represents a continuation of current policy. Of note though, related to the fires, this proposal includes doubling the budget for CAL FIRE and hiring 2,400 additional firefighters.

We see the transparency of California's operating data as a credit strength. We're able to check publicly shared monthly revenues and expenditures, annual cash flow estimates, and regular updates to forecasts. When the state revisits the current year and the following year budget expectations in its May Revise, we believe this may be even more informative than normal, considering California will have a clearer picture of the costs associate with the fires and the actions needed for further recovery. At this time, we are not expecting a state rating impact from the Los Angeles County wildfires.

We expect federal funds will cover a significant share of cleanup and recovery costs (with the Biden Administration committing to covering removal costs for six months) as seen with other natural disasters across the U.S. in in recent years. This will alleviate some of the short-term expenditure pressures. State officials have informed us of their efforts to expand staffing in the Fire Zone to help expedite recovery programs and explore other measures to support those facing losses to rebuild as quickly as possible. Governor Gavin Newsom has already asked the state legislature for $2.5 billion for disaster response and rebuilding and repairing schools.

Last week, we placed our 'AA' long-term rating on the City of Los Angeles on CreditWatch with negative implications. While we're not aware at this time of any specific wildfire litigation against the city that is unrelated to its utilities, our recent action reflects our belief that the city's general credit quality could weaken to some degree if the credit quality of the utilities materially weakens further.

Within our holistic analysis of the city, we recognize that LADWP and the city are the same organization, charged with providing services to the same constituency. As such, we believe that the city's general credit is not entirely insulated from any impacts the LADWP may face, given the various aforementioned financial, economic, and governmental interdependencies. Because the LADWP provides essential services to the Los Angeles community, its ability to do so in a manner that is both effective and affordable to the population will play into both long-term economic stability and the government's own fiscal sustainability. Our view on the interconnected nature of the city and its utilities does recognize the city's incentive to support those efforts.

Independent of any financial implications of the fires, our CreditWatch action on Los Angeles also acknowledges weakening financial trends the existed prior to this most recent wildfire event. Regardless of specific litigation filed against the city or its utilities, our credit risk assessment will incorporate its heightened risk exposure to climate events and the potential financial implications.

For local governments, we continue to monitor the associated impacts of the wildfires for issuers with tax-backed securities. Our analysis considers both the tax base and the overall operating profile of the entity. Across Los Angeles County's affected areas, we anticipate varying degrees of credit impacts—depending on the extent of any assessed value losses or presence of any forms of revenue flexibility. We are closely watching tax increment and special assessment credits that could face acute risk if their taxpayer bases are materially affected. By design, these closed financing structures have relatively narrow taxing boundaries, limited excess liquidity, and may be sensitive to the impacts on the underlying tax base.

We see the potential for certain local governments with smaller tax bases and limited liquidity or reserves to come under credit pressure if they face significant revenue disruptions from reduced assessed values or decreases in local economic activity. In the short-term, we anticipate that affected local governments will lean on reserves to manage this potential period of lost revenue. In the long-term, rebuilding efforts could eventually support revenue growth if we see a recovery in assessed value or a boost in consumption-based taxes. Comparatively, full-service municipal government and school districts will have greater ability to adjust to changing circumstances, whether those are financial or economic.

The Impact Of The Los Angeles Wildfires On California's Property Insurance, Housing Finance, And State Creditworthiness - S&P

Key Takeaways

- The losses from the Los Angeles wildfires are expected to cause property insurance carriers to raise rates and/or reduce coverage options in California and other at-risk areas. This could be exacerbated in the likely event that the California FAIR Plan falls short of funds. Regulatory reform in the state could eventually improve homeowner insurance accessibility and alleviate the strain placed on the FAIR Plan.
- However, anticipated increased insurance premiums will further strain home affordability. This could translate into downward pressure on home values for a state that has already been experiencing muted population growth.
- The rising insurance costs and mounting affordability challenges could weigh on the creditworthiness of the state of California over time. Currently, however, our rating outlook is stable.

The recent and currently active Los Angeles County wildfires have reached unprecedented levels of insured losses. S&P Global Ratings details the fires' likely impact on California's property insurance, housing finance, and state creditworthiness.

Continue reading. [Free Registration Required]

23 Jan, 2025 | 23:36

WSJ: L.A. Fires Will Drain Public Coffers From Pasadena to Utah

Taxes and fees are taking a hit ahead of a costly rebuild

Fires have left parts of Los Angeles in ruins. They have also damaged local-government finances.

Recovering from the devastating wildfires will be lengthy and expensive. Property taxes are due for a hit because owners of destroyed properties only owe duties on the underlying land. Burned homes and evacuated residents won't be paying monthly water or electric bills.

The region's concentration of wealthy residents and booming businesses means money for infrastructure repairs and public-worker salaries will arrive eventually, analysts said. But the initial shortfalls are rippling across the state and even spreading to bond markets. Here's what to know:

Federal and state aid will cover a lot—but not the whole bill

Santa Rosa, a city of about 180,000 in Northern California wine country, is still finishing up repairs on its roads and parks seven years after wildfires destroyed about 5% of homes there. In the months following, the city budgeted conservatively and "drew down our reserves like crazy," said Santa Rosa finance chief, Alan Alton.

"Cities' budgets are built to perform a service to the community," Alton said. "It's not in our plan to completely rebuild infrastructure from the ground up."

Federal and state reimbursements ultimately covered more than 90% of the rebuild and cleanup, Alton said, and the state put $1.6 million toward a roughly $10 million shortfall in property taxes from destroyed areas. Santa Rosa got another $95 million from a lawsuit with PG&E.

In L.A., former President Joe Biden had said the Federal Emergency Management Agency would cover 100% of response costs over the next six months. After that, FEMA reimburses 75%, unless President Trump decides to increase it. Officials in Sacramento are still determining whether they plan to backfill L.A. area property taxes. Both the state and city have extensive financial reserves.

But public schools and community colleges around California could take a hit. California divides a pot of money among school districts to round out what they collect in property-tax revenues. Property-tax shortfalls in the Los Angeles and Pasadena school districts would mean less money for other schools and community colleges in California.

The bond market is rattled

Almost $60 billion of outstanding local-government bonds are backed by revenues that come at least in part from areas inside the wildfire boundaries, according to an analysis by ICE Data Services. Prices are falling on debt sold to finance L.A.'s sewers and renovate Altadena's public library.

One big concern for investors: lawsuits. Under California law, utilities can face strict liability for property damage caused by their power lines, regardless of fault. Ratings firms warned this week that the Los Angeles Department of Water and Power and Southern California Edison could face big payouts if they are found responsible. The cause of the L.A.-area fires is as yet undetermined.

L.A.'s power department, unlike others, doesn't proactively shut off parts of its system during windstorms to reduce the risk of sparks from power lines. The department says that it wants to avoid cutting power to critical services around the city and that it takes other fire-prevention measures. More than $3 billion worth of its bonds have changed hands since the fire, often at discounts of around 5%.

Municipal-bond prices have taken a hit even for regional power providers that sell energy to Los Angeles, including the Intermountain Power Agency, a coal-fired plant in Western Utah, according to ICE data.

Bond analysts, meanwhile, are poring over fire-impact maps to check on "dirt bonds": financing for community projects backed by fees from just a few neighborhoods. In one damaged patch of Altadena, 272 homes were partway through paying off $7 million in uninsured debt sold 12 years ago, bond filings show. It isn't clear how many of those houses are still standing.

L.A. property values could go up

Disasters can bump up some revenues such as taxes on hotel stays, restaurant meals and building materials. California's unusual property-tax laws could lead to a particular jump when homeowners choose to sell rather than rebuild from the fires.

To protect longtime residents from skyrocketing tax bills, the tax value of land can't increase by more than 2% a year. Only when properties change hands does the land reset to market value. If a lot of houses get sold, swaths of the city could end up paying significantly higher taxes.

Property-tax bills won't change much for people who stay and rebuild their houses as they were. But those who expand their homes will have the additional square footage reassessed at market value, further adding to local tax collections.

Larry Clark, a 66-year-old retired financial consultant, rebuilt his home in Oakland, Calif., after a 1991 wildfire destroyed it. When he and his wife were taxed only on the value of the land, he said, his yearly property-tax bill dropped to $1,500 from about $3,000. But it jumped to $4,500 less than two years later when the couple, ready to become parents, built a new, bigger home.

The Wall Street Journal

By Heather Gillers

Jan. 23, 2025

[S&P U.S. Not-For-Profit Utilities 2025 Outlook: Rough Water Likely Will Underscore Credit Trends]

Sector View: Negative

- Rising costs will continue to pressure margins. Sector-specific capital and operating costs continue to outpace broad inflation measures and, in many cases, have not been fully passed through to ratepayers. Although some costs have abated relative to recent years, payroll growth, staffing shortages, construction costs, and higher baseline interest rates will continue to drive expenditure increases.
- Capital investment needs are accelerating. Aging infrastructure is one of the most pressing matters in the water utility sector, with many assets nearing or exceeding their useful lives. Asset failures have led to rapid liquidity deterioration, and regulatory and climate hazards will exacerbate capital needs and require proactive operational management.
- Affordability is a widening credit issue, especially for the most vulnerable portion of the population. The sector has historically been underpinned by strong rate-setting flexibility, but we have observed a greater reluctance to fully pass through costs to ratepayers. This has resulted in narrowing margins and weaker liquidity, which we expect will continue in 2025, given rising revenue requirements and economic headwinds from potential federal policy shifts.

Continue reading.

15 Jan, 2025

S&P U.S. Public Finance Housing 2025 Outlook: The Stable Era Endures, Underpinned By Strong Management

Sector View: Stable

- Not-for-profit lenders likely will continue building balance sheets with bond execution. Despite the Federal Reserve's planned monetary easing in 2025, mortgage interest rates could remain higher for longer and keep tax-exempt and taxable debt issuance at all-time highs.
- Federal government support for not-for-profit developers is unlikely to wane in near term. The incoming administration may reconsider federal funding for some health and human service programs, but nationwide housing affordability problems likely will remain a key policy issue.
- Historically, experienced management teams have pivoted to sustain stable financial performance and profitability. We believe not-for-profit lenders and developers could innovate to preserve and develop affordable housing amid rising federal policy uncertainty.

Continue reading.

16 Jan, 2025

S&P U.S. Charter School Rating Actions, Fourth-Quarter 2024.

View the Charter School Rating Actions.

17 Jan, 2025

S&P U.S. Charter Schools 2025 Outlook: Stability For Now, With Pockets Of Pressure

Sector View: Stable

- S&P Global Ratings' view of the U.S. charter school sector remains stable, supported by ongoing healthy demand and steady-to-growing per-pupil funding, for now. Many schools continue to hold their market position or expand, while maintaining healthy liquidity and operating margins.
- During 2025, we expect schools will focus on managing expense pressures and persistent teacher shortages absent federal emergency dollars and amid slower economic growth. Competition for students remains elevated, but budget pressures are most pronounced at the lower end of the ratings scale.
- A new federal administration with different priorities could create opportunities, or new challenges, for the sector.

Continue reading.

22 Jan, 2025

S&P U.S. Higher Education Rating Actions, 2024

In 2024, S&P Global Ratings assigned three new ratings, raised 13 ratings, and lowered 24 ratings on U.S. colleges and universities. Our rating actions during 2024 continue to demonstrate a widening in credit quality for the third year in a row, as the majority of the downgrades occurred at the lower end of the ratings distribution. Strong institutions maintained their market position, healthy balance sheets, and fundraising, while struggling institutions faced enrollment pressure; operational stress; and, more frequently, liquidity issues.

Continue reading.

23 Jan, 2025

Protecting Bonds to Build Infrastructure and Create Jobs: GFOA Data Brief

Read the GFOA Brief.

GFOA | Jan. 22

Understanding Financing Options Used for Public Infrastructure: GFOA Primer

View the GFOA Primer.

GFOA | Jan. 22

Threat Now Imminent, Advocacy for Infrastructure Financing Tool Falling Way Behind in Tempo.

- Imminent Threat to Municipal Bond Tax-Exemption: The House Committee on Ways and Means is considering a full repeal of tax-exempt interest for municipal bonds.
- Urgent Call for Advocacy: Public entities and state and local leaders have a limited window in January and February 2025 to advocate for the preservation of the municipal bond tax-exemption. The report emphasizes that education and advocacy efforts are currently way behind in tempo compared to the legislative process.
- Significant Financial Impact: Eliminating the municipal bond tax-exemption could raise borrowing costs by $824 billion over the next ten years, translating to an additional financial burden of approximately $6,554.67 per American household. This change would hinder the ability of state and local governments to fund critical infrastructure projects, impacting public services and economic growth.

Continue reading.

by Tom Kozlik, HilltopSecurities

January 24, 2025

How to Prepare for Your Next ARPA Reporting Deadline.

The American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF) have provided a vital lifeline to cities, towns and villages across the country. As reporting deadlines approach, it is important to prepare upfront to ensure compliance as well as maximize the impact of these funds. Here are some tips and tricks to help you navigate the reporting process with ease.

Key Deadlines

- **January 31, 2025**: Quarterly reporting deadline
- **April 30, 2025**: Annual reporting deadline for non-entitlement units (NEUs) and other annual reporters
- **December 31, 2026**: All ARPA State and Local Fiscal Recovery Funds must be spent

We recommend marking these dates on your calendar and planning backward to allow ample time for preparation and submission.

Continue reading.

National League of Cities

by Dante Moreno

January 24, 2025

Muni Debt Poised for Strong Year as Higher Yields Woo Investors.

- **Bankers, investors expect strong flows from retail buyers**
- **Possible tax changes remain a threat but market is mobilizing**

Higher municipal-bond yields are spurring a buying opportunity for investors looking for relative value against taxable fixed-income securities.

The state and local-government debt market is poised for another strong year in terms of issuance and demand from retail buyers, provided federal lawmakers maintain the bonds' tax-exempt status, according to investors and bankers who took part in a Bloomberg panel discussion on Thursday. Ten-year benchmark muni yields jumped to 3.28% earlier this month, the highest since November 2023.

"On an absolute yield basis after-tax, munis are more attractive than every other fixed income asset class," Rachel Betton, managing director at JPMorgan Asset Management, said at the event. "People are going to continue putting money into munis, assuming they're tax-exempt."

Continue reading.

Bloomberg Markets

By Erin Hudson

January 24, 2025

[2025 Municipal Bond Sector Outlook: Stability and Resiliency.]

Municipal Credit Remains Strong as Focus Turns to Policy Risks

Municipal credit remains strong as we enter 2025. We see a soft landing as the most likely economic scenario given the resilience of economic activity and easing of inflation. In this scenario, growth will continue to slow, reaching below trend, and unemployment will continue to modestly rise, but not to recession levels.

This scenario should portend a modest increase in state and local tax revenues, keeping our sector outlooks largely anchored near stable. As a result, we have made only slight adjustments compared to last year's outlook. We believe resiliency has improved across municipal credit, as reserves remain strong, providing a cushion if the economy pulls back more than we expect.

This confident economic view belies an unsettled federal policy picture, as the election resulted in a Republican sweep, albeit by an exceptionally tight margin in the U.S. House of Representatives. Key vulnerabilities to municipal credit include threats to the Affordable Care Act (ACA), federal budget cuts that could push costs down to state and local governments, and changes to higher education policies.

Continue reading.

advisorperspectives.com

by Northern Trust, 1/21/25

Muni Bonds: Active Management Stepping Into Spotlight

There have been recent increases by 10-year Treasury yields. And there's been talk that the Federal Reserve will tread cautiously this year regarding interest rate cuts. So the pairing of active management and fixed income could be as important as any time in recent memory.

That could prove muni bonds, too. And that could spotlight opportunities with ETFs like the ALPS Intermediate Municipal Bond ETF (MNBD). Following the tragic wildfires in Los Angeles this month, some municipal bond experts believe it's possible California munis will experience downside.

That's pertinent because the Golden State is one of the largest issuers of municipal debt. That trait is reflected by many passively managed muni ETFs. However, actively managed funds such as MNBD have flexibility. They don't necessarily need to be heavily allocated to bonds issued by California and New York, among other big issuers.

MNBD Diversification Matters, Too
The exact financial toll of the wildfires isn't yet determined, and estimates are changing by the day. Likewise, it's unknown if California or Los Angeles County will flood the market with new municipal

bonds to deal with reconstruction efforts.

“We believe that the wildfires may have an impact to some municipal bond issuers in the [area. But] the broader impact to other bonds in the state or to the national muni market is likely limited,” noted Cooper Howard of Charles Schwab. “However, for [investors concerned]about the impact of the wildfires, or weather and climate disasters more generally, there are actions they may want to consider taking.”

It’s likely correct that fire-related implications in the municipal bond market, if any, will be confined to California. And that could highlight the benefits of active funds such as MNBD. That’s because managers can fine-tune exposures due to current events, if needed.

Potential Minimal Risk to L.A. County’s Bonds
Against the backdrop of potential municipal bond market risk related to California, active management could be all the more important. That’s because there are thousands of bonds with some exposure to fire-affected areas. And that implies it would be nearly impossible for passive muni funds to avoid all of those issues.

“There currently are more than 4,527 individual bonds outstanding (measured by CUSIP [number). That accounts] for $70 billion, in the fire-affected area, according to research provider Bloomberg Intelligence,” added Howard. “The risk to each individual issuer is not the [same. It] will depend on the issuer’s financial position, how the issuer derives revenues, the bond’s legal protections, and other factors. We want to [emphasize that although]an issuer may be located in Los Angeles County, there may be minimal risk to its bonds.”

etftrends.com

by Todd Shriber

January 21, 2025

Muni Monthly: December 2024

This month’s Muni Monthly covers performance, supply and demand technicals, fundamentals and valuations for December 2024.

Performance overview: Muni yields moved higher as the Treasury curve steepened.

Fixed-income generally sold off in December as yields moved higher due to stronger-tha--anticipated GDP data, which led market participants to question the path of inflation and interest rates in 2025. The Treasury yield curve steepened, with short maturities moving up to 17 basis points (bps) lower, while longer maturities moved up to 44 bps higher. Muni market yields moved higher across the curve, generally underperforming Treasuries amid the rate volatility and weakening supply and demand technicals.

The Bloomberg Municipal Bond Index returned -1.46% in December. Longer-duration municipals underperformed amid the rate volatility, as did lower investment-grade and high-yield municipals. All told, the Bloomberg Municipal Bond Index closed the year up 1.05%, outperforming Treasuries but underperforming investment-grade credit indices. High-yield municipals posted the strongest returns across the muni market, returning 6.32% during the year. The longer-duration Bloomberg

Taxable Municipal Bond Index returned -2.46% in December, leading year-to-date returns to 1.57%, outperforming the Bloomberg US Treasury Index (0.58%) and the Global Aggregate (-1.69%).

Continue reading.

Franklin Templeton

Jan 20, 2025

Strong Returns Ahead? Key Themes for Municipal Bond Investors in 2025.

With the start of the year, several asset managers and investment firms are beginning to publish their outlooks for the year ahead for both the equity and fixed-income markets. For investors and financial advisors, these outlooks can serve as a blueprint for asset allocation decisions, sector rotation, and additional investment.

For municipal bond investors, that means paying attention to what asset managers like Nuveen have to say.

The firm was one of the first to begin underwriting municipal bonds before 1900 and has since grown into one of the world's largest municipal debt managers. As such, its bench strength within the sector is impressive. So, when the firm talks about munis, investors should listen. With that, a new paper by the group highlights what investors should expect this year.

Continue reading.

dividend.com

by Aaron Levitt

Jan 21, 2025

Municipal Outlook 2025: Battling Headwinds, Harnessing Tailwinds

Four strategies for navigating crosswinds in the municipal bond market.

The municipal bond market closed 2024 much as it began—highly volatile—providing substantial opportunities for active managers. Broader muni returns disappointed for the year, but bright spots included muni credit, which significantly outperformed higher-rated debt.

Uncertainty around the path forward for interest rates continues to dominate the muni backdrop. While the Fed has signaled it sees some inflation risk, our base case is a short pause followed by more rate cuts.

In this environment, we expect muni returns to be primarily driven by income in 2025. But in our view, the market also faces potential headwinds, including a flood of expected new issuance and renewed scrutiny of muni bonds' tax-exempt status.

Continue reading.

alliancebernstein.com

Jan 23, 2025

The Investment Conversation: What's Ahead for Municipal Bonds?

In this podcast, Lord Abbett Portfolio Manager Dan Solender examines the factors likely to drive municipal-bond market performance in the coming year.

Andy D'Souza: Welcome back to The Investment Conversation. I'm Andy D'Souza, partner and chief marketing officer here at Lord Abbett. As part of our 2025 investment outlook, we're going to talk with our investment leaders about key themes for the markets in the coming year. In this podcast, our guest is Lord Abbett's head of tax-free fixed income, Dan Solender, who's also a partner of the firm. Dan, welcome to the show.

Dan Solender: Thank you. Great to be here.

D'Souza: It's great to have you, Dan.

Let's get right into it today. Want to cover a few different topics to follow up on our written outlook for 2025. Namely, wanted to go through sort of the backdrop as we enter into now, we are now in 2025. I also want to touch on fiscal policy, as this is something that's very topical in the markets currently.

And then, looking ahead more about the challenges and opportunities, looking at things like credits, maturities, sectors, and industries. But if we take a step back and go back to the idea of where we are in '25 in January looking ahead, let's paint the landscape for the listener a little bit here across these four metrics.

Continue reading.

Lord Abbett

By Andrew D. D'Souza, Daniel S. Solender

January 24, 2025

Corporate and Municipal CUSIP Request Volumes Decline in December.

NORWALK, Conn., Jan. 15, 2025 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for December 2024. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly decrease in request volume for new corporate and municipal identifiers. On an annualized basis, total identifier request volume surged in 2024 versus 2023 totals.

North American corporate CUSIP requests totaled 7,139 in December, which is down 10.2% on a monthly basis. Year-over-year, North American corporate requests closed 2024 up 11.0% over 2023 totals. The monthly decrease in volume was driven by an 18.8% decline in requests for U.S. corporate debt identifiers. Request volumes for short-term certificates of deposit (-9.3%) and longer-term certificates of deposit (-6.4%) also fell in December.

The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 13.3% versus November totals. On a year-over-year basis, overall municipal volumes were up 9.0%. Texas led state-level municipal request volume with a total of 76 new CUSIP requests in December, followed by New York (73) and New Jersey (62).

Continue reading.

Provided by GlobeNewswire Jan 15, 2025 5:30am

S&P U.S. Higher Education Rating Actions, Fourth-Quarter 2024

View the Ratings Actions.

13 Jan, 2025

S&P U.S. Not-For-Profit Public Power, Electric Cooperative, And Gas Utilities 2025 Outlook: Climate Change, Energy Transition, And Load Growth Underlie Negative Trends

Sector View: Negative

- Not-for-profit (NFP) public power, electric cooperative, and gas utilities remain susceptible to negative rating actions because of rising operating expenses and the costs of direct and indirect capital investments. These pressures constrain rate-making flexibility and remain an obstacle to timely and adequate cost recovery.
- The catalysts for increasing costs include utilities' initiatives to strengthen infrastructure to better withstand more frequent and severe extreme weather events, investments to reduce harmful generation emissions and byproducts, and generation additions to support developing technologies' substantial energy requirements.
- Utilities with limited customer bases can face obstacles to efficiently allocating costs, making their financial performance and creditworthiness more vulnerable to cost-induced erosion than those with larger and more diverse customer bases.
- S&P Global Ratings' negative sector outlook reflects its opinion that a subset of the utilities face greater susceptibility to lower ratings, but this view does not indicate expectations of widespread downgrades. Many NFP utilities continue to achieve financial performance that provides latitude to address cost increases without eroding creditworthiness.

Continue reading.

14 Jan, 2025

S&P U.S. Not-For-Profit Utilities 2025 Outlook: Rough Water Likely Will Underscore Credit Trends

Sector View: Negative

- Rising costs will continue to pressure margins. Sector-specific capital and operating costs continue to outpace broad inflation measures and, in many cases, have not been fully passed through to ratepayers. Although some costs have abated relative to recent years, payroll growth, staffing shortages, construction costs, and higher baseline interest rates will continue to drive expenditure increases.
- Capital investment needs are accelerating. Aging infrastructure is one of the most pressing matters in the water utility sector, with many assets nearing or exceeding their useful lives. Asset failures have led to rapid liquidity deterioration, and regulatory and climate hazards will exacerbate capital needs and require proactive operational management.
- Affordability is a widening credit issue, especially for the most vulnerable portion of the population. The sector has historically been underpinned by strong rate-setting flexibility, but we have observed a greater reluctance to fully pass through costs to ratepayers. This has resulted in narrowing margins and weaker liquidity, which we expect will continue in 2025, given rising revenue requirements and economic headwinds from potential federal policy shifts.

Continue reading.

15 Jan, 2025

S&P U.S. Public Finance Housing 2025 Outlook: The Stable Era Endures, Underpinned By Strong Management

Sector View: Stable

- Not-for-profit lenders likely will continue building balance sheets with bond execution. Despite the Federal Reserve's planned monetary easing in 2025, mortgage interest rates could remain higher for longer and keep tax-exempt and taxable debt issuance at all-time highs.
- Federal government support for not-for-profit developers is unlikely to wane in near term. The incoming administration may reconsider federal funding for some health and human service programs, but nationwide housing affordability problems likely will remain a key policy issue.
- Historically, experienced management teams have pivoted to sustain stable financial performance and profitability. We believe not-for-profit lenders and developers could innovate to preserve and develop affordable housing amid rising federal policy uncertainty.

Continue reading.

16 Jan, 2025

Fitch: U.S. Higher Education Navigating Numerous Changes in 2025

Fitch Ratings-Chicago/New York-15 January 2025: While the universe of Fitch-rated U.S. colleges remain fundamentally stable in performance, cracks will continue to surface this year, as discussed in a webinar hosted by Fitch Ratings yesterday.

Fitch maintains a deteriorating sector outlook for higher education in 2025, driven in part by a softer operating environment, reduced financial flexibility, a fragile international enrollment pipeline, and an expectation for increased consolidation and college closures. Though much of the sector's unrest comes from unrated colleges, even rated institutions at both ends of the rating spectrum are now also facing reduced an increasingly challenging fundraising environment, shrinking class sizes and more intense cost control pressures.

The perceived value of higher education versus its cost is a long-term behavioral shift that colleges will have to navigate, with the incoming administration being an important barometer for how the sector may fare, according to Fitch Senior Director Emily Wadhwani.

"With tuition growth still moderating, flattening enrollment prospects, and a great deal of policy uncertainty at both state and federal levels, margins will likely remain very modest at best in fiscal 2025," said Wadhwani. "Further, endowments have benefitted from recent market gains, but access to ready liquidity will continue to be critical as colleges navigate operating and environmental uncertainty."

State funding should help keep financial risk at bay in the near term, a bright spot of sorts tempered by more intangible risks the sector faces. Key person risk is a particular area of concern, with Wadhwani pointing to more 'turnover at the top' as average tenure of university presidents continues to decline. "There is also an elevated percentage of university staff that are very likely looking for new employment over the next 12 months," said Wadhwani.

A replay of the webinar is available at www.fitchratings.com along with Fitch's 2025 outlook report.

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[Fitch: Real Estate, Demographics Support U.S. LPCs' Steadily Improving Trajectory]

Fitch Ratings-New York-14 January 2025: Related Content: Fitch Revises Sector Outlook for U.S. Life Plan Communities to Neutral for 2025

Baby boomers approaching retirement age coupled with a more favorable housing market will serve as tailwinds for U.S. life plan communities (LPCs) in 2025, according to Fitch Ratings analysts during a webinar they hosted yesterday.

Many LPCs did the hard work of right-sizing their staffing component during the worst of the pandemic. As a result, an upswing in positive Outlook revisions for select LPCs beginning late last year led Fitch to revise its sector outlook to neutral from deteriorating. Staffing remains LPCs' most formidable headwind, although key labor cost indicators are improving. Also, unlike NFP hospitals, Senior Director Margaret Johnson said that LPCs have been better able to retain existing staff and minimize use of agency assistance while taking health beds out of service as needed with more ease.

Going forward, demographics will be more favorable for LPCs. "Baby boomers, or what has been called the 'silver tsnumani' generation, are now at retirement age and will need to sell their home in order to gain entrance into a life plan community, which serves as a positive both for LPCs and for the housing market as a whole," said Johnson. Another ancillary benefit of a stabilizing housing market is improving construction costs that have made the environment for LPCs expansion projects more favorable, a plus for expansions financed pre-pandemic that are now filled and starting to mature.

The sector is without its areas of weakness, chief among them skilled nursing facilities (SNFs). Already closely tethered to government reimbursement programs like Medicaid, 'a heightening of regulations such as minimum staffing ratios would add to increased operating costs and exacerbate headwinds for those LPCs with a high exposure to SNF operations,' said Johnson.

A replay of the webinar is available at www.fitchratings.com along with Fitch's 2025 outlook report.

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Barclays Memo Reveals 'Talking Points' as US Banks Leave Climate Alliance.

- **UK lender remains as member of NZBA banking alliance**
- **Biggest Wall Street banks opted to leave group in past month**

Barclays Plc has sent a memo to staff in anticipation of questions regarding its status inside a climate alliance that's been abandoned by Wall Street's biggest banks.

The London-based lender is instructing employees to "not discuss the topic unprompted," but has provided a list of "talking points" if clients ask, according to a memo seen by Bloomberg. The internal guidance follows large-scale defections from the Net-Zero Banking Alliance in the US over the past month amid Republican attacks on climate finance. Barclays remains a member.

The development suggests that the disruptions rocking NZBA in America are being felt on the other side of the Atlantic. So far, European banks including ING Groep NV, Deutsche Bank AG and Standard Chartered Plc have declared their continued commitment to the alliance. In its memo, Barclays stopped short of doing the same.

[Continue reading.](#)

Bloomberg Markets

By Alastair Marsh

January 14, 2025

[Banks Claim They're Still in the Climate Fight. Are They?](#)

Having fled a major climate alliance, some worry Wall Street giants may lose their stomach for financing a low-carbon transition.

The exodus of Wall Street's biggest firms from prominent climate groups has been greeted with triumphant cheers from Republicans in the US who accuse such coalitions of colluding to boycott the fossil-fuel industry. It could prove to be a hollow victory, though.

That's because, almost without fail, every lender that's recently left the Net-Zero Banking Alliance (NZBA), including JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc. and Morgan Stanley, has taken great pains to claim that quitting the group wasn't the same as quitting their net-zero goals (or helping their clients achieve their targets). BlackRock Inc. for example said its departure last week from the Net Zero Asset Managers initiative "doesn't change the way we develop products and solutions for clients or how we manage their portfolios."

The question to ask therefore is whether the willingness of departing firms to finance a low-carbon transition and pivot their business towards net zero will wane, since they're no longer part of groups that encourage such practices. And perhaps also whether their public claims that they will stay the course are meant to mollify clients and the broader public, both of which may not be as interested in preserving the fossil fuel industry as Big Oil and the ascendant American right.

[Continue reading.](#)

Bloomberg Green

By Alastair Marsh

January 14, 2025

[Elite Prep Schools Flood Muni Market After Regional-Bank Tumult.](#)

- **First Republic, SVB failures in 2023 roiled school-loan market**
- **Schools sold $803 million of munis last year, most since 2008**

Just down the road from Stanford University, a roughly $200 million campus upgrade is underway at one of the Palo Alto area's elite private schools, with plans encompassing state-of-the-art classrooms, an aquatics center and a recording studio.

It's a massive financial undertaking for Castilleja School Foundation. Its leadership considered loans from banks before turning to the municipal bond market, which is more often used to finance roads and bridges than projects at private institutions charging more than $60,000 a year in tuition.

Castilleja, an all-girls school that opened in 1907, wound up selling about $106 million of tax-exempt debt in September, its first foray into that market. It was one of at least 17 US independent private schools that sold municipal bonds in 2024 — several for the first time. They borrowed $803 million combined, almost double the previous year's tally and the most since 2008, data compiled by Bloomberg show.

Continue reading.

Bloomberg Markets

By Erin Hudson

January 13, 2025

[Orrick: First Airport Financing Under the Bipartisan Infrastructure Law's Expanded TIFIA Authorization Goes to Sacramento Airport]

The U.S. Department of Transportation's Build America Bureau has provided a $36.1 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for Sacramento International Airport's Pedestrian Walkway project.

This financing marks the first TIFIA loan made by the Department of Transportation's Build America Bureau for an airport project under new authorization included in the Bipartisan Infrastructure Law.

Orrick advised Sacramento County in negotiating this novel TIFIA loan.

THE PARTIES
The Sacramento County Department of Airports plans, develops, operates and maintains Sacramento International Airport and three other airports. Sacramento International Airport offers more than 155 daily nonstop flights to 36 destinations on 12 domestic and international carriers.

Part of the U.S. Transportation Department, the Build America Bureau accelerates investment in transportation infrastructure. It lends federal funds to qualified public and private borrowers, clears roadblocks for creditworthy projects, provides technical assistance and grants to build local/regional capacity and implement best practices and innovative solutions in project planning, funding/financing, delivery and operations.

THE IMPACT
The loan will provide critical financing for the new Pedestrian Walkway at the airport, offering significant cost savings and supporting passenger mobility.

The project includes four moving sidewalks, four escalators, ADA-compliant walkways, two passenger elevators, one service elevator, stairs, and an electrical room, the Department of Transportation said.

“We are grateful to our elected officials for assisting us in securing this loan on multiple fronts,” said Cindy Nichol, Sacramento County’s Director of Airports.

Assistant Director of Airports Chris Wimsatt said the TIFIA loan represents a significant milestone.

“By leveraging the program’s low-interest rates and flexible repayment terms, we will save over $15 million while advancing critical infrastructure improvements.”

“Orrick congratulates Sacramento County on closing this innovative financing for the benefit of its passengers,” said Jenna Magan, Co-Chair of Orrick’s Public Finance Practice. “Devin, Brandon and I are grateful that the County entrusted our team to help it navigate the novel questions and issues that arose while the Build America Bureau and the County worked collaboratively to make this unprecedented loan a reality.”

THE TEAM
Orrick’s Jenna Magan led the team that advised Sacramento County. The team included Devin Brennan, Brandon Dias and Melissa Warr.

LEARN MORE
Sacramento International Airport news release
U.S. Department of Transportation news release
Build America Bureau

January.14.2025

Navigating Uncertainty: Implications of Trump Administration’s Approach to Infrastructure - Crowell

The ongoing changes surrounding the U.S.’s position on infrastructure between the outgoing Biden administration and the incoming Trump administration is creating policy uncertainty for investors and companies in the infrastructure space. This instability may raise concerns among stakeholders that the U.S. is not an ideal place to invest because of the policy inconsistency and increases the likelihood of disputes arising from existing and potential foreign investment projects.

Changes to Bipartisan Infrastructure Law Implementation

Possible changes by the Trump administration to the allocation of funds for transportation, energy, broadband, and other projects under the Infrastructure Investment and Jobs Act (IIJA), also known as the bipartisan infrastructure law, is contributing to uncertainty for investors.[1]

The Trump administration may have a different approach to implementing the IIJA, which passed with bipartisan support but during the Biden administration.[2] The IIJA is set to continue under President-elect Trump, who will oversee the law’s final two years. The Trump administration will have substantial influence over the allocation of the remaining $294 billion in IIJA funds, including $87.2 billion in competitive grants.[3] This transition presents opportunities for the new administration to shape the law’s impact, particularly in areas of focus different from that of the Biden administration.

Continue reading.

Crowell & Moring LLP

1/17/25

Muni Road Ahead Looks Bright: Bloomberg Masters of the Muniverse

With expectations for future tax cuts softening and muni yields levels remaining attractive, greater buying opportunities may be on the horizon . In this episode of Bloomberg Intelligence's Masters of the Muniverse podcast, hosts Eric Kazatsky and Karen Altamirano are joined by Mark Paris, Chief Investment Officer and Head of Municipals at Invesco. They discuss why the outlook on muniland looks bright, and why muni issuers are well positioned to manage future policy shifts

Listen to audio.

Bloomberg

Jan 17, 2025

Munis' Prized January Returns Threatened by Expected Fed Pause.

- **Muni market slumps during a historically positive month**
- **Selloff follows Friday's robust US labor-market data**

Growing expectations that the Federal Reserve will hold off on further interest-rate cuts are foiling what should have been a strong month of municipal bond returns.

Benchmark municipal bond yields climbed as much as 25 basis points last week and edged higher again on Monday. The muni market is joining a bond rout that pushed long-dated Treasury yields above 5% for the first time in more than a year. Those on similarly dated municipals topped 4%, the highest since November 2023, according to data compiled by Bloomberg.

On Friday, monthly US jobs data exceeded projections, capping a surprisingly strong year for the labor market and adding more reasons for the Fed to dial back rate cuts, driving yields higher. Investors are also building in expectations that the policies of President-elect Donald Trump will foster quicker growth and inflation.

Continue reading.

Bloomberg Markets

By Aashna Shah

January 13, 2025

Active Management Could Serve Muni Bond Investors Well.

Last year was a decent one for muni bonds and related exchange traded funds. The Federal Reserve unveiling its first interest rate cuts in four years helped the cause. But with concerns mounting that the Fed may only cut once this year, catalysts for bonds, including munis, need to be derived from other sources.

Should the central bank be less aggressive than hoped on the monetary easing front, that could be a sign active management could be the way for advisors and investors to tap municipal debt in 2025. Enter the ALPS Intermediate Municipal Bond ETF (MNBD). One reason active muni strategies could take center stage this year is because income more than rate cuts could drive muni bond returns.

"We believe 2025 will be the year of the coupon, where income will once again be the main source of investor returns in municipals. Our view is that yields will stay elevated during the year amidst healthy economic growth, a data dependent Federal Reserve (Fed), and overall fiscal policy uncertainty," noted Goldman Sachs Asset Management (GSAM).

Muni Bonds ETF MNBD Could Have Multiple Tailwinds
There are multiple reasons active muni strategies such as MNBD could thrive in 2025. Those include the possibility of volatile rates and that lower-rated munis could outperform higher-quality counterparts. Active funds like MNBD could be more responsive to those themes.

"10-year municipal yields went along for the volatile macroeconomic ride by starting 2024 at 2.27%, followed by a climb to 3.11%, then to a low of 2.51%, then increasing to 3.14%, falling to 2.78%, before finally ending the year at 3.13%," according to GSAM. "A growing economy, solid credit fundamentals, and strong demand drove the BBB-rated and high yield portion of the municipal market to vastly outperform their higher rated counterparts."

Another reason active management could be the way to go with municipal bonds is the expected spate of new supply. GSAM estimates that to be $500 billion for 2025. On the bright side, demand for municipal bonds, including from advisors and investors seeking tax benefits, is expected to remain stout this year. That could add to the case for ETFs like MNBD.

"We believe demand from individuals may materially increase, particularly if money market fund and short-term Treasury yields decrease significantly as the Fed lowers its benchmark rate. We think bank demand will remain constrained with the corporate tax rate remaining at 21% given President-elect Trump's comments during the campaign, possibly moving lower," concluded GSAM.

etftrends.com

by Todd Shriber

January 13, 2025

Munis Will Continue To Rebound In 2025, Nuveen Says.

With the highest yield curve in almost two decades, municipal offerings are expected to have a positive year and could be an integral income option for advisors coming into 2025, according to

Nuveen.

The Chicago-based firm released its annual municipal bond outlook report, which highlighted that that the muni market is enjoying the highest yields it has seen in 15 years. Yields are 155 basis points higher than the trailing 19-year average, according to Dan Close, head of municipals at Nuveen.

The municipal market is showing signs of improvement after suffering outflows of around $149 billion in 2022 and about $25 billion in 2023, according to Morningstar.

While the industry has not returned to pre-2022 levels, last year there was about $42 billion in inflows into ETF municipal strategies, Close said.

"It's certainly a positive metric that we had this record amount of supply in the municipal space with more than $500 billion issued and the municipal market was still able to outperform Treasurys and corporates," he said.

Close said that municipal bonds can become a reliable source of income.

"Clipping your coupons we think is going to be an excellent strategy for the municipal market just given the backup in rates that we saw in 2024," he said. "I think a Fed that's pivoted to likely only cutting twice, we think that you can get a good total return just from the income component alone in 2025."

Nuveen believes the Fed will make two additional cuts this year before reaching a terminal Fed funds rate of somewhere between 3.75% and 4%.

"We think that the Fed certainly cutting less aggressively has more to do with a strong economy rather than inflation not rolling over," he said. "We certainly see most every component of inflation roll over in the most recent CPI (consumer price index) report."

Municipal funds will feel a positive impact from those numbers as 40 Act funds that use leverage tend to benefit from a steeper yield curve, Close said.

The report also highlighted the potential for duration, with an upward slowing municipal yield curve of around two to 30 years. The steepness could attract more long-duration municipal bond demand from individuals with cash on the sidelines, the report said.

"Given the steepness of the muni yield curve, especially in the intermediate part and longer out, we do think that it's beneficial to push a touch on duration," Close said.

Nuveen believes the supply in municipal bonds will continue to increase this year, with many public projects moving forward. There were limited supplies while projects were put on hold during the high inflationary period of 2022 and 2023 because of the elevated cost of construction and materials.

Tax-exempt municipal bond supply rebounded in 2024, as issuance through October 2024 was 43% higher than the year before at $436 billion. About $406 billion of that being tax-exempt and the remaining $30 billion being taxable. The firm expects to see at least a half a billion this year.

Many of the pending projects involve airports, with renovations expected to take place this year at airports in Denver, Austin, Texas, and New York City, Close said.

"We're seeing a lot more issuance in the airport sector as a lot of these projects were put on hold," Close said.

Now is an ideal time for advisors to take advantage of them and include them in their portfolios, he said.

"Any financial advisor that needs a stable income component from essential service monopolies should look to municipals because they're producing a good deal of income on a tax equivalent basis," Close said. "Munis are ultimately a yield vehicle and starting at a high point yield, we think hopefully does translate to very good returns for 2025."

fa-mag.com

by Edward Hayes

January 17, 2025

S&P U.S. Local Governments 2025 Outlook: A Stable Start To The Year While Prospects Look Precarious

Sector View: Stable

- Economic and federal policy uncertainty heightens the importance of fiscal management in preserving credit quality, and could strain U.S. local government finances in 2025.
- Although we don't expect a significant change in the magnitude of downgrades, we do expect fiscal buffers accumulated in the past three years will erode, heightening instability in a sector that has remained remarkably steady since the pandemic.
- Weaker economic growth will make regaining stability more difficult if it's lost. We expect most governments will close any gaps that arise, but only if federal policy shifts don't create economic pressure that makes gap-closing impossible.

Continue reading.

Free Registration Required

8 Jan, 2025

S&P U.S. States 2025 Outlook: Eyes On Washington, Focus On Budgets

Sector View: Stable

- States' credit fundamentals have strengthened, providing financial headroom to navigate potential challenging coming budgetary conditions. In the fiscal 2026 budget cycle, states face increasing costs following a period of inflationary pressure, past wage adjustments, waning federal support, and changes in state-level tax policy.
- This is happening against the backdrop of an expected moderation in the national economy and uncertainty of federal policy implications. Nevertheless, we expect state credit quality to hold fast.

Continue reading.

7 Jan, 2025

[Fitch Updates Report for U.S. Public Finance Structured Finance Rating Criteria.]

Fitch Ratings-New York-08 January 2025: Fitch Ratings has published the following updated report: "U.S. Public Finance Structured Finance Rating Criteria." This report replaces the report titled "U.S. Public Finance Structured Finance Rating Criteria" published on Jan. 18, 2024. The key elements of Fitch's rating criteria remain consistent with those of its prior criteria report.

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[Fitch Updates U.S. Public Sector, Revenue-Supported Entities Rating Criteria.]

Fitch Ratings-Chicago/New York-10 January 2025: Fitch Ratings has updated its master criteria for rating public sector, revenue-supported entities. The criteria updates and replaces the criteria from January 2024.

This criteria report describes Fitch's methodology for assigning new ratings and monitoring existing ratings for U.S. public sector and not-for-profit entities that provide or support essential public or social services and activities and whose debt is intended to be repaid from the entity's own revenue and resources. Notable revisions that Fitch has made include:

–Confirmation that nonrecourse debt, or collection and repayment risk have effectively been transferred to a third party, and nonpayment would not result in a cross default or cross acceleration to an issuer's other outstanding debt, may be excluded from the calculation of debt metrics and leverage for analytical purposes;

–Confirmation that where factors are present that indicate an entity's financial profile may be higher or lower than suggested by the Rating Positioning Table, alternative operating, financial and liquidity metrics, as well as attribute assessments, may be considered in determining the financial profile assessment and rating.

–Inclusion of secondary coverage and liquidity metrics that may be used as additional guidance

when assessing the credit quality and financial profile of entities where debt balances and leverage metrics are, or are expected to be, temporarily distorted, including as a result of an entity's capex profile and its position within the capital life cycle.
–Clarifications as to how Fitch assesses a Community Development Financial Institution's dependence on contributed income, and how such reliance impacts the operating risk assessment.

The key criteria elements remain consistent with those of the prior report. There is no impact on outstanding ratings. The previous version of the criteria has been retired.

The updated criteria report is available at www.fitchratings.com.

S&P: U.S. Public Finance Annual Reviews Processed

This publication does not constitute a rating action.

S&P Global Ratings has performed annual reviews of the credit ratings of the issuers/issues listed below.

In an annual review, S&P Global Ratings reviews current credit ratings against the latest issuers/issues performance data as well as any recent market developments. Annual reviews may, depending on their outcome, result in a referral of a credit rating for a committee review, which may result in a credit rating action. The below list is not an indication of whether or not a credit rating action is likely in the near future.

The key elements underlying the credit rating can be found in the issuer's latest related publication, which can be accessed by clicking on links below. Additionally, for each issuers/issues listed below, S&P Global Rating's regulatory disclosures (PCRs) can be accessed on the relevant page on www.spglobal.com/ratings by clicking on Regulatory Disclosures underneath the current credit ratings.

Continue reading.

09-Jan-2025

Fitch Updates U.S. Public Sector, Revenue-Supported Entities Rating Criteria.

Fitch Ratings-Chicago/New York-10 January 2025: Fitch Ratings has updated its master criteria for rating public sector, revenue-supported entities. The criteria updates and replaces the criteria from January 2024.

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The updated criteria report is available at www.fitchratings.com.

S&P 2025 U.S. Transportation Infrastructure Activity Estimates: Generally Steady Demand And Growth

Key Takeaways

- Our recently updated U.S. economic forecast for 2025 incorporates an expected slight cooling of real GDP growth to 2.0% from an estimated 2.7% for 2024, which we believe will continue to slow growth in demand measures to rates comparable with pre-pandemic averages, though not enough to negatively affect operations or financial performance across transportation modes.
- Although we expect volume growth for enplanements, port containers, transit ridership, and vehicular traffic will fall compared with recent years, we believe activity across most modes of transportation will continue to steadily increase from 2025-2027.
- Our updated activity estimates show public transit ridership potentially plateauing at about 90% of pre-pandemic levels by 2027 (absent outside influences that could stimulate transit ridership, such as employers limiting their employees from working from home and congestion pricing), and enplanements, port containers, and vehicular traffic generally growing and remaining above pre-pandemic levels for 2025-2027.

Continue reading.

9 Jan, 2025

S&P: As Los Angeles Wildfires Burn, Credit Implications For U.S. Public Finance Issuers Are Unclear

Liability Claims, Revenue Disruptions Could Lead to Negative Rating Actions

Rapidly expanding wildfires in the Los Angeles area might pose significant financial and operational risks for rated entities, especially if not-for-profit electric utilities' infrastructure triggered the fires. S&P Global Ratings is monitoring rated U.S. public finance entities in the affected region to assess whether liability claims or disrupted revenues will lead to negative rating actions.

As of publication time, the two largest wildfires in the area have burned almost 28,000 acres, remain completely uncontained, and their causes are undetermined. Many entities we rate, including not-for-profit electric and water and sewer utilities, local governments, and school districts, have assets and tax bases in the areas with active fires.

What's happening

Several wildfires sparked in the Los Angeles area on Jan. 7 and into Jan 8, then spread rapidly due to severe winds, low humidity, and extremely combustible terrain. Although only about 1% of Los Angeles County's total 2.6 million acres has burned, the affected area contains a broad range of homes and businesses with variable property values, including some very-high-value real estate. The Palisades Fire is already the most destructive to ever occur in Los Angeles County, according to CalFire. More than 2,000 structures have burned, the Los Angeles Times reported.

[Continue reading.]

Free Registration Required

9 Jan, 2025

[S&P Global Market Intelligence Boosts Muni Market Coverage.]

S&P Global Market Intelligence's integrated market intelligence platform now covers almost 6 million securities in the municipal market.

The firm has added 4.6 million municipal securities to Capital IQ Pro, which provides liquidity scores, end-of-day pricing, analytics and enhanced terms and conditions data. More than 26 million fixed income securities are now covered by the service.

Warren Breakstone, head of data and research at S&P Global Market Intelligence, commented: "We remain steadfast in our commitment to expanding content coverage, building tools and visualisations to bring this data to life. With this update, all S&P Capital IQ Pro users will gain access to reference and pricing data for over 26 million fixed income securities."

This expansion is the result of S&P Global's 2022 integration with IHS Markets, it said, which brought IHS Markit Financial Services under the S&P Global Market Intelligence umbrella.

Last year, Capital IQ Pro was updated with document analysis service Document Intelligence. This service provides summarisations and insights for documents and transcripts.

fi-desk.com

By Lucy Carter

January 8, 2025356

S&P U.S. Not-For-Profit Health Care Rating Actions, December and Fourth Quarter 2024.

S&P Global Ratings maintained 21 ratings without revising the outlooks, took seven negative rating actions, and had no upgrades in December. In addition, we revised three outlooks favorably and one outlook unfavorably, all without changing the ratings in the U.S. not-for-profit health care sector.

There were seven new debt issuances in the month, with six ratings maintained. The seventh new issuance was related to a newly rated organization, Mizuho America Leasing LLC, N.Y., reflecting our view of University of Chicago Medical Center and the assessment of the lease structure in place.

The 11 rating actions and outlook revisions consisted of the following:

- Seven downgrades on three systems and four stand-alone hospitals, with two of the systems taken off CreditWatch with negative implications and downgraded to speculative-grade;
- Three favorable outlook revisions on one long-term care provider and two systems with two outlooks revised to stable from negative and the other revised to positive from stable; and
- One unfavorable outlook revision on a stand-alone hospital to negative from stable.

Continue reading.

9 Jan, 2025

S&P U.S. Not-For-Profit Health Care Outstanding Ratings and Outlooks as of Dec. 31, 2024

View the Ratings and Outlooks.

10 Jan, 2025

Fitch: U.S. NFP Hospitals Balancing 2025 Neutral Outlook with Adverse Outliers

Fitch Ratings-New York/Chicago-08 January 2025: A new administration in D.C. and some longer-term generational demographic concerns could pose challenges to U.S. not-for-profit (NFP) hospitals as the sector enters 2025 on sturdier footing, according to Fitch Ratings analysts in a webinar yesterday.

Labor shortages remain a struggle for hospitals, driving elevated expenses. However, Sector Head Kevin Holloran said that hospitals are now hiring more employees than experiencing departures. In addition, usage of agency staff is declining while costs per unit are nearing pre-pandemic levels. These are among the developments that have led Fitch to revise its sector outlook to Neutral from Deteriorating.

Credit trifurcation is still the norm for the sector while Negative Rating Outlooks remain quite preeminent, though Senior Director Mark Pascaris said that downgrades to upgrades normalized in 2024, a trend that should continue in 2025 after the ratio peaked in 2023. Pascaris also noted that affirmations with Stable Outlooks still encompass roughly two-thirds of overall NFP hospital rating actions despite Covid and the subsequent “labor-demic.”

As for potential challenges in 2025 and beyond, “a major macro disruption that moves the payor mix from commercially insured to Medicaid or self-pay could move the sector outlook back to Deteriorating,” said Pascaris. Holloran pointed to 2030 as a year of particular concern in which the final members of the baby boom generation will reach age 65. “With more chunks of the population needing healthcare and a potentially smaller workforce available to provide it, a lack of a running start in using AI as a way of delivering care could leave NFP hospitals on more precarious ground,” said Holloran.

A replay of the webinar is available at www.fitchratings.com along with Fitch’s 2025 outlook report.

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S&P 'AAA' Rated U.S. Counties Current List.

View the list.

3 Jan, 2025

S&P 'AAA' Rated U.S. Municipalities: Current List

View the list.

3 Jan, 2025

S&P 'AAA' Rated U.S. School Districts: Current List

View the list.

3 Jan, 2025

States Take Steps to Shore Up Pension Funding.

Recent laws to improve pension financing should save states tens of billions of dollars over the long term.

Several state legislatures took steps in 2024 to enhance funding for public pension systems by adopting strategies to increase annual employer contributions to their retirement systems, manage how unfunded liabilities are paid down, and take advantage of surplus revenues to make supplemental payments to improve system funding and further pay down debt. These efforts build on more than a decade of increased contributions to public retirement systems, among other reforms, that have helped many states shore up their pension funding and stabilize their debt.

Well-managed retirement systems have instituted policies to ensure that the annual contributions they receive from state governments are sufficient to achieve full funding and pay down unfunded liabilities while keeping costs stable so that the systems are sustainably funded over the long term. Using these practices as a guide, policymakers can evaluate and enhance their retirement policies.

Well-Designed Contribution Policies Can Help Achieve Funding Goals

Effective funding policies ensure that annual contributions are sufficient to fund new benefits that plan participants earn each year while allowing states to pay down a portion of unfunded pension system liabilities. States that fall short of this goal are typically either failing to follow an actuarial funding policy or are following a fixed contribution rate that's insufficient to meet their systems' funding needs. Several states have moved away from the latter approach by implementing actuarial funding policies that regularly adjust employer contributions based on economic factors such as expected investment returns or projected employee salaries, thus ensuring that annual contributions are sufficient to meet targets for achieving full pension funding while reducing state government costs.

Continue reading.

governing.com

Jan. 8, 2025 • Stephanie Connolly, Pew Charitable Trusts

Wall Street Banks Cleared by Texas AG After Leaving NZBA.

- **Ken Paxton has dropped long-time review of several lenders**
- **Decision follows banks' exit from Net-Zero Banking Alliance**

Texas Attorney General Ken Paxton dropped his threat to cut off big US banks from municipal-bond deals after a slew of Wall Street firms exited a controversial climate-finance alliance.

In 2023, his office announced that it was reviewing the policies of finance companies that were members of the Net-Zero Banking Alliance, which he has repeatedly criticized. That stemmed from Texas legislation that sought to punish financial firms for engaging in what it viewed as a "boycott" of the oil and gas industries. In recent weeks, JPMorgan Chase & Co., Bank of America Corp., Morgan Stanley and Wells Fargo & Co. have said they're quitting the alliance.

Paxton's office said late Tuesday that its reviews of Wells Fargo, Bank of America, Morgan Stanley, and JPMorgan will be closed. Those firms are major underwriters of state and local debt in Texas, one of the biggest markets for muni deals. The Texas attorney general's office approves most public bond offerings before they're able to close, giving Paxton influence over which banks can participate in such transactions.

Still, the attorney general's office said in a different notice that Bank of America and JPMorgan are still under review over their firearm policies. A separate GOP law restricts government work with companies that "discriminate" against firearm entities.

Lauren Bianchi, a spokesperson for JPMorgan, said in a statement that the firm is proud of its role supporting the state's energy sector and economy. "We look forward to continuing to help drive growth and prosperity in the state," the statement said.

Representatives for Wells Fargo, Bank of America and Morgan Stanley declined to comment.

In a statement, Paxton's office said the alliance pushes members to advance "destructive climate goals regardless of their obligations to consumers and investors."

"The NZBA seeks to undermine our vital oil and gas industries, and membership could potentially prevent banks from being able to enter into contracts with Texas governmental entities," Paxton said.

Separately, a group of state attorneys general, led by Paxton, sued BlackRock Inc., Vanguard Group Inc. and State Street Corp. in November for allegedly breaking antitrust laws by boosting electricity prices through their investment policies.

After the suit was filed, BlackRock said the notion that it would invest "money in companies with the goal of harming those companies is baseless and defies common sense."

Bloomberg Markets

By Amanda Albright

January 7, 2025

BlackRock Leaves Major Climate Group Amid Wall Street Exodus.

- **Firm cites legal inquiries for exiting fund manager coalition**
- **Net-Zero Asset Managers alliance suffers biggest departure yet**

BlackRock Inc. is parting ways with one of the world's biggest climate-investor groups after being targeted by Republican politicians for its efforts on global warming.

The money manager has decided to leave the Net Zero Asset Managers initiative, it said in a letter to clients on Thursday. Membership in the group "caused confusion regarding BlackRock's practices and subjected us to legal inquiries from various public officials," the New York-based firm said.

BlackRock, which oversees more than $11 trillion, has been the subject of attacks from GOP lawmakers for embracing what conservatives call "woke" policies. Most recently, BlackRock was among a group of asset managers singled out in a lawsuit led by Texas alleging breaches of antitrust laws due to the adoption of pro-climate strategies that suppress coal production.

Continue reading.

Bloomberg Green

By Silla Brush, Saijel Kishan, and Alastair Marsh

January 9, 2025

ESG in 2024 and Outlook for 2025 in the US and EU: A Tale of Two Regions: Barnes & Thornburg

Environmental, social and governance (ESG) principles continued to gain momentum in 2024, shaping corporate strategies, regulatory frameworks, and stakeholder expectations worldwide. This year saw significant advancements in regulations, technological integration, and metrics standardization.

However, these developments were accompanied by challenges, such as data inconsistencies, rising costs, geopolitical tensions, and legal disputes. Regional disparities in ESG adoption became increasingly evident, with the EU pressing forward with robust ESG frameworks while the United States grappled with significant political resistance and legal challenges.

Let's compare and contrast the paths ESG has taken in the two regions this past year, and how those differences will likely shape the outlook for ESG in the U.S. and the EU in 2025 and beyond.

Continue reading.

Barnes & Thornburg LLP – Bruce White

January 7 2025

Public Pension Funding Remains "Fragile" but Showed Improvement in 2024.

State and local governments contributed a record amount into public retirement systems in 2024, according to Equable Institute.

The funded ratio for U.S. state and local retirement systems in 2024 is on pace to reach 80.2%—a 6.2% increase compared with 75.5% in 2023, according to an analysis by the Equable Institute.

State and local pension plans saw investment returns average 10.3% in the past year, a "strong investment performance" compared with the average 6.87% rate of return expected for pension funds, according to Equable. Unfunded liabilities are expected to fall from $1.64 trillion in 2023 to $1.37 trillion in fiscal 2024.

However, Equable Executive Director Anthony Randazzo warned that despite strong pension fund investment returns, state and local retirement systems "remain financially fragile."

Continue reading.

americancityandcounty.com

by Ryan Kushner, Editor

January 8, 2025

UPenn, Clemson Show College Bond Sales-Boom Isn't Over.

- **Schools sold $27 billion in 2024, partly to refurbish campuses**
- **Threats to endowments, tax exemption may drive supply in 2025**

The borrowing boom that America's colleges and universities went on last year is likely to continue in 2025 as they upgrade campuses to compete for a shrinking pool of potential students and race against threats to their tax breaks.

Less than two weeks into the new year, already the University of Pennsylvania and Clemson University in South Carolina have made plans to sell almost $400 million of debt in the municipal bond market. Schools are likely to borrow between $25 billion and $30 billion in 2025, according to FHN Financial. That would be about on par with nearly $27 billion in 2024, according to data compiled by Bloomberg.

The additional borrowing comes as schools face a change in demographics that's producing fewer high school graduates at the same time that rising costs are making college more difficult to afford. That's put pressure on institutions to try and stand out against their competitors with glitzy new facilities and robust academic programs. Schools also are looking to take advantage of the tax-exempt bond market as much as they can in case Congressional Republicans roll back the exemption for certain colleges and universities.

Continue reading.

Bloomberg Markets

By Elizabeth Rembert

January 9, 2025

Resilience Over Resources: Closing the Cybersecurity Gap in State and Local Government

COMMENTARY | While they may lack the budget and staff to mount an effective defense, states and localities can take many other steps without needing to spend more money.

When nation-state attacks hit federal agencies, the headlines often dominate the news cycle. But state and local governments face similar threats, often without the resources and staffing to mount an effective defense.

The good news? There are practical steps they can take to improve security without requiring significant new investments.

While federal agencies benefit from dedicated cybersecurity teams and robust funding, state and local governments typically operate under tight budgets, but face the same scrutiny. This disparity has made them a favored target for ransomware operators who disrupt city infrastructure, public schools and local services.

Continue reading.

Route Fifty

By Sameer Malhotra

January 8, 2025

How to Interrupt the Public Funds to Private Profits Pipeline: A California Story

Suppose you park your car in a parking lot. You pay the parking attendant for the service, and they use your car while you are gone to get paid for rideshares, grocery deliveries, or even “services” you might object to, such as running errands for gun shop owners. Essentially, the attendant has made money from an asset that belongs to you and has charged you for it.

This happens daily when local governments “park” public funds in banks. Public funds amounting to billions of dollars are turned into private profits for “services” using your assets.

Today, our communities face multiple challenges—ranging from accelerating climate change to growing income inequality, from refugee crises to housing crises, and from basic food access to self-serving financial systems. And while banking may not be the first solution to come to mind, it is a crucial piece of the puzzle.

Continue reading.

nonprofitquarterly.org

by Vinod Paniker and Jason Riggs

January 8, 2025

2025 May Be a Major Year for Generative AI Adoption Across Government.

The year 2024 saw the public sector cautiously dipping its toes into the generative AI (gen AI) waters with pilot programs and experiments. Driven by the need to streamline operations and meet rising constituent expectations, these early initiatives demonstrated the potential of gen AI to deliver tangible value and ROI. Now, as we enter 2025, expect to see a significant shift from experimentation to widespread adoption.

Gen AI is poised to fundamentally transform how government agencies operate, enabling new levels of efficiency and constituent-centric service delivery. Here are four key trends that will shape this evolution in the coming year:

1. Multimodal AI: unlocking new opportunities

One of the most exciting developments in gen AI is its ability to process and analyze information from multiple sources – text, images, video, and more. This "multimodal" capability will be a game-changer for public sector agencies in 2025. Imagine analyzing surveillance footage in conjunction with written reports to identify security threats more effectively, or using satellite imagery and sensor data to predict and respond to natural disasters.

Continue reading.

Route Fifty

By Elizabeth Moon,
Managing Director, Google Public Sector

1/13/25

S&P U.S. Not-For-Profit Transportation Infrastructure 2025 Outlook: Tariffs May Rock The Boat As The Sector Stays On An Even Keel

Sector View: Stable For All Asset Classes

- S&P Global Ratings' view of business conditions and credit quality across the U.S. not-for-profit transportation infrastructure enterprise (TIE) sector for 2025 is stable, as many asset class operators reach operational high watermarks, work to rein-in inflationary expenditure growth, and navigate often significantly more expensive capital improvement programs. Our TIE asset classes include airports and related special facilities, toll roads, maritime ports, mass transit, parking operators, and federal transportation grant-secured entities.
- Credit quality has largely been overwhelmingly strong as demonstrated financial resilience, rising demand, and positive revenue trends along with rate increases continue to mitigate the impact of higher debt burdens for larger issuers.
- We estimate that most GDP-linked activity metrics (enplanements, containers, and vehicular traffic) in 2025-2027 will settle in the low single digits, fueling generally strong financial performance, with any headwinds coming from broader economic or asset class-specific operational pressures.
- Higher transit ridership growth from a lower baseline is expected to continue and, in some regions, operators will face local funding hurdles as they exhaust their remaining federal aid against a backdrop of waning federal support.

Continue reading.

9 Jan, 2025

First Eagle Targets Higher Yields in Muni Fund That Limits Exits.

- **Three asset managers opened muni interval funds in past year**
- **Funds give investors access to illiquid assets for higher fees**

First Eagle Investments plans to launch a product investing in higher-yielding municipal bonds with a twist: investor withdrawals are limited to a few times per year.

The Tactical Municipal Opportunities Fund will invest at least 75% of its assets in bonds rated BBB or lower as well as unrated debt. The First Eagle interval fund may also target as much of 25% of assets in "special situations" municipal securities, debt of issuers that are in default, bankruptcy or other financial distress, according to a Dec. 31 preliminary prospectus filed with the US Securities and Exchange Commission.

In First Eagle's bid to expand its reach under star money manager, John Miller, it joins a boomlet of similar offerings. Assets in interval funds have ballooned almost 40% per year over the past decade, according to Morningstar Inc. Investment firms, pressured by competition from exchange-traded funds, are wooing investors with the allure of outsized returns to the higher-fee products.

Continue reading.

Bloomberg Markets

By Martin Z Braun

January 6, 2025

VanEck Municipal Bond Outlook for 2025

We believe munis are expected to shine in 2025 due to low real interest rates, potential tax policy changes, and their attractive taxable-equivalent yields relative to other asset classes.

The Federal Reserve's (Fed) measured actions throughout the year are expected to sustain a trend of lower real interest rates. Headlines like "Blockbuster Good News for Inflation" suggest a favorable capital market environment for bond issuers. With issuers eager to secure funding for long-overdue public infrastructure projects, 2025 may well rival the record levels of bond issuance observed in the departing year 2024.

However, the federal tax exemption for municipal bonds remains an uncertain factor. If the incoming administration seeks to curtail or eliminate this exemption, we could witness a dual effect: a surge in new issuances aiming to lock in the current low cost of capital and a significant rise in valuations for the $4 trillion in outstanding bonds that would likely be grandfathered under such legislation. These developments are poised to drive strong performance in the municipal bond market.

Potential changes to individual or corporate tax rates will be a focal point of early policy debates under the new administration. Any reductions in tax rates could exert downward pressure on municipal bond prices and upward pressure on yields for outstanding issues. Nevertheless, such adjustments would further amplify the comparative advantage of municipals, particularly their high taxable-equivalent yields.

Continue reading.

by James Colby – Senior Municipal Strategist

January 08, 2025

S&P U.S. States 2025 Outlook: Eyes On Washington, Focus On Budgets

Sector View: Stable

- States' credit fundamentals have strengthened, providing financial headroom to navigate potential challenging coming budgetary conditions. In the fiscal 2026 budget cycle, states face increasing costs following a period of inflationary pressure, past wage adjustments, waning federal support, and changes in state-level tax policy.
- This is happening against the backdrop of an expected moderation in the national economy and uncertainty of federal policy implications. Nevertheless, we expect state credit quality to hold fast.

Continue reading. **[Free registration required]**

7 Jan, 2025

A Suspenseful New Year in Public Finance.

Governors, mayors and finance officers are treading water, awaiting the outcome and impact of a new Washington regime's vows to slash federal spending and taxes. Meanwhile, state and municipal budgeters and debt managers will need to make intelligent guesses and pay more attention to their rainy-day funds.

Get ready for "The Big Show" in the public finance arena, commencing after inauguration week. Governors and mayors will be looking for clues of what's to come their way — or not. Financial media attention will likely fixate for now on various White House fiscal strategies to cut or freeze previous federal budget authorizations, starting with executive orders testing and challenging the 1974 Impoundment Control Act.

Many such unilateral executive actions will face immediate court challenges, with questionable prospects in light of existing case law from the precedential 1998 Supreme Court decision in Clinton v. New York, which held that line-item vetoes and budget freezes are unconstitutional under the presentment clause. Those will be just the opening skirmishes in a longer battle over federal finances.

Continue reading.

governing.com

OPINION | Jan. 7, 2025 • Girard Miller

SIFMA US Municipal Bonds Statistics.

SIFMA Research tracks issuance, trading, and outstanding data for the U.S. municipal bond market. Issuance data is broken out by bond type, bid type, capital type, tax type, coupon type and callable status and includes average maturity. Trading volume data shows total and average daily volume and has customer bought/customer sold/dealer trade breakouts. Outstanding data includes holders' statistics. Data is downloadable by monthly, quarterly and annual statistics including trend analysis.

2024 statistics include:

- Issuance $507.7 billion, +31.8% Y/Y
- Trading $13.2 billion ADV, -0.1% Y/Y
- Outstanding (as of 3Q24) $4.2 trillion, +2.9% Y/Y

Download xls.

January 2, 2025

Charter Schools, College Muni Debt Sees Worst Year for Distress.

- **Muni distress is rare with annual default rate of 0.11%**
- **Defaults across the muni market hit levels not seen since 2021**

Municipal bonds sold by colleges and charter schools became distressed at record levels in 2024, as the amount of defaulted state and local government debt hit a three-year high.

Last year was the "worst year for municipal defaults since 2021, breaking a three-year streak of sector-wide credit improvement," wrote Matt Fabian and Lisa Washburn at Municipal Market Analytics in a report published Tuesday. Inclusive of the defaults, borrowers recorded 185 impairments, the most since the coronavirus pandemic roiled credit markets. Impairments can be a missed debt-service payment or an indicator of financial stress, like a broken covenant or the use of emergency means to pay investors.

Continue reading.

Bloomberg Markets

By Erin Hudson

January 2, 2025

Muni Bonds in a New Interest Rate Regime.

The new calendar year will bring in a new administration, along with tax, tariff, and trade policy proposals that could impact investment opportunities across asset classes. Fixed income is especially top of mind as investors look to position portfolios in a new interest rate regime.

Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management, dives into the outlook for 2025, and shares some key considerations for fixed income investors, especially in the municipal bond market.

Question: We are all talking about a new interest rate regime. Let's start there — what's your outlook for rates in 2025?

Continue reading.

etftrends.com

Jan 3, 2025

Water Sector Urges Trump to Prioritize Water in Second Term.

In December, associations representing the municipal water and wastewater sector submitted a letter to President-elect Donald Trump, urging his administration to prioritize water infrastructure in his second term.

The letter was endorsed by the American Water Works Association (AWWA), Water Environment Federation (WEF), the Association of Metropolitan Water Agencies (AMWA), the National Association of Clean Water Agencies (NACWA) and WateReuse. The groups said they welcome the opportunity to meet with the President-elect's transition team to discuss collaboration efforts and presented a list of policy priorities based around what they see as some of the top water-related issues in the United States.

Funding, of course, is front and center among the sector's challenges heading into 2025. The associations' letter cited a 2024 report by the Value of Water Campaign, which identified a $91 billion gap between the nation's water infrastructure needs and spending. If left unaddressed, this gap will grow to more than $2 trillion by 2043, the report said.

With this in mind, the associations stressed the importance of these issues:

- Support the 'polluter pays' principal for PFAS cleanup
- Promote Regulations Based on Sound Science and Fair Policies; Increase Interagency Coordination
- Take Action to Promote Water Reuse and Recycling Efforts
- Reauthorize and Fund the Low Income Household Water Assistance Program (LIHWAP)

The latter of the above issues — LIHWAP — was the subject of focus before the election, as water sector representatives urged support for maintaining the program at the Department of Health and Human Services. LIHWAP was created in 2020 and received additional funding through the American Rescue Plan. Since its establishment, the program has assisted 1.7 million low-income households in maintaining water service, but the program has since expired and has not received additional funding from Congress.

More than 13,000 water and wastewater systems across the country have utilized LIHWAP funding thus far. A recent poll from AWWA showed that one in three Americans struggle to pay their water bill on time, and 77 percent of American support federal assistance to help pay water bills.

According to AMWA, the President-elect is working to name the leaders of his administration's EPA transition team. In November, Trump said he intends to appoint former New York Congressman Lee Zeldin as the next EPA administrator. Effective Dec. 31, current administrator Michael Regan will step down from his role, with Jane Nishida, EPA's assistant administrator for the Office of International and Tribal Affairs, service as acting administrator in the closing days of the Biden administration, according to the AP.

Water Finance & Management

by WFM Staff

December 30, 2024

Muni Buyers Pin Hopes on 'January Effect' as Bond Payments Hit.

- **Market tends to gain from surge in reinvestment, slow issuance**
- **Tax-exempt bonds have tended to outperform in January**

The bond market ended 2024 on a down note. But when it comes to state and local government debt, at least, investors have one reason to think January will be better.

That's because municipal bonds tend to do well at the start of the year — predictably enough that it's become known as the January effect.

At root is simple supply and demand: after the year-end holidays, government agencies tend to get a slow start on selling new bonds just as investors have interest and principal payments that they typically seek to invest.

Continue reading.

Bloomberg Markets

By Aashna Shah and Elizabeth Rembert

January 3, 2025

Navigating Rate Uncertainty: Why Intermediate Municipal Bonds Shine in Volatile Times

The Fed's cutting of rates was supposed to boost bond prices and create wonderful total returns for fixed income asset classes. Investors have flocked to bonds to capture high yields and lock in those juicy coupons. However, continued uncertainty has plagued the broader economy. In reality, bond yields have continued to rise despite the Fed's intervention.

Intermediate municipal bonds can help.

Municipal bonds have long been a conservative option for many fixed income seekers. These bonds feature rich tax-advantaged income, low default rates, and an audience that generally prefers a 'buy

& hold' policy. This has provided many munis with lower volatility versus other asset classes. Given all the volatility about yields and rates, an allocation to intermediate munis could be the answer to strong tax-advantaged income, lower volatility, and better long-term returns.

The Fed & Rate Uncertainty

Going back a year ago and even into mid-2023, the entire focus was on the "rate cut." After surging inflation had started to recede, the fact that the Federal Reserve was going to cut benchmark rates drove the fixed income markets. Income seekers flooded bonds to lock in yields.

Continue reading.

dividend.com

by Aaron Levitt

Dec 31, 2024

First Eagle Plans to Launch Third Muni-Bond Fund Under Miller.

- **First Eagle registers Core Plus Municipal Fund with SEC**
- **John Miller's First Eagle high-yield muni fund hits $5 billion**

First Eagle Investments plans to launch its third municipal-bond fund under John Miller, the head of its high-yield municipal credit team, according to a filing with US securities regulators.

First Eagle's Core Plus Municipal Fund will invest mainly in in higher-quality state and local-government debt but will be permitted to invest as much as 30% of its net assets in junk or unrated securities, according to a Dec. 27 prospectus filed with the Securities and Exchange Commission.

The fund, which may employ leverage, will invest at least 80% of net assets in tax-exempt munis and generally maintain a weighted average maturity of from three to 10 years. It won't have limits on investing in securities that generate income taxable to shareholders subject to the federal alternative minimum tax.

Continue reading.

Bloomberg Markets

By Martin Z Braun

December 30, 2024

A Benign Year in Public Finance: Will We Be Nostalgic for Normality?

The taming of inflation was the main financial story. Bond and capital markets were cooperative, even if voters upset about property taxes were not. Governors, mayors, finance directors and pension pros may soon look back wistfully at 2024's business-as-usual atmosphere.

It started out as "a year of stability and quiet optimism." The Federal Reserve actually pulled off a soft landing, avoiding a frequently predicted recession. Inflation subsided and short-term interest rates finally drifted down a bit. The U.S. economy continued to grow at a Goldilocks rate. It was the most benign and manageable year for state and local financiers since COVID-19 hit. Then the voters came along on Nov. 5.

The election was clearly a seismic political event that portends big political changes in the year to come, but most of the year was actually a reflection of the Federal Reserve's success in (essentially) taming the inflation monster and stabilizing interest rates. State and local government budgets and finances were affected most of all by the Fed this year, not by the national election. So let's reflect now on those developments in retrospect and save the noisy future-facing political-economic outlook and fiscal analyses for the new year.

Continue reading.

governing.com

OPINION | Dec. 17, 2024 • Girard Miller

Fitch: U.S. Community Development and Social Lending Outlook 2025

Strong consumer spending, resilient employment, rising household income and robust savings underpin Fitch Ratings' economic outlook for 2025. Fitch has revised its prior GDP growth forecast upward to 2.7% for 2024 and to 2.1% for 2025, reflecting stronger-than-expected momentum in the U.S. economy, albeit at slower rates than the recent, above-trend pace. Inflation risks are rising as consumer spending proves stronger than expected and impending tariff increases push up U.S. import prices. Despite the adverse impacts of higher tariffs, the U.S. Federal Reserve is expected to gradually reduce rates, with a total of 125bps in cuts by the end of 2025.

Access Report

Mon 16 Dec, 2024

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5 NLC Resources to Help You With the Upcoming ARPA SLFRF Deadline.

As the **December 31, 2024** obligation deadline for the American Rescue Plan Act's (ARPA) State and Local Fiscal Recovery Funds (SLFRF) rapidly approaches, cities must act quickly to ensure compliance and maximize the impact of these critical resources. Municipalities are required to obligate all of their funds by the end of the year and will report these obligations to the Department of Treasury in January (quarterly reporters) or April (annual reporters) 2025. An "obligation" includes a signed contract, a purchasing agreement or an interagency agreement.

To support cities, towns and villages, the National League of Cities (NLC) has compiled its extensive library of ARPA-related resources to help municipalities obligate funds. Below is a roundup of our most recent and essential tools and guidance to help you navigate this critical deadline.

1. Countdown to the Obligation Deadline

In our latest blog post, we highlight the top five insights for local governments as they prepare to meet the SLFRF obligation deadline. From strategic planning tips to compliance considerations, this piece offers actionable advice for leaders at all levels.

Continue reading.

National League of Cities

By: Dante Moreno

December 23, 2024

Fitch: Labor Picture Continues to Stabilize for U.S. Hospitals

Fitch Ratings-Austin/Chicago-16 December 2024: Labor cost inflation is cooling while the success rate of holding on to U.S. NFP hospital jobs continues to improve, according to Fitch Ratings in its year-end quarterly labor tracker.

Labor expenses are still elevated and above pre-pandemic levels, though year-over-year average hourly earnings growth for hospitals has been consistently treading below 4% through the first 10 months of 2024. Both the lower inflation and the growth in payrolls are positive signs for hospitals managing labor costs, the largest single expense for health care providers.

"For many providers, patient volumes have rebounded to above pre-pandemic levels, especially in high-growth markets. Even systems in stagnant areas are seeing volume increases, making a reduction in clinical staff unfeasible," said Director Richard Park. "Effective labor cost management remains essential for long-term financial stability, as recent healthy investment returns cannot be relied upon long-term to overcome profitability challenges."

Through November, hospital and ambulatory healthcare services (AHS) payrolls have risen for 35 and 46 consecutive months, respectively, resulting in hospital and AHS payrolls being 7.6% and 13.9% above the February 2020 level. The quits rate in the health care and social assistance sector has decreased (favorably) from a recent peak of 2.9% in May 2023 to 2.3% as of October 2024, but remains high compared to the 1.6% average from 2010 to 2019.

Fitch's 'Hospitals and Healthcare Systems Labor Tracker: December 2024' is available at www.fitchratings.com.

How Cities Are Reinventing the Public-Private Partnership.

Cities tackle a vast array of responsibilities – from building transit networks to running schools – and sometimes they can use a little help. That's why local governments have long teamed up with businesses in so-called public-private partnerships. Historically, these arrangements have helped cities fund big infrastructure projects such as bridges and hospitals.

However, our analysis and research show an emerging trend with local governments engaged in private-sector collaborations – what we have come to describe as "community-centered, public-private partnerships," or CP3s. Unlike traditional public-private partnerships, CP3s aren't just about financial investments; they leverage relationships and trust. And they're about more than just building infrastructure; they're about building resilient and inclusive communities.

As the founding executive director of the Partnership for Inclusive Innovation, based out of the Georgia Institute of Technology, I'm fascinated with CP3s. And while not all CP3s are successful, when done right they offer local governments a powerful tool to navigate the complexities of modern urban life.

Continue reading.

gatech.com

Dec 16, 2024

A Trifecta of Tailwinds Are Benefiting Municipal Bonds.

Right now, the municipal bond space has a trifecta of tailwinds blowing in its favor. That said, the time is right for investors who have not yet considered adding munis to their existing bond portfolio.

Investors looking to park their cash in a high-quality, high-yielding asset should certainly take notice of munis. The backdrop of a strong economy heading into 2025 should make munis even more attractive.

When it comes to credit quality, munis are situated in between corporate bonds and safe haven Treasuries. Fundamentally, munis have improved over the past few years, making them an ideal option for fixed income investors looking to balance credit risk and yield.

"All of those things make for a trifecta for the muni market," said Paul Malloy, head of U.S. municipals at Vanguard Group.

Of course, the prime feature offered by munis is their tax-free income at the federal level, while certain state-issued bonds can also provide tax-free income benefits in the case of state-specific funds. Given the higher yields, it's no surprise that the muni market is seeing strong inflows, as reported by Barron's, who noted that research firm EPFR recorded net monthly inflows of $42 billion into funds with muni exposure from the beginning of the year through November.

2 Options for Muni Exposure

Investors who want to add munis, but don't want to pore over data and build their own portfolio of single bond issues, can opt for a broad-based option such as the Vanguard Tax-Exempt Bond ETF (VTEB). The fund tracks the Standard & Poor's National AMT-Free Municipal Bond Index. This index measures the performance of the investment-grade segment of the U.S. municipal bond market, giving investors only the highest quality issues.

The fund is heavily diversified with the index including debt issues from state or local governments or agencies whose interests are exempt from U.S. federal income taxes, and the federal alternative minimum tax. Furthermore, for the cost conscious, VTEB also features a low 0.05% expense ratio.

Investors might consider the Vanguard Short-Term Tax-Exempt Bond ETF (VTES) if they're looking to shorten duration on their muni exposure. Like VTEB, exposure comes with a low 0.07% expense ratio.

The fund tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index aims to balance tax efficiency with tax-exempt yield. For an appropriate level of duration risk, this balance can translate to potentially higher yields than those afforded by competing strategies.

etftrends.com

by Ben Hernandez

December 23, 2024

Fitch: Public Finance Credit Resilient to Short-Term U.S. Government Shutdown

Fitch Ratings-New York-20 December 2024: A short-term U.S. government shutdown is unlikely to affect most U.S. public finance credits, Fitch Ratings says. However, a prolonged shutdown could have negative credit ramifications for USPF issuers, especially those that rely on federal funding for healthcare services, housing subsidies and grants, higher education grants and student loans, and other programs. Federal budgets directly support a wide range of functions carried out by states, local governments, and not-for-profit entities, and broader federal spending is meaningful to the economic activity that underpins the credit quality of USPF issuers.

Medicaid, which comprises roughly one-third of total state budgets, and Medicare are not funded through annual appropriations and therefore their funding is unaffected. These programs are more than one-half of the payor mix for not-for-profit hospitals.

Similarly, the Federal Highway Administration's Highway Trust Fund (HTF), a dedicated funding source for federal highway and transit programs, is funded by gasoline and fuel taxes and is not subject to annual appropriations. GARVEE bond issuers have indicated that HTF funds are expected to continue to flow to the states as usual. In addition, the bonds benefit from structural safeguards, and many issuers pre-pay GARVEE debt service a year in advance.

Most federal employees, including Defense and the US Postal Service, which together make up almost half of the total of employees, would not see changes to their employment or pay status. Other employees could be furloughed or required to work without pay. Localities with the highest proportion of federal employment are unlikely to see long-lasting effects on economically sensitive tax revenues as the Government Employment Fair Treatment Act (GEFTA) of 2019 ensures payment of federal salaries deferred during a shutdown. The District of Columbia's operations are largely protected by the fiscal 2024 D.C. Appropriations bill, which exempts the district government from a shutdown in fiscal 2025. Similar provisions have been in place since 2014.

While Fitch's USPF ratings anticipate normal economic cycles, a prolonged federal budget impasse could potentially be a marginal drag on growth, with state economies still likely to see continued economic growth. The Congressional Budget Office estimates discretionary federal spending will be 6.3% of GDP in FY24, near the historical low, down slightly from 6.4% in FY23).

Most state and local government ratings assume sufficient flexibility to respond to reduced federal funding, primarily with their own spending cuts, reflecting their significant autonomy within the U.S. federal structure. Local governments bear the added risk of absorbing potential state tightening that could follow federal cuts, although they typically have broad budgetary tools and reserves to cushion unforeseen developments. Many states and local governments currently benefit from historically high reserves and solid liquidity given multiple rounds of pandemic-related federal economic stimulus and generally prudent fiscal management. Nevertheless, weaker public finances and spending cuts could diminish the reach and effectiveness of countercyclical actions, leaving USPF issuers vulnerable to a protracted slowdown.

Revenue-supported entities are also generally well-positioned to absorb the effects of reduced federal funding. However, an extended pause in spending could negatively affect USPF credits that rely on federal funding for certain programs, including housing subsidies and grants, higher education grants, and public transit. Backfilling lost federal funds with own-source resources could affect operating performance over time.

The shutdown could also cause non-material operational disruptions at airports with non-essential FAA and TSA worker furloughed, although the risk to finances is very low. Airport capital projects could be delayed if federal grant funding is held up.

How Big Banks See 2025 Muni Outlook: Bloomberg Masters of the Muniverse

A new administration and the specter of inflation are among the levers for municipal bonds moving into next year. On this month's Masters of the Muniverse, Eric Kazatsky and co-host Karen Altamirano are joined by three bank strategists with differing takes on the municipal landscape for 2025. Peter Degroot, head of municipal research and strategy at JPMorgan; Vikram Rai, who leads municipal-markets strategy at Wells Fargo; and Mikhail Foux, chief of municipal research at Barclays reflect on this year's muni performance and discuss their calls for the year ahead.

Listen to audio.

Dec 18, 2024

Munis Plummet After Fed Dials Back Expectations for Rate Cuts.

- **Benchmark muni yields climb as much as 19 basis points**
- **Rout could 'make or break' investors total returns for 2024**

Municipal bonds are plunging the most in weeks after Federal Reserve Chair Jerome Powell took a more cautious view on interest-rate cuts in 2025, stunning investors and leading to a global bond-market rout.

Benchmark, top-rated state and local government bond yields rose as much as 19 basis points on Thursday, in a rout that threatens to pare back the 1.56% gain for municipal debt so far this year.

"This could make or break a lot of people's years as far as total returns," said Eric Kazatsky, senior US municipals strategist for Bloomberg Intelligence. "If rates meaningfully spike higher, sure you could actually end up in the red when it comes to returns for the year,"

Continue reading.

Bloomberg Markets

By Aashna Shah and Elizabeth Rembert

December 19, 2024

Muni Market's Record Year for Mega Deals Gives Bankers a Win.

- **There were over 60 muni deals of $1 billion or more in 2024**
- **State and local governments rushed to raise cash for projects**

It's been a banner year for mega-municipal bond deals and Wall Street bankers only see it continuing through 2025.

There have been a record of more than 60 outsized muni-bond sales $1 billion or more in 2024, according to data compiled by Bloomberg. The issuance has amounted to above $90 billion, the data shows. State and local governments rushed to raise huge sums of money as pandemic relief dwindled and inflation remained sticky, forcing them to sell debt for big infrastructure projects.

"It is a business opportunity for us and if our clients are going to be looking to bring larger deals and more deals at scale, that tends to benefit the more diversified, larger players," said Matthew McQueen, who leads global municipal banking and markets for Bank of America Corp., the top-ranked underwriter of US state and local debt.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 20, 2024

How Did BlackRock's ETF Acquire the First Blockchain Municipal Bond? – Details

- **BlackRock's ETF has made history by acquiring the first blockchain-issued municipal bond—a $15 million milestone that redefines finance.**
- **This revolutionary move showcases blockchain's ability to streamline and enhance municipal bond processes.**

In a groundbreaking move, BlackRock's ETF has purchased the first-ever municipal bond issued through blockchain technology. This marks a significant milestone for both traditional finance and the cryptocurrency industry.

This development could reshape how bonds are issued and traded. It showcases blockchain's growing potential in mainstream financial markets.

A historic bond purchase

BlackRock's Municipal Income Bond ETF acquired the inaugural blockchain-issued bond from the Franklin Township in Ohio. The bond was created using Provenance Blockchain, an open-source platform designed for financial assets. This transaction sets a precedent for leveraging decentralized technology in municipal finance.

"This transaction demonstrates the transformative potential of blockchain technology in improving efficiency and transparency in bond issuance," said Franklin Township Treasurer, Amy Parker.

The $15 million municipal bond will fund infrastructure projects within the township, including road and public works upgrades. The bond eliminates intermediaries by using blockchain, reducing issuance costs and increasing transaction speed.

The broader impact on crypto

The acquisition by BlackRock, the world's largest asset manager, highlights blockchain's increasing adoption in institutional finance. Historically, municipal bonds were issued through traditional financial intermediaries, which often added complexity and costs. Blockchain streamlines this process by enabling direct peer-to-peer transactions.

"Blockchain's integration into municipal bonds opens the door for a more efficient and secure financial ecosystem," said Larry Fink, BlackRock CEO.

This move could encourage more institutions to explore blockchain for financial instruments, bridging the gap between traditional finance and decentralized systems.

Implications for the industry

Adopting blockchain in municipal bonds could redefine the financial landscape, making it more accessible and transparent. Analysts believe this innovation could encourage smaller municipalities to consider blockchain-based bonds, especially since reduced costs make it more viable for low-budget projects.

Additionally, investors stand to benefit from greater transparency. Blockchain's immutable ledger ensures real-time tracking of bond transactions, enhancing accountability.

"This technology democratizes access to investments while ensuring greater security and compliance," noted David Treat, blockchain lead at Accenture.

The road ahead

While this transaction is a significant step forward, adopting blockchain-based bonds will require further regulatory clarity and infrastructure development.

BlackRock's involvement provides credibility, signaling that blockchain is now integral to traditional finance rather than being confined to cryptocurrencies.

As more institutional players recognize blockchain's value, the divide between conventional finance and crypto continues to narrow. This convergence could pave the way for a future where blockchain underpins a broader range of financial products.

In the words of Amy Parker, "This is just the beginning of a new era in finance where technology drives inclusivity and efficiency."

By reducing costs and increasing transaction speed, BlackRock ETF's adoption marks a pivotal step toward integrating blockchain into mainstream finance

AMBCrypto Team

Edited By: Jacob Thomas

Posted: December 19, 2024

[BlackRock ETF Purchases First Blockchain-Issued Municipal Bond: Details Inside]

- **BlackRock's ETF is reported to have made a purchase of a municipal bond via the blockchain for the first time.**
- **BlackRock's interest in blockchain technology has been evident since the earlier launch of its first tokenized fund on the Ethereum blockchain.**

BlackRock's ETF makes a historic acquisition of the first-ever municipal bond issued via the blockchain. According to the report, the bond purchased from Franklin Township in Ohio was designed using open source platform Provenance Blockchain.

Speaking on this, Franklin Township Treasurer Amy Parker disclosed that this initiative underscores the power of blockchain technology to improve efficiency and transparency. Additionally, the use of the technology eliminated intermediaries and reduced Issuance costs while improving transaction speed.

> **This transaction demonstrates the transformative potential of blockchain technology in improving efficiency and transparency in bond issuance.**

BlackRock's CEO Larry Fink also lauded the development by highlighting how blockchain integration into municipal bonds improves efficiency and security in the financial system.

According to [reports], this bond would be used to fund major infrastructure projects in the township, including roads. Meanwhile, this initiative aligns with BlackRock's broader vision, which is focused on digital finance and innovation. Its integration into blockchain is also reported to mark a proactive approach to bridging the gap between emerging technologies and traditional finance.

BlackRock's Municipal Bond Conversion and Previous Involvement in Blockchain

In September, BlackRock announced that it is converting a municipal bond mutual fund into an ETF. According to reports, this decision was in response to the growing trend of issuers taking advantage of the growing demand for ETFs. At that time, it was reported that the $1.7 billion BlackRock High Yield Municipal Fund would be used for this purpose while revamping its $195.84 million BlackRock High Yield Muni Income Bond ETF into an iShares-branded product.

According to CFRA head of ETF data and analytics Aniket Ullal, 85 funds with assets of $139 billion have so far converted to ETF.

Further delving into BlackRock's deep interest in the blockchain, we discovered that the asset manager announced its first tokenized fund on the Ethereum blockchain in the first quarter of the year. Just like the recent acquisition of Municipal bonds on the blockchain, this significant move is reported to integrate traditional financial assets with blockchain technology. According to an expert called Hannah Pham, the interest in blockchain is based on its:

- Transparency and crypto-native clientele.
- Multi-chain compatibility.
- Not permissionless.

> **BlackRock's decision to launch BUIDL on the Ethereum blockchain to cater to the needs of crypto-native clients. Investors holding BUIDL tokens can use them for treasury management, building derivative products, and serving as collateral on exchanges. With the public blockchain, BUIDLs tokens, which can serve as the underlying assets, reserves, or collaterals, can be seen on-chain by anyone and live 24/7.**

Meanwhile, its recent initiatives have positioned its Asset Under Management (AUM) at $11 trillion. Fink believes that the momentum will continue to year-end and into 2025.

crypto-news-flash.com

By John Kumi

19 December 2024

BlackRock Pioneers Blockchain-Based Municipal Bonds Purchase.

A Major Step Toward Digitizing Public Finance

BlackRock's iShares Short Maturity Municipal Bond ETF (MEAR) has become the first major financial entity to purchase municipal bonds issued and settled entirely on a blockchain platform. The milestone transaction involved $6.5 million in municipal debt issued by Quincy, Massachusetts, and facilitated through JPMorgan Chase's Digital Debt Service blockchain platform. This development marks a significant transformation in municipal bond issuance and settlement, signaling the growing role of blockchain technology in traditional finance.

A New Era for Municipal Bonds

Municipal bonds, typically known for slow and paper-heavy processes, are now undergoing a shift toward digitization. Quincy's blockchain-based bond issuance signifies a departure from conventional methods by streamlining the entire process from issuance to settlement. JPMorgan's blockchain platform enabled the transaction to bypass intermediaries and significantly reduce the time required to complete it.

BlackRock's MEAR, an actively managed exchange-traded fund (ETF) with approximately $750 million in assets, updated its investment strategy to accommodate blockchain-based bonds. To ensure compliance, the ETF filed disclosures with the U.S. Securities and Exchange Commission (SEC), outlining potential risks such as liquidity challenges and technological vulnerabilities inherent in blockchain systems.

The move highlights the growing opportunities blockchain offers in simplifying bond issuance, settlement, and ownership tracking, which could ultimately reduce operational costs and improve transparency.

BlackRock's Strategic Push into Blockchain Finance

The purchase of blockchain-based municipal bonds aligns with BlackRock's broader vision for digital finance and innovation. Earlier this year, the firm launched the iShares Bitcoin Trust (IBIT), which attracted significant investor interest, drawing $740 million in a single day. BlackRock's participation in blockchain-related financial products showcases its proactive approach to integrating emerging technologies into traditional finance.

Industry experts believe this shift could profoundly reshape the $4 trillion U.S. municipal bond market. Traditionally considered a conservative investment option, the market is now positioned to benefit from blockchain's ability to eliminate intermediaries, accelerate settlement timelines, and enhance cost efficiency. These improvements may encourage broader adoption among issuers seeking a faster and more transparent alternative.

Blockchain's role in municipal bond markets could not only reduce administrative burdens but also foster increased investor confidence through verifiable, real-time transactions. Quincy's successful issuance serves as a potential blueprint for other municipalities aiming to modernize their financing operations.

Transforming Public Finance with Blockchain

As the world's largest asset manager, overseeing $11.5 trillion in assets, BlackRock's involvement in blockchain-based municipal bonds represents a major validation of blockchain's potential in public finance. The firm's proactive steps toward incorporating blockchain solutions reflect an increasing institutional interest in the technology's practical applications.

Furthermore, BlackRock has reportedly recommended allocating a small percentage—ranging from 1% to 2%—of investment portfolios to Bitcoin for specific investor profiles. This recommendation underscores BlackRock's confidence in blockchain and cryptocurrency assets as viable components of modern portfolio strategies.

The Road Ahead for Blockchain in Municipal Bonds

BlackRock's move into blockchain-based bonds highlights a broader trend of digital transformation within traditional markets. By removing intermediaries, reducing transaction costs, and enhancing speed, blockchain technology addresses longstanding inefficiencies in municipal bond processes. With financial giants like BlackRock leading the way, the integration of blockchain solutions into public finance could accelerate significantly in the coming years.

The success of Quincy's blockchain issuance sets a precedent for municipalities nationwide, demonstrating how blockchain platforms can deliver faster, safer, and more cost-effective bond issuance. As the technology evolves, its adoption could expand further, offering governments and investors a streamlined approach to bond markets.

In conclusion, BlackRock's latest initiative not only reflects its commitment to blockchain innovation but also paves the way for broader acceptance of digital solutions in public finance. The transaction represents a major step toward modernizing municipal bond markets, ultimately benefiting issuers, investors, and the broader financial ecosystem.

cointrust.com

by Kelly Cromley Dec 19, 2024 in Market News

[BlackRock Muni ETF Used Blockchain to Buy Bonds.]()

iShares' MEAR was first to use JPMorgan system, buying Quincy, Mass. debt in April.

BlackRock Inc., whose iShares unit is the world's biggest ETF issuer, has purchased bonds for its municipal bond exchange-traded fund using a blockchain system, the first firm to do so using JPMorgan Chase & Co.'s platform.

The BlackRock Short Maturity Municipal Bond ETF (MEAR) bought debt from Quincy, Massachusetts, which issued $10 million in bonds in April. The sale was done through Digital Debt Service, part of JPMorgan's Kinexys Digital Assets blockchain platform.

The sale was the first municipal bond issuance in the United States to settle on a blockchain-based platform, and according to BlackRock's MEAR page, the firm bought $6.5 million in Quincy debt.

BlackRock, which manages $3.04 trillion in 438 exchange-traded funds, is among firms embracing the efficiency and speed touted by blockchain technologies. The New York-based firm has repeated its commitment to so-called tokenization, in which assets like cash and U.S. Treasury bills are rendered as electronic copies and transferred to a blockchain ledger.

Earlier this year, the firm, which operates the biggest bitcoin and Ethereum cryptocurrency ETFs, started the BlackRock USD Institutional Digital Liquidity Fund, which "tokenizes" cash and treasury bills.

The blockchain platform use in the sale was first reported by Bloomberg News, which said that other issuers and underwriters are probing whether or not the muni market has demand for blockchain technology.

"The use of blockchain throughout the lifecycle of bonds is just one example of the potential for this technology to transform capital markets," Pat Haskell, head of BlackRock's municipal bond group, told Bloomberg.

BlackRock had not long ago been a digital skeptic, with CEO Larry Fink at one point saying cryptocurrency was "an index of money laundering." The firm's iShares Bitcoin Trust (IBIT) is the largest crypto ETF, with $57.7 billion in assets and $43.3 billion in inflows since it began trading in January. It's doubled in price since its launch.

etf.com

by Ron Day | Contributing Editor

Dec 19, 2024

Edited by: Kiran Aditham

[BlackRock ETF Takes First Bite of Blockchain-Based Muni Debt.]

The world's largest asset manager claims leadership as the first investor to buy a piece of the first-of-its-kind municipal bond issuance.

A BlackRock Inc. fund has bought municipal debt issued earlier this year in a first-of-its-kind deal that relies exclusively on blockchain technology.

BlackRock purchased the bonds through an actively-managed exchange-traded fund called the iShares Short Maturity Municipal Bond Active ETF or MEAR, according to a spokesperson for the firm. The fund was founded in 2015 and has roughly $750 million in client assets.

The securities were issued by the city of Quincy, Massachusetts, in April and underwriter JPMorgan Chase & Co. used an application on its private, permissioned blockchain-based platform to facilitate the sale. It was first deal where muni debt was purchased, settled and held all in blockchain on the platform.

BlackRock is the first investor to purchase a portion of the deal, the company said. The ETF lists holdings including a total position of $6.5 million in the Quincy deal, according to data compiled by Bloomberg.

"The use of blockchain throughout the lifecycle of bonds is just one example of the potential for this technology to transform capital markets," said Pat Haskell, head of the municipal bond group at BlackRock. "This transaction marks a significant moment for the municipal bond market and is a testament to BlackRock's dedication to innovation."

The prospectus for MEAR was updated to allow the fund to invest in muni bonds settled on JPMorgan's application Digital Debt Service, according to US Securities and Exchange Commission filing dated Dec. 17. Risks disclosed to investors include lack of liquidity and the potential for errors, bugs or limitations in the application's underlying computer code.

A handful of issuers and underwriters have been testing the muni market's appetite for using blockchain technology in recent years. The Michigan State University board of trustees also considered a deal that would have been registered on a proprietary digital assets platform provided by Goldman Sachs.

investmentnews.com

By Bloomberg

DEC 18, 2024

[BlackRock ETF Buys First Muni Bonds Issued Through Blockchain.]

- **Firm is buying debt sold by Quincy, Massachusetts, in April**
- **Debt was brought to market through JPMorgan's digital platform**

A BlackRock Inc. fund has bought municipal debt issued earlier this year in a first-of-its-kind deal that relies exclusively on blockchain technology.

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Bloomberg Markets

By Erin Hudson

December 18, 2024

Silver Point Challenges SEC Lawsuit.

Silver Point Capital is preparing to challenge a lawsuit filed by the US Securities and Exchange Commission (SEC), which accuses the hedge fund of failing to implement proper policies to prevent a consultant from sharing confidential information about Puerto Rico bonds, according to a report by BNN Bloomberg.

The consultant, a now-deceased attorney, was a member of a creditors' committee that helped restructure Puerto Rico's municipal bonds on behalf of Silver Point.

According to the SEC's complaint, filed in federal court in Connecticut, the attorney had multiple opportunities to pass material nonpublic information to the firm's trading arm.

The SEC claims Silver Point's failure to monitor the attorney's communications created a risk of insider trading.

However, Silver Point has refuted the allegations, stating that a four-year investigation and a review of approximately 350,000 documents revealed no evidence of the attorney sharing confidential information or the firm engaging in illegal trading activities.

"We have refused to settle a matter in which there was neither any wrongdoing nor any deficiency in our information barrier policies or our compliance program," the firm said in the statement. "Silver Point has, at all times, behaved legally and ethically."

The case stems from Puerto Rico's 2015 economic collapse, which led the territory to default on much of its debt. The attorney was involved in the creditors' committee from September 2019 to February 2020, during which time he had numerous communications with Silver Point's public trading desk without consulting the firm's compliance team.

The SEC alleges that Silver Point purchased $260m in Puerto Rico bonds during this period, creating a "substantial risk" that nonpublic information was used in trading decisions. The firm reportedly generated over $29m in profits from these trades.

Allowing individuals with material nonpublic information "unfettered access to those making trading decisions presents an enhanced risk of misuse," Sanjay Wadhwa, Acting Director of the SEC's enforcement division, said in a statement cited by the report.

"The resulting risks to market integrity and investors are compounded when investment advisers fail to enforce their compliance policies and procedures."

hedgeweek.com

December 23, 2024

Five Reasons Why Municipal Bonds are Compelling Post-Election.

Key takeaways

- **Monetary easing**
  A macroeconomic environment with potentially lower interest rates is supportive of municipal bonds.
- **Attractive yields**
  Muni yields are still near their 10-year historical highs following two years of Federal Reserve (Fed) rate hikes.
- **Supportive fundamentals**
  Fiscal stimulus and strong revenue collections have helped maintain robust muni credit fundamentals.

Continue reading.

invesco.com

Mark Paris
Chief Investment Officer, Head of Municipal Strategies, Invesco Fixed Income

Tim Spitz

Head of Municipal Business Strategy and Development

December 20, 2024

Taxable Municipal Bonds: A High-Yield Opportunity to De-Risk Portfolios

One of the biggest draws to the municipal bond market is their tax-free status. Issued by states and local governments, Uncle Sam cuts muni investors a break and allows their interest payments to be tax-free. And in many cases, they are also exempt from state and local taxes. As such, municipal bonds are often a popular choice for taxable accounts and high-income individuals.

However, not all municipal bonds are the same.

There is a growing ecosystem of taxable municipal bonds. While this may seem counterintuitive, these taxable munis offer a variety of benefits to investors, including increased income and reduced portfolio risk. In many cases, taxable munis could be a better buy than corporate bonds with similar durations. With that in mind, taxable munis could be a great addition to a fixed-income portfolio.

Continue reading.

dividend.com

by Aaron Levitt

Dec 24, 2024

Municipal Bonds and Infrastructure: A High-Yield Match Made for Investors

Municipal bonds are issued by state and local governments for various purposes, making the sector quite diverse. As a result, many investors tend to group all municipal bonds together. Whether through active or passive investment strategies, munis are munis.

However, for investors willing to dig a bit deeper, opportunities can emerge.

One of them is municipal bonds earmarked for infrastructure opportunities. Infrastructure bonds are a wonderful way for investors to fund public assets and benefit from their cash flows. Offering inflation protection, stability, and potential tax savings, these infrastructure bonds could be a great holding in your portfolio.

Continue reading.

dividend.com

by Aaron Levitt

Dec 17, 2024

Now's the Time to Park Cash in Muni Funds. How to Play It.

Investors who are still sitting on a mountain of cash can find some of the best yield opportunities in years in municipal-bond funds.

The muni market has a lot going for it right now, with yields solid even on high-credit-quality issues. Municipalities are generally in good fiscal shape, and the economy looks to remain solid going into 2025, says Paul Malloy, head of U.S. municipals at Vanguard Group.

“All of those things make for a trifecta for the muni market,” he says.

Current pretax yields on muni bond funds in the intermediate part of the curve for AA credit quality are hovering anywhere from 3% to 3.5%, which is shy of the current 4.25% and 4.3% offered by U.S. Treasury five- and 10-year notes, respectively.

Continue reading.

barrons.com

By Debbie Carlson

Dec 18, 2024, 2:00 am EST

John Miller's New High-Yield Muni Fund Dominates Market in 2024.

- **Miller's First Eagle fund gains 11.4%, outpacing all peers**
- **Miller joined firm in January after three decades at Nuveen**

It's been a banner year for high-yield municipal bonds, and in particular the category's star money manager, John Miller, who joined First Eagle Investments in January after nearly three decades at Nuveen.

Investors have plowed almost $4.4 billion into his First Eagle High Yield Municipal Fund this year through November, or almost a third of the cash that they added to riskier muni-bond funds, according to Morningstar Direct data. The open-end fund's 11.4% return for 2024 is also better than all of its peers, data compiled by Bloomberg show, and superior to the 5.9% gain for the Bloomberg Muni High-Yield Index.

“The fund is certainly announcing its arrival in the high-yield space with a splash,” said Eric Kazatsky, senior US municipals strategist at Bloomberg Intelligence. “Its returns this year really speak volumes about the ability to replicate a model that was so successful for so long somewhere completely different.”

Continue reading.

Bloomberg Markets

By Martin Z Braun

December 23, 2024

[SIFMA US Municipal Bonds Statistics.]

SIFMA Research tracks issuance, trading, and outstanding data for the U.S. municipal bond market. Issuance data is broken out by bond type, bid type, capital type, tax type, coupon type and callable status and includes average maturity. Trading volume data shows total and average daily volume and has customer bought/customer sold/dealer trade breakouts. Outstanding data includes holders' statistics. Data is downloadable by monthly, quarterly and annual statistics including trend analysis.

YTD statistics include:

- Issuance (as of November) $475.2 billion, +33.0% Y/Y
- Trading (as of November) $13.2 billion ADV, -0.3% Y/Y
- Outstanding (as of 3Q24) $4.2 trillion, +2.9% Y/Y

Download xls

December 12, 2024

Fitch: U.S. State & Local Governments Positioned for Return to Normal in 2025

Fitch Ratings-New York-11 December 2024: Robust reserves, significant liability reductions and prudent budget management position U.S. state and local governments well for 2025 as pre-pandemic fiscal conditions take hold again, according to Fitch Ratings in its annual outlook report for both sectors.

Fitch has a neutral sector outlook in place for both sectors. Against the possibility of economic growth tailing off somewhat in 2025, credit quality will be stable given governments' ability to manage a weaker, but normalized, revenue environment with strong financial resilience.

The incoming presidential administration will be an area to watch for states. Of note is the imposition of a broad tariff regime as proposed by the president-elect which could in turn trigger retaliatory tariffs and increase the likelihood of a sharp downturn beyond Fitch's expectations, according to Senior Director Eric Kim. "Louisiana and Texas have the highest amount of international trade exports as a percentage of state GDP, with oil and gas exports being a primary driver," said Kim.

Outside of wage pressures, local government spending is largely tethered to affordable housing, homeless assistance, mental health, and community safety, according to Senior Director Michael Rinaldi. "Identifying sustainable revenue to support these programs may prove challenging, crowding out resources for other critical needs and/or increasing dependence on non-structural solutions that could weaken financial resilience and overall credit quality," said Rinaldi

Working in favor of local governments are budget contingencies, which remain an important safeguard against unanticipated spending, such as migrant shelter costs which have affected many large cities over the last several years, given limited capacity to adjust revenue mid-year.

Fitch's 'U.S. State and Local Governments Outlook 2025' report is available at www.fitchratings.com.

Fitch: U.S. State and Local Governments Outlook 2025

Although economic growth will slow in 2025, overall core credit conditions will remain neutral for U.S. state and local governments. Additionally, credit quality will be stable and strong given governments' ability to manage a weaker but normalized revenue environment with strong financial resilience. Labor market conditions, income and GDP growth will all weaken but remain positive next year, driven by a fading federal fiscal impulse and a gradual slowdown in consumption as household income growth cools. The vast majority of state and local government Rating Outlooks are Stable in 2024, consistent with the prior year. Fitch took a significant number of rating actions in 2024, driven by implementation of the new local governments criteria.

Access Report

Wed 11 Dec, 2024

How AI Is Leading To The Netflixafication Of The Municipal Bond Market.

I like Netflix.

The plethora of films and documentaries across numerous categories offer a seemingly limitless array of entertainment choices available to stream any time and any place. From sports to obscure indy films to UFO documentaries—if those can even be called documentaries—I can indulge in an occasional Sunday afternoon binge. All I need is an internet connection.

What I find most intriguing about Netflix are its algorithms. Lord knows what or how many variables the algorithms use to assess my eclectic viewing habits in making those "if-you-liked-that-yo--may-like-this" recommendations. Yet, and often with uncanny accuracy, the algorithm finds a film or series that I never heard of or much less likely I would have found on my own, yet I enjoyed watching.

Applying real-time streaming and algorithmic analysis to the municipal bond market only takes a short mental leap. It's the technology of the Alternative Trading Platform that's getting the market there. And at breakneck speed.

Follow The Money

But why is this all happening now? There is an old saying: if you want to get to the core of an issue, follow the money.

In the municipal bond market, the money to follow is investor inflows and outflows. Recently, these flows revealed a marked change. It's increasingly clear many investors are pulling their money out of mutual funds and putting it with separately managed account advisors.

Follow along. In 2021, the Federal Reserve Z Report showed open end municipal bond mutual funds hit an all-time high, totaling over $1,089 billion. But by Q-2 2024 that number was $775.1 billion—a 22% decline. It wasn't just from falling valuations to reflect rising rates.

Over that same time period, SMA advisors saw a very different landscape. In 2021, assets were $332.9 billion. Fast forward to 2023, assets were $494.6 billion—a 48.5% increase.

Quick aside: Note that the $495 billion SMA AUM figure reported here is based on voluntary disclosures to asset-trackers Morningstar and Cerulli & Associates. Screening numbers directly from the SEC ADV filings required of every registered investment advisor, ADVDB put the total of municipal bond SMA assets at roughly double that, even after accounting for possible duplication by counting subadvisors.

Shifting Trade Tides

This $161.7 billion dollar shift and the response of SMA managers to this sudden largess is profoundly affecting the market, the immediate impact most visible in trading patterns.

Here's how. Municipal bond mutual funds tend to invest in the long end of the yield curve, 20 year to 30 year to longer maturities and trade in big $1M+ blocks. In contrast, SMA portfolios are generally structured with bonds in one year to 10 year maturities and trade in odd lot blocks under $1 million, usually $100,000 or smaller.

Going back through the Municipal Securities Rulemaking Board (MSRB) Annual Reports from 2021 to 2023, customer bought and sold trades in odd lots of $100,000 or smaller increased a stunning 74%, from 14,983 trades per day to 26,068 trades per day. In 2024, at the end of Q3, the odd lot volume of 28,074 trades per day already exceeded 2023 totals. The MSRB is the market's chief regulator.

The number of bonds traded is one thing, the par amount of average daily odd lot trades is even more stunning. Remember, in bonds, par equals $1,000 face value so, for example, a 50-bond par trade is $50,000. In 2021, the daily average total par traded was $468.4 million. By the end of 2023, trades totaled $836.8 million, an 83% increase. At the close of Q3-2024, the $858 million average daily odd lot trade volume exceeded that of the entire prior year.

Real Dollars

Graphs and tables of trade statistics in annual reports is one thing. Actually managing those trades in real dollars is another. That job falls to senior management at SMA advisors, such as Matt Buscone, Co-CIO at Breckinridge Capital Advisors. Over the last decade, the firm saw its AUM more than double, from$20.8 billion to $51.1 billion (10/31/24). Currently, Breckinridge is one of the municipal bond market's top 10 SMA advisors.

To scale the internal operations necessary to oversee this growth of thousands of accounts and their accompanying mandates, technology is essential, he noted. No part of the process, be it valuations, allocations, or compliance, is possible without it.

Correspondingly, wherever he can apply technology to optimize workflow, analyze data, or automate a process, he does. In a competitive marketplace with intense pressure on expenses, fees, and top performance, the reliability, efficiency, and speed automation brings is critical.

That particularly applies to the core of his business— buying and selling millions of dollars of bonds for the clients' portfolios. Matt acknowledged the challenge of trading bonds, particularly in the odd lot sizes often required by SMA portfolios, demands connecting to end-to-end solutions offered by electronic trading platforms. Be it through traditional brokers or independent third parties, it is essential to running the business, he adds. Increasingly, it can't be done without them.

Netflixification

Enter the Alternative Trading System. As the MSRB puts it, "an ATS is an electronic trading system that is not regulated as an exchange but is instead a venue for matching the buy and sell orders of its participants."

Like movies on Netflix, an ATS streams thousands of bond offerings in real time. Money managers and broker-dealers alike can, with AI driven protocols in place, screen bonds being offered, list bonds to sell, bid, counter, and execute a trade. All it takes is an API (application programming interface) to a trading platform.

In the circle of trading life, all this digitized trade and pricing data also gets up-streamed nearly instantaneously into algorithm driven AI analytic models. As Netflix analyzes viewer choices, these models analyze the market to generate updated trading protocols set by fresh market levels. One aspect includes finding relationships between bonds—including a "if-you-liked-that-you-ma--like-this" bond recommendation service.

While the various ATS platforms were reluctant to give actual trading volumes, each noted that volumes were up considerably, particularly in odd-lot blocks. This was after adjusting for bonds listed across multiple platforms.

ICE was understandably quick to link the numerous benefits of an ATS with the massive rate of acceleration of electronification in the municipal bond market. Add the increase in SMA assets and AI driven algorithmic trading into the mix, it was no shock that muni market participants were fast ATS adopters. From ICE's perspective, for years munis lagged the corporate market by at least seven years in technology. Now, the lag was under one year and closing rapidly.

Equally, Tradeweb Direct noted while institutional and investment professional participation was not totally surprising, the firm also saw an increase in self-directed individual investor trading. By one estimate, around 15% to 20% of platform trading was from what is described as the "retail retail" sector. This reinforced the firm's view that while trading is the central function they provide, the real role of the firm is as a distribution network. Fair point.

Moreover, as some broker/dealers exit the market (Citigroup, UBS), not only do ATS fill the liquidity gap but also mitigate supply risk. No investor, from individuals to institutions, wants to be dependent on a dwindling number of brokers for bonds. An ATS connection offers supply diversification.

Liquidity
All well and good, but if you combine the laundry list of benefits the ATS platforms eagerly offered up—automation, distribution, speed, counterparty anonymity, accessibility, connectivity, best execution, trade data, efficiency, low cost, and price transparency—the overarching benefit can be summed up in one word: Liquidity

As in any market, liquidity means better pricing and tighter spreads—a fact that should be warmly welcomed by individual investors and their professional surrogates, denizens of the notoriously inefficient municipal bond odd lot market.

Trendsetter

The MSRB hasn't missed any of this. Tracking ATS trading data and periodically updating this information in quarterly and annual market summaries, most recently through Q2 of 2024, their reports show at the close of the first quarter of 2024, almost 15% of all customer trades were executed with dealers associated with an ATS. In 2015, it was a mere 2.9%.

A review of ATS trading data is likely coming in 2025 in order to identify trends and changes in the market. The regulator's first report on the topic, Customer Trading with Alternative Trading Systems (8/2022) may be updated if changes are discovered. It's a safe bet changes will be discovered.

One more thing. Given the billions of dollars of bonds now traded annually on these platforms, perhaps an update of the term "Alternative" is in order. Maybe it should be replaced with the more appropriate and forward looking "Automated".

Just a thought.

A Platform of Platforms

A fintech firm before fintech was a word, Investortools was founded in 1983, offering portfolio management tools to the then burgeoning mutual fund industry.

Seeing the asset growth in SMAs over the last decade, the company began offering portfolio management solutions for larger asset money managers in that space as well. Also noting that as more ATS platforms entered the market, separate connections to each ATS meant multiple processes for broker dealers and money managers. Costly and inefficient, it was the opposite of the desired outcome.

To provide their institutional-sized SMA clients savings on costly multiple ATS API connections, the firm launched its Investortools Dealer Network to offer better access to bonds and trading. It's a platform of platforms, an end to end solution where brokers, money managers, and ATS interact in real time directly, either with the ATS intermediating the trade or trading directly between dealer and money manager. With a simple, single API, the bond world is opened.

However, it is only a platform, just providing access between buyers and sellers. It does not execute any trades and does not act as a broker dealer (an ATS does). This structure wisely sidesteps the Securities and Exchange Commission ATS compliance regulations.

The Other Guys

All this automation is great for the multibillion-dollar SMA managers, but as you might imagine, it isn't cheap. So how does the more bespoke independent registered investment advisor find bonds?

Jeff Watkinson, a partner at Watkinson Capital Advisors (AUM: $107.89M) a family owned and run investment advisor focused on fixed income, finds value for clients by creating carefully curated bond portfolios. It's not easy. To fulfill some customized investment strategies, Jeff noted it can take two to three months to get the bonds he needs at the price he wants to completely build out a client portfolio.

Where do the smaller AUM firms with lower trading volumes such as Watkinson's go? Jeff finds it more economical to use aggregation platforms like BondNAV. With a keen understanding of their client's needs as well as the nuances and complexities of the municipal bond market, BondNAV has the goal to make it simple for advisors to find the right bonds quickly and efficiently. Gone is the laborious task of sifting through hundreds of bond offering messages from bond dealers. Sure, BondNAV has frequently traded bonds on their platform, but there are also bonds you'll never see on a brokerage firm listing.

A New Bloom of ATS Entrants

However, it isn't just regulators and established ATS platforms noting the rise in municipal bond trading volumes. Jonathan Birnbaum founded OpenYield, an automated bond marketplace designed for algorithmic processes. Established in corporates and govies, the firm is expanding into the municipal bond market. Not a muni veteran, Jon combines his fintech experience at several start-ups with his U.S. credit and emerging markets trading experience at Morgan Stanley for a welcome fresh take. Uniting retail brokerages, investment advisors, asset managers, and market makers, OpenYield strives to create for each a readily accessible, navigable, and dynamic liquidity environment.

Jon summarizes OpenYield's perspective in one word: connection. Designing and applying protocols through a flexible API connection, he sees the opportunity for execution management systems that can aggregate and route orders in the municipal bond market. With a technology enabled process, programmatic rules can be created for portfolio allocation and best execution. What advisor or fund manager wouldn't want that?

In his big picture view, it's technology enabling low cost scalability as the key to greater market adoption. Making the municipal bond market more efficient and less costly in turn increases accessibility. That potentially brings new investors to the market—investors who may have previously eschewed it because of the market's historically cumbersome and archaic structure. With more entrants comes more capital and with that, more data, more liquidity, and better pricing. It's a grand positive feedback loop.

Primary Market

But where do all those secondary traded bonds come from originally? The primary market. No bond trades in the secondary until it was offered first in the primary.

As 2024 comes to a close, new issuance is shaping up to be a blockbuster year. With over 10,000 new bond issues having come to market through November 2024, issuance is on track to top $500 billion in 2024, potentially besting the $510 billion mark set in 2020. It could be the highest in a decade.

But when it comes to technology, the primary market has been largely overlooked. Maybe it's the process. Almost the opposite of the blinding speed of tech-enabled trading, bond underwritings—competitive or negotiated—are time consuming and cumbersome. Filled with issuers, advisors, underwriters, and attorneys, a bond issue can sometimes take months to years to get to market. Perhaps because of all that, to date there hasn't been much technology to aid and abet that process.

Until now. Enter Munichain.

Offering deal management and analytics providing clear and smooth communications between and among the deal team's many members, Munichain also serves as a record keeper of the transaction. As anyone who has worked on a bond issue has experienced, as soon as the financing closes, deal amnesia sets in almost before the electronic signature ink is dry. Having the transaction memorialized is a sure-fire antidote to that memory loss. Additionally, there is a lot of bond reference data (i.e., price, coupon, maturity) being collected along the way as well. Where there is data, there is opportunity for AI, efficiency, and process automation.

The firm is cautious to coy about its future plans. The firm may be the leader in the field simply because, as one wag put it, there isn't anyone else doing it. Yes, the room is empty—for now. But with 500 billion reasons for others to pay attention, the firm's close-to-the-vest approach on its plans is well warranted.

The Muni Channel: 24/7 Streaming

While the municipal bond market is still over the counter, a sometimes overlooked outcome of all this ATS electronification and digitization is the creation of a 24-hour marketplace. As ATS platforms continue to grow and merge (for example, note the acquisition of MuniBrokers by MarketAxess in 2021), it is not hard to imagine these platforms coming together to resemble a quasi-municipal bond exchange in the not-so-distant future.

UFO Documentary

Now, that all said, can I please get back to watching this carefully researched documentary explaining the important correlations between crop circles, Stonehenge, alien abductions, and the Easter Island heads?

Oh, and Big Foot. Can't leave out Big Foot.

Forbes.com

by Barnet Sherman
Contributor
Intelligent Investing

Dec 11, 2024

S&P: US Voters Approve Nearly $96B in New Local Government Bonds in November

US voters on Election Day approved a flurry of new spending for states, cities, counties, schools and special government districts.

As of Dec. 9, voters officially approved ballot measures allowing the issuance of $95.71 billion in new government bonds across 583 ballot measures, according to the latest data compiled by S&P Global Market Intelligence. Another $15.25 billion across 25 measures may be approved, though official results from those elections were still outstanding.

Continue reading.

13 Dec, 2024

NASBO State Expenditure Report.

This edition of the State Expenditure Report includes data from estimated fiscal 2024, actual fiscal 2023, and actual fiscal 2022. The report includes 50-state data broken down by fund source and program area, as well as data from three U.S. territories and the District of Columbia.

View the Report.

Time Is Running Out for State and Local Governments to Protect Pandemic Funds.

State and local governments will be forced to return pandemic relief funds if they aren't properly obligated by the end of December.

In Brief:

- State and local governments received $350 billion to help them recover from pandemic impacts through the State and Local Fiscal Recovery Fund, a program of the American Rescue Plan.
- They have until 2026 to spend this money, but any that is not obligated by the end of this year will have to be returned.
- Some jurisdictions are finding last-minute strategies to protect their awards.

State and local governments are scrambling to ensure they don't lose any of the federal funds they received through the State and Local Fiscal Recovery Fund. They have a Dec. 31 deadline to obligate these dollars; anything unobligated at that time must be returned to the Department of the Treasury.

Continue reading.

governing.com

by Carl Smith

Dec.13, 2024

Fitch: Outlook Stays Neutral for U.S. Public Power in 2025

Fitch Ratings-New York/Austin-12 December 2024: Operating performance appears to be on solid footing for U.S. public power headed into 2025 as utilities address growing electric demand for the first time in over a decade, according to Fitch Ratings in its annual outlook report. Fitch's outlook for the sector is neutral.

Lower interest rates coupled with slow but steady economic growth and manageably higher natural gas costs should support stable credit quality. "Moderate inflationary pressures will help utilities meet load growth needs, including new generation capacity investment," said Senior Director Kathy Masterson. "Conversely, significant capital cost pressures or resurgent supply chain constraints could dampen sector performance."

As demand grows, so does the risk of capacity concerns that could lead to market imbalances, higher wholesale energy prices, and regional shortages. "Increased data and AI-related loads, combined with extreme temperatures, are likely to drive record peak electricity demand," said Masterson. "Regional droughts, plant retirements, stricter market capacity requirements, and wildfire risks could challenge resource availability."

Potentially mitigating capacity concerns are the incoming Trump adminstration's likely plan to roll back EPA rules now in place to limit carbon dioxide emissions. This will facilitate the sector's ability to meet growing demand and provide utilities not subject to state and local government mandates with a more relaxed timetable to reduce emissions. The absence of federal legislation, however, will allow other systems to alter resource strategies, delay asset retirements, and reassess capital spending plans.

Fitch's 'U.S. Public Power and Electric Cooperatives Outlook 2025' report is available at www.fitchratings.com.

Fitch: Updated Report for Variable-Rate Demand Obligations and Commercial Paper

Fitch Ratings has published the following updated report: "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". This report updates the report published on Sept. 16, 2022 entitled "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". The key elements of Fitch's external liquidity rating criteria remain largely consistent with those of its prior criteria report.

The updated report can be viewed at www.fitchratings.com

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Additional information is available on www.fitchratings.com

Fitch U.S. Public Power and Electric Cooperatives Outlook.

Fitch Ratings has a 'neutral' outlook for the public power and electric cooperatives sector in 2025. We expect economic and business conditions to remain relatively stable. Lower general inflationary pressures and interest rates, together with slow but steady economic growth and manageably higher natural gas costs, should support stable operating performance as utilities address growing electric demand for the first time in over a decade. Credit quality across the sector should remain stable as utilities manage operating costs and increase rates to preserve margins and support higher capital spending.

[Access Report]

Thu 12 Dec, 2024

[Fitch Updates Report for U.S. Public Finance Letter of Credit Supported Bonds and Commercial Paper Rating Criteria.]

Fitch Ratings has published the following updated report: 'U.S. Public Finance Letter of Credit Supported Bonds and Commercial Paper Rating Criteria'. This report replaces the report entitled 'U.S. Public Finance Letter of Credit Supported Bonds and Commercial Paper Rating Criteria' published on Feb. 2, 2021. The key elements of Fitch's letter of credit supported rating criteria remain consistent with those of its prior criteria report.

The report can be viewed at www.fitchratings.com

Fri 13 Dec, 2024

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[Stadiums Don't Have to Be a Drain on Taxpayer Dollars.]

St. Louis voters rejected a $60 million proposal for a new soccer stadium, but the city got one anyway. Here's how it did that with minimal public funding.

The world of professional sports is flush with cash, thanks to multibillion-dollar TV deals, sponsorships and ticket sales. Yet some of the biggest investments in major franchises come from taxpayers. Between 1970 and 2020, state and local governments spent $33 billion in public funds on sports arenas, including nearly $20 billion since 2000, at an average cost of $330 million per project.

Lawmakers often justify those subsidies by saying they'll create jobs, boost local businesses and attract tourists. But economists are skeptical. A 2017 survey found that 80 percent of economists think the costs of stadium subsidies outweigh their benefits. One analysis even compared the local economic impact of a sports franchise with that of a midsize department store.

As professors who study stadium financing, we wanted to dig deeper into the impact of ownership strategy in sports and economic development goals. So, in partnership with former MBA student and now graduate Jessica Timerman, we recently wrote a case study focused on our hometown's foray into Major League Soccer. Starting in 2022, St. Louis welcomed a new team, City SC, and a new stadium, CityPark, both of which received significant family funding.

Continue reading.

governing.com

OPINION | Dec. 12, 2024 • Peter Boumgarden and Nathan Jensen

Signs Point to Strength for Muni Bonds in 2025.

Advisors and investors evaluating areas of 2025 opportunity in the fixed income market might do well to consider muni bonds and the related ETFs.

That thesis could be bolstered with the benefits of active management, accessible via the ALPS Intermediate Municipal Bond ETF (MNBD). MNBD is showing there are perks at the intersection of municipal debt and active management. The ALPs fund is outperforming some of the largest passive ETFs in the category on a year-to-date basis.

Past performance isn't a promise of what comes next. Still, heading into 2025, the fundamental outlook for municipal bonds is appealing. That could be constructive for ETFs such as MNBD. Additionally, munis are underpinned by multiple fundamental catalysts, not just one.

Stars Aligning for MNBD Rally
Broadly speaking, the U.S. economy is sturdy enough that most states are seeing strong revenue collection. This indicates credit downgrades aren't likely over the near-term – two factors that could be supportive of muni bonds.

"Robust reserves, significant liability reductions and prudent budget management position U.S. state and local governments well for 2025 as pre-pandemic fiscal conditions take hold again," noted Fitch Ratings.

Cities, towns and municipal entities are also major muni bond issuers. Many have the resources to support strong credit ratings, which could be a positive for income investors in 2025.

"Working in favor of local governments are budget contingencies, which remain an important safeguard against unanticipated spending, such as migrant shelter costs which have affected many large cities over the last several years, given limited capacity to adjust revenue mid-year," added Fitch.

As an actively managed ETF, MNBD has the flexibility to allocate to bonds issued by the states and cities with the most attractive credit and revenue profiles, which could mitigate risk.

Regarding risk, experienced market participants know that there can be regional risks with municipal bonds. That's something to consider should President-elect Trump actively use tariffs against U.S. trading partners. Those levies could harm more states than others, further underscoring utility vis a vis MNBD being actively managed.

"The incoming presidential administration will be an area to watch for states. Of note is the imposition of a broad tariff regime as proposed by the president-elect which could in turn trigger retaliatory tariffs and increase the likelihood of a sharp downturn beyond Fitch's expectations," added the ratings agency.

etftrends.com

by Todd Shriber

December 12, 2024

Golden State Munis: Opportunity in Uncertainty?

As one of the largest states in terms of economic prowess and population, California also happens to be one of the largest issuers of municipal bonds. As such, the state's bonds can be found predominately in several national municipal bond funds. At the same, as a high-tax state, California munis are a top draw for investors living within the Golden State's borders. So, when concerns about California's finances creep into the news, it makes sense for investors to get nervous.

These days, investors are getting nervous: California is facing a big budget deficit.

The question is whether investors should be losing sleep over the news. California has long been a boom or bust economy, and that dynamic is playing out today. Given the state's history of solving its budget woes, the budget deficit may not be a massive concern — but caution may be warranted.

Growing Budget Woes

California is one of the largest issuers of municipal bonds in the nation, with nearly $675 billion in debt outstanding. With such a huge amount of debt issued, concerns about the state's fiscal health affect not only Californians but also investors looking at national municipal bond funds. For example, the $41 billion iShares National Muni Bond ETF (MUB) has about 17% of its portfolio in California bonds.

Continue reading.

dividend.com

by Aaron Levitt

Dec 10, 2024

An Update on California's Fiscal Picture for Muni-Bond Investors.

Revenue collections have been outperforming forecasts, while credit fundamentals for key California municipal bond sectors continue to improve.

While recent headlines about California have focused on office vacancies and homelessness, state revenues have been quietly outperforming budgetary forecasts for the past several months. Tax collections through the first four months of the current fiscal year are $5.25 billion above expectations, tracking 11% ahead of forecast.

Cutting through the budgetary noise of the pandemic period, state revenues thus far in fiscal 2025 (ending June 30) have grown at a 6.4% compounded annual growth rate over the last five years, above the 6.1% annual growth experienced in the five years leading up to the pandemic.1 Based on a July 2024 report from the California Department of Finance, revenues totaled roughly $209 billion in fiscal 2024.

Surging stock prices, especially for the largest California-based tech companies, and optimism for the potential of artificial intelligence have helped drive large increases in compensation for California residents. In the first quarter of calendar 2024, total pay grew at a 17% annualized rate, one of the highest quarterly growth rates observed in the past 40 years.2 These gains are translating into strong growth in personal income tax collections, which typically account for about two-thirds of the state's revenue.

The picture is improving from the expense side as well, with the state budgeting for a second consecutive year of expenditure declines in fiscal 2025—down 5.2% to $211 billion from the $223 billion budgeted for fiscal 2024. Part of the decline represents a return to normalcy following the extraordinary one-time spending of federal relief grants in prior years, and part is due to belt-tightening measures passed through an agreement between the governor and the legislature in June. Both drivers of spending reductions demonstrate the state's commitment to long-term fiscal sustainability.

Favorable Credit Fundamentals

Local municipal credit in California is in historically strong shape as well. Coffers remain full as the billions in federal relief awarded during the pandemic are still being carefully spent, and recurring revenues continue to rise. Property taxes, the largest revenue source for California cities and counties, are insulated from fluctuations in market values by a decades-old state law known as Proposition 13. The experience of San Francisco during the global financial crisis highlights just how insulated this revenue source is—while median home prices fell by 20% between 2007 and 2011, the city's property tax revenues were up 23% over that period.3

We think healthcare systems in California will benefit greatly from a permanent extension of the Managed Care Organization (MCO) tax that was approved by voters on the November 2024 ballot. This tax generates between $7-8 billion annually, which will now be restricted solely for Medi-Cal expenses and other health programs.4

Conditions for California water utilities have improved dramatically over the last 18 months as well. High levels of precipitation and snow accumulation in the Sierra Nevada mountains have refilled state reservoirs, the largest of which is currently sitting at 111% of its historical average.5

Impact of Federal Tax and Policy Developments

Tax cut extensions and deregulation, two hallmarks of president-elect Trump's campaign and previous administration, stand to benefit a state economy fueled in large part by high-income earners and large tech companies. Trump's proposed removal of the State and Local Tax (SALT) deduction cap would disproportionately benefit California residents, given how high the state's top income tax rates are.6

While, in theory, higher tariffs on Chinese goods would hurt container volumes at the West Coast ports that handle them, in practice, we saw volumes decline only marginally the last time tariffs were imposed—a cumulative 2.7% decline at the Port of Los Angeles between 2018, when the first tariffs were announced, and 2020.7 Volumes did not decline as much as expected as importers were able to pass higher prices on to consumers.

Looking ahead to 2025, we expect to see a continued uptick in bond issuance driven by large bond authorizations approved by voters in November 2024: $10 billion for construction and modernization of public education facilities and $10 billion for various water, energy, and environmental projects.8 This increased bond issuance at the state level could also result in more school district and water utility debt issuance as those downstream entities accelerate their capital plans to take advantage of cheap state loans and/or grants.

These issuances will give investors in California municipal bonds plenty of opportunities to generate tax-free income backed by high-grade issuers with strong and improving credit fundamentals.

1California Department of Finance, Finance Bulletin, November 2024.

2"The 2025–26 Budget: California's Fiscal Outlook," California Legislative Analyst's Office, November 20, 2024.

3Source: Metropolitan Transportation Corp. (Bay Area, Calif.) via Zillow.

4"Proposition 35," California Legislative Analyst's Office, November 5, 2024.

5"Current Conditions: Major Water Supply Reservoirs," California Department of Water Resources, December 3, 2024.

6Howard Gleckman, "Repealing the SALT Cap Would Overwhelmingly Benefit Those With High Incomes," Tax Policy Center, Urban Institute and Brookings Institution, September 24, 2024.

7"Monthly Container Statistics," The Port of Los Angeles, October 2024.

8"Unofficial Election Results," California Secretary of State, November 5, 2024

lordabbett.com

by Roman Schuster
Research Analyst

Dec 13, 2024

About the Author

Roman Schuster is a Research Analyst for Lord Abbett's Municipal Bond Research team, which supports all the tax free fixed-income capabilities.

High Yield Muni Bonds in Focus.

During this week's VettaFi Market Outlook Symposium, we learned that the advisor community is moderately positive on the outlook for fixed income heading into 2025. In a response to a kick-off poll, 56% described themselves as bullish on the asset class. We believe one often overlooked investment style is high yield muni bonds.

Muni Bonds: Appealing Reward With Manageable Risk
High yield municipal bonds sport relatively appealing tax-equivalent yields. As of early December, the taxable equivalent yield for high yield municipal bonds was 8.3%. This was more than 100 basis points higher than the yield for corporate high yield bonds and was currently wider than the five year average per Bloomberg data. The spread relative to corporates was even wider for health care high yield municipal bonds.

Meanwhile, the risk of default is lower than many likely appreciate. Moody's Investor Services published a review in 2023 comparing the risks for global corporate bonds and municipal bonds. In the ten-year period ended 2022, 30% of speculative grade- corporate bonds defaulted. This is significantly higher than 7% for speculative-grade municipal bonds in the same period. Bonds rated Ba by Moody's (the highest rating for speculative bonds were five times more likely to have defaulted.

Should You Turn to Active Management?
While the backdrop for high-yield municipal bonds appears to be favorable, investors likely are uncertain about how to navigate the bond market. Heading into 2025, the macroeconomic and fiscal policies are likely shifting.

On December 12, VettaFi is hosting a one-hour virtual event in partnership with abrdn. The firm has a broad lineup of actively managed strategies. This includes mutual funds, closed-end funds and separately managed accounts. Advisors that join us will not only receive continuing education credits but get to leverage the expertise of Jonathan Mondillo. Mondillo is abrdn's global head of fixed income.

etftrends.com

by Todd Rosenbluth

December 10, 2024

Why Active Management is Thriving in the Municipal Bond ETF Market

Active ETF adoption and launches have hit critical mass this year as investors both big and small have started to understand their benefits. Low-cost and tax-efficient active ETFs have plenty of potential to outperform passive funds. And as such, Wall Street has delivered torrid growth in the number of new products on the market.

But it turns out many of those products center around a few sectors.

One of the hottest places for new launches happens to be boring municipal bonds. The number of active muni ETFs has grown exponentially over many other fixed income and equity sectors. And there are plenty of reasons why investors can and should be excited. Municipal bonds happen to be one of the best places where active managers can add real alpha to a portfolio.

The Number of Active Muni ETFs Surge

Truth be told, municipal bonds are a boring subsector of the boring bond market. These bonds are issued by state/local governments and feature tax-advantage/tax-free income potential. The generally conservative nature of these bonds attracts conservative investors, pension funds, and insurance firms, among others. We're talking about a very buy-and-hold crowd.

Continue reading.

dividend.com

by Aaron Levitt

Dec 13, 2024

Muni Bond ETFs Can Capitalize on Infrastructure Spending Gaps.

Fixed income investors may wish to consider opting for amplified municipal bond exposure in their portfolios through muni bond ETFs.

A recent article from members of the Eaton Vance team breaks down some of the upcoming opportunities for muni bond ETFs. In the article, Craig R. Brandon, CFA, Co-Head of Municipal Investments, and Marc Savaria, Co-Director of Municipal Credit Research, discuss how upcoming infrastructure spending can bode very well for muni bonds.

This Eaton Vance article breaks down potential funding gaps in federal infrastructure spending down the line. In particular, the article highlights a report from the American Society of Civil Engineers, which projects a funding gap of roughly $2.9 trillion across the next 10 years.

Brandon and Savaria add that the majority of funds used to cover this gap will come from local governments. As such, they assert that this spending gap will largely be covered through municipal bond issues.

"The municipal market is nearing record issuance so far this year, and given the aforementioned funding gap, as well as a plethora of ancillary factors from climate change to more stringent Environmental Protection Agency (EPA) regulations for water systems, we expect heightened issuance to continue in the coming years," the Eaton Vance team adds.

Tap Into Eaton Vance's Expertise With EVIM
Advisors and Investors alike can turn to Eaton Vance's ETF library to gain experienced management in muni bond strategies. One such fund is the Eaton Vance Intermediate Municipal Income ETF (EVIM).

EVIM gives investors access to a low-cost selection of intermediate duration municipal bonds. Despite the fund's active management, the fund's net expense ratio currently sits at only 0.10%.

The fund offers access to a core portfolio of munis with very diverse sector weightings. EVIM also aims to provide investors with yield that is exempt from regular federal income tax.

For those looking to build up their muni bond exposure, opting for an intermediate duration makes a great deal of sense. As of October 31st, 2024, EVIM's average portfolio duration sits at a little above 7 years.

Traditionally, intermediate-duration bonds offer the benefit of mitigating reinvestment risk and long-term interest rate concerns. Additionally, a 7-year duration can let EVIM really benefit from the projected increases in infrastructure spending down the line.

etftrends.com

by Nick Wodeshick

December 13, 2024

For more news, information, and analysis visit The ETF Yield Channel.

Prudential's PGIM Launches Two Active Muni Bond ETFs.

PGIM, the $1.34T investment management business of Prudential Financial (NYSE:PRU), has rolled out two exchange-traded funds tied to municipal bonds, it said on Friday.

The new funds — PGIM Ultra Short Municipal Bond ETF (PUSH) and PGIM Municipal Income Opportunities ETF (PMIO) — will trade on NYSE Arca.

Both actively-managed ETFs invest at least 80% of their respective portfolios in municipal obligations whose income is exempt from federal income taxes.

PUSH, in particular, will mainly invest in investment-grade muni bonds and up to 10% in high-yield muni debt obligations. The fund seeks to maintain a weighted average portfolio duration of two years or less.

PMIO, by comparison, will invest at least 70% of its portfolio in investment-grade muni debt obligations and up to 30% in high yield muni debt obligations. It seeks to maintain a weighted average portfolio duration of two to eight years.

“In addition to their diversification benefits, muni bond ETFs offer an attractive opportunity for investors, particularly high-net-worth investors, who may be looking to maximize tax efficiency within their portfolios,” said Stuart Parker, president and CEO of PGIM Investments.

msn.com

Muni Managers Launch Record ETFs to Build on $142 Billion Market.

- **Firms launched 27 muni ETFs to capitalize on growth in arena**
- **Many muni-bond ETFs have less than $50 million of assets**

Wall Street’s biggest money managers are zeroing in on a $142 billion segment of the municipal-bond market.

There have been 27 muni exchange-traded fund launches this year, marking an annual record as firms like PGIM and Rockefeller Asset Management muscle into the space. That momentum represents a longer-term bet on ETFs that cater to state and local-government debt investors, given it can take years for the products to garner substantive inflows.

"If they're currently in the mutual fund business, they need to have a presence in the ETF market," said Patrick Luby, a strategist at CreditSights Inc. The launches are indicative of the direction asset managers see the market going, he said. "Where is the muni puck going to be in three or five or 10 years? It's going toward the ETF."

Continue reading.

Bloomberg Markets

By Amanda Albright

December 10, 2024

Rockefeller Wades Further Into High-Yield Munis With New Fund.

Rockefeller Asset Management launched a closed-end interval fund focused on higher-yielding municipal bonds, in yet another sign of the firm's ambitions to grow its footprint in riskier state and local debt.

The new offering comes after the company hired a trio of former Invesco Ltd. portfolio managers — Scott Cottier, Mark DeMitry, and Michael Camarella, who will manage the fund.

Rockefeller Asset Management is the New York-based division of Rockefeller Capital Management and had $16.3 billion of assets under supervision at the end of September. Earlier this year, the asset manager waded into the growing municipal ETF space with three new vehicles that also focus on lower-rated bonds.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 12, 2024

S&P's Five Takeaways From U.S. Public Finance In 2024: Uneven Credit Trends Emerge Amid Rising Uncertainty

U.S. public finance started 2024 with a mixed credit view that was largely realized. As the page turns on 2024, S&P Global Ratings recaps five major themes that underpinned the U.S. public finance credit landscape this year while we wait for how the incoming Presidential administration's policy implementation details could affect credit quality in 2025.

Our Five Takeaways

1. Better-than-expected growth stabilized ratings across most sectors. Our economic forecast indicates that the U.S. economy may expand 2.0% in each of the next two years following 2.7% growth this year (see table below). Real GDP growth in 2024 is nearly 2x our economists' forecast at the beginning of the year. A relatively resilient labor market and the gradual decline in inflation led to robust revenue and demand activity that supported operations and debt service obligations across most U.S. public finance asset classes. Meanwhile, the final year of federal pandemic stimulus contributed to revenue strength across sectors. For example, most states saw surplus operating results and record reserves. (See "States' Median Reports: Our New Methodology Highlights Rating Consistency," published Nov. 20, 2024, on RatingsDirect.)

In addition, U.S. not-for-profit transportation infrastructure enterprise financial medians improved in fiscal 2023 across asset classes given continued revenue and activity growth (passengers, tolled transactions, and tonnage) and a combination of management actions such as increasing rates, fees, and charges and reserves, resulting in rating actions that were overwhelmingly positive (32 positive to just one negative rating action) from Sept. 1, 2023, through Sept. 1, 2024. (See "U.S. Not-Fo--Profit Transportation Infrastructure 2023 Medians: Demand And Revenue Growth Improved Financial Medians To Post-Pandemic Highs," published Nov. 12, 2024).

Continue reading.

[Free registration required.]

9 Dec, 2024

S&P U.S. Public Finance Rating Activity, November 2024

Monthly rating activity

Download the Report.

Countdown to ARPA's SLFRF Obligation Deadline: Top 5 Insights for Local Governments

The December 31, 2024 deadline for obligating funds under the American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF) program is rapidly approaching. With over $350 billion allocated to state and local governments, ensuring these funds are effectively obligated can make or break the recovery and prosperity of our communities. Here, we detail the top five insights from the recent Listening Session that the National League of Cities (NLC) and National Association of Counties (NACo) held in partnership with the U.S. Department of Treasury to help local governments meet their goals, with a key focus on the critical area of revenue replacement.

You can find a recording for the webinar here and the slideshow presented here.

1. Revenue Replacement Is Not Automatic

While revenue replacement is the quickest, simplest and most flexible funding available to municipalities through ARPA SLFRF, there have nevertheless been issues around reporting. All SLFRF recipients can classify at least $10 million of their allocations as revenue replacement or use a formula the Treasury provides to calculate their actual revenue lost because of the pandemic to classify a larger amount.

However, a common misconception is that claiming funds under the revenue loss category automatically fulfills the obligation requirement. Treasury clarified that revenue loss dollars must be obligated through a two-step process. Moving funds to a general fund without further action does not meet the criteria.

Step One: Report claimed revenue loss: Elect either the $10 million Standard Allowance, up to the award amount, or calculate revenue loss according to the formula provided by Treasury.

Step Two: Report projects under expenditure category 6. These projects must include:

- Amount of SLFRF funds budgeted, obligated and expended (when applicable) for that specific project.
- Project description that summarizes the project in sufficient detail to provide an understanding of the major activities that will occur.

Continue reading.

National League of Cities

By Dante Moreno

December 9, 2024

FAQs: Navigating the ARPA SLFRF Obligation Deadline

As the December 31, 2024, obligation deadline for ARPA's State and Local Fiscal Recovery Funds (SLFRF) approaches, many local governments have questions about what constitutes an obligation, how to use funds effectively and how to stay compliant. Below, we provide guidance on some of the most frequently asked questions (FAQs) highlighted during a recent Treasury webinar co-hosted by the National League of Cities (NLC) and National Association of Counties (NACo).

You can find a recording for the webinar here and the slideshow presented here.

1. What is the obligation deadline, and what does it mean for local governments?

The obligation deadline is December 31, 2024. By this date, all SLFRF funds must be obligated, meaning committed through contracts, subawards, interagency agreements, or similar transactions.

Local governments will report its obligations during the next reporting period:
January 31, 2025 – Quarterly reporters.
April 30, 2025 – Annual reporters.

Funds must be spent by **December 31, 2026**.

2. What qualifies as an obligation?

An obligation is:

- A contract, subaward, purchase orders for goods or services, or interagency agreement (e.g., MOU, MOA). You can find a template for an interagency agreement here.
- Certain payroll expenses for eligible employees if the positions are established by December 31,

2024.

An obligation is **NOT**:

- A budget allocation or amendment.
- An intention to enter a contract.
- Moving funds into a general fund but not further establishing an obligation with those funds by 12/31/24.

Continue reading.

National League of Cities

By Dante Moreno

December 6, 2024

Maximizing Renewable Energy Financing with Taxable Municipal Bonds and IRA Credits: Frost Brown Todd

The Inflation Reduction Act of 2022 (IRA) incentivizes investment in clean energy projects by offering income tax credits for entities seeking to finance facilities that produce or use certain clean energy resources. Tax-exempt municipal bonds are issued by states, local governments, and other governmental entities to benefit the public, for instance, by funding energy-efficient improvements to existing structures. Such tax-exempt municipal bonds allow the interest income derived therefrom to be exempt from federal and potentially state income taxes. Alternatively, taxable municipal bonds frequently involve projects that do not qualify for tax-exempt status under Section 103 of the Internal Revenue Code,[1] generally offering higher yields but subjecting the interest income to taxes.

By introducing new incentives and enhancing existing tax credits, the IRA expands opportunities for entities involved in renewable energy development, particularly in how they can leverage both taxable and tax-exempt municipal bonds. For stakeholders, including state and local governments, public utilities, developers, and investors, the IRA offers new strategies to lower the costs of clean energy projects through a combination of tax credits and bond financing. In this article, we explore how the IRA impacts municipal bond financing, the types of tax credits available, and the key opportunities and considerations when evaluating the use of taxable and tax-exempt bonds.

IRA Incentives

The IRA brings significant updates to two critical tax credits for renewable energy projects:

Continue reading.

Frost Brown Todd LLP – Beau F. Zoeller, Alexandra Just, Raghav Agnihotri and Brian D. Zoeller

Dec. 5, 2024

Why Climate Change Will Wreck the Municipal Bond Market.

It's going to be worse than 2008.

Unpriced risk undermined the global economy during the financial crisis of 2008. Today, researchers say unpriced physical climate risk will lead to rapid declines in property values — and point out that this is already happening in some Florida markets. They often compare what's happening now to the run-up to 2008. If the analogy holds, we will likely see disruption in other related financial structures. In particular, as the physical reality of climate change begins to have an effect on the attractiveness of bonds in risky areas, the ability of local governments to raise money to adapt to rapidly changing climate conditions may be undercut.

But comparing the effect of the 2008 unpriced risk on the municipal bond market with the potential effects of physical climate risk shows the suffering will likely be much greater this time. Today, there's a direct, rather than indirect, connection between risk and public finance markets.

The solution? Last week, Tom Doe, CEO and founder of Municipal Market Analytics, said cities should act now to raise as much money as possible for adaptation before the municipal bond market starts pricing in physical climate risk. It's only going to get more expensive later, in his view.

Continue reading.

HEATMAP

by Susan Crawford

December 05, 2024

BlackRock Sees Retail Traders Snapping Up Muni Bonds in 2025.

- **Pat Haskell, firm's muni head, sees another supply record**
- **Investor is in wait-and-see mode on Trump policy, tax changes**

By most accounts 2025 will be another blockbuster year for bond sales from local and state governments. And BlackRock Inc.'s head of municipal bonds Pat Haskell expects retail buyers to be eager to help digest that flood of new issuance.

The more than $500 billion in new muni deals Haskell is expecting in 2025 "should provide opportunities and dislocations where you can really find good bonds at good levels," he said in an interview at BlackRock's New York office. He took over the muni desk at the world's largest asset manager earlier this year.

Mom and pop traders often invest in munis via separately-managed accounts or exchange-traded funds — like BlackRock's $41 billion MUB, the largest muni ETF in the market — which are overseen by professional portfolio managers. Haskell expects demand for munis from smaller investors will be a key factor next year.

Continue reading.

Bloomberg Markets

By Erin Hudson

December 6, 2024

[Muni Sales Set to Jump Past $500 Billion in 2025, Analysts Say.]

- **Infrastructure needs, refinancing deals to spur more sales**
- **State and local borrowers sold a record sum of debt in 2024**

Municipal bond bankers should prepare for a bigger onslaught of sales in 2025, even after a blockbuster year of supply.

States, cities, school districts, colleges, hospitals and other borrowers in the $4 trillion muni-bond market are poised to issue a record sum next year, according to annual supply forecasts collected by Bloomberg.

"We see even more supply on the table – refunding candidates are up and spending for capital projects will have to stay at a brisk pace to ensure infrastructure keeps up with first-world standards," Abigail Urtz and Ryan Henry, strategists at FHN Financial, said in a research note on Wednesday.

The volume will be fueled by lingering infrastructure needs, a surge in refinancing deals as interest rates drop as well as less federal aid — which had reduced the need to take on more debt in the years following the pandemic.

"Certain local governments will get less federal help because of the cost cutting initiatives that is suppose to be planned next year," said Vikram Rai, head of municipal strategy at Wells Fargo & Co., in an interview. The cuts "will mean that the state and local governments will have to issue more debt to make up their financial needs." Rai has called for $500 billion of muni issuance next year.

Muni Analysts Expect Supply Increase in 2025

Projections for the volume of municipal bond sales by firm

That forecast is in line with most expectations for 2025 sales, according to ten projections collected by Bloomberg. The majority of analysts expect issuance to total between $460 billion and $540 billion — with Hilltop Securities as the sole outlier, calling for a whopping $745 billion. On average, the analysts expect about $524 billion of new bond sales, the data shows.

Alice Cheng, a municipal credit analyst at Janney Montgomery Scott LLC who foresees $520 billion in supply, is anticipating growth across the housing, health care, and education sectors.

"Issuers still have a lot of needs that need to be addressed," she said.

Excerpts from the analysts' forecasts are included below:

- Nathan Will, head of municipal credit at The Vanguard Group Inc. expects issuance to total $460 billion. That is the smallest of the projections collected by Bloomberg and less than this year's volume. "Once we get past the uncertainty of tax policy changes, the issuers will come back to the market," Will said.

- Mikhail Foux, head of municipal research and strategy at Barclays Plc. sees supply between $475 billion and $485 billion in 2025. "Reasons for robust supply next year include concerns about the future of tax exemption in some sectors, refunding activity, and issuers' realization that rates might remain elevated, coupled with their increased funding needs," the group said in a research note.
- JPMorgan Chase & Co., in a note led by Peter DeGroot, expects issuance to be $490 billion. "If the market begins to factor in limitations to tax-exempt financing early in the year, there could be a pull forward of supply — particularly in vulnerable sectors such as higher ed, hospital, and private activity (PAB) issuance, to front-run potential legislation," DeGroot wrote in a research note.
- Strategists at Ramirez & Co. are expecting historic new money supply growth due to inflation, infrastructure demands and the lack of American Rescue Plan Act funding that supported local budgets after the pandemic. "Refunding supply should increase materially as interest rates likely grind lower throughout the course of the year, producing greater targeted debt service savings," Peter Block, managing director at Ramirez, said in a research report.
- Analysts at Bank of America Corp — the market's largest underwriter — anticipate state and local governments will sell $520 billion of debt in 2025, a record sum. The group led by Yingchen Li and Ian Rogow said that "available cash in 2025 will exceed record new issuance" which means the surge in sales should be well absorbed.
- Tom Kozlik at Hilltop had the largest forecast in the group, estimating $745 billion worth of sales. He said that Congress may propose legislation to curtail the muni-bond tax exemption which would lead borrowers to accelerate their sales before the changes take effect.

Bloomberg Markets

By Lily Meier

December 4, 2024

How to Ensure Sustainability for State and Local Budgets Without Pandemic Funding.

Officials from all levels of government outline collaborative approaches to complex challenges

As federal pandemic aid winds down and state and local budgets normalize, government policymakers face an inflection point: Some issues—such as housing affordability and infrastructure investment—are familiar. Others, such as political polarization, are more recent developments that make it more difficult for leaders to make sound, long-term decisions about the public purse. Though the challenges seem daunting, the last four years also pushed leaders at all levels of government to collaborate and communicate in unprecedented ways.

Their experiences have yielded lessons about intergovernmental collaboration that can help guide policymakers in the coming years. To capture those lessons, the Volcker Alliance, with support from The Pew Charitable Trusts, held a symposium in September in which federal, state, and local officials examined how all levels of government can use these lessons to more effectively address shared challenges. The event was part of the alliance's Richard Ravitch Public Finance Initiative, which highlights promising practices for building sound, sustainable budgets that enable residents and communities to thrive.

The day featured open conversation about the challenges and successes that government officials have experienced with federal funding and how that affects state and local budgeting, fiscal planning, and infrastructure investing. Attendees discussed strategies, policy tools, and responses in three main areas: managing federal funds effectively, building capacity at the state and local level, and future-proofing with innovative financing. The Ravitch Initiative’s recently released report, Resilient State and Local Finance, outlines actions that policymakers can take to advance goals in these areas.

Continue reading.

pewtrusts.org

By: Liz Farmer

December 6, 2024

Muni Bond Boom Fuels Growth in Electronic Trading.

Strong retail demand for municipal bonds and expectations for a steady flow of new issues in 2025 are helping drive long-overdue technology upgrades in one of America’s most important markets.

After years of limited growth, electronic trading volumes have started to climb in the municipal bond market. E-trading accounted for just over 18% of notional volume traded in 2024 (YTD October), up from 16% in 2022 and an estimated 12–15% in 2019.

Dealers expect this momentum to continue. The majority of the 35 municipal bond dealers participating in an October 2024 study from Coalition Greenwich expect e-trading levels to rise in the coming year, with two-thirds predicting an increase of 5% or more. Nearly 70% of that same group agreed that e-trading allows them to scale their business more efficiently.

“Thanks in large part to technology enhancements and the growth in electronic trading, nearly half of sell-side municipal bond traders say market liquidity improved in 2024,” says Kevin McPartland, Head of Research at Coalition Greenwich Market Structure & Technology and author of *Muni Bond Market Structure 2025: The Dealer View*.

Dealers Focus on E-Trading and Automation

The rapid evolution in market structure has been fueled by a boom in municipal bond activity, with new issuance up 40% YTD October in 2024 and average daily trading volumes topping $13 billion, well above pre-pandemic levels. Amid this growth, municipal bond dealers are investing in technology to handle growing volumes and to compete for trading share by enhancing client service. Nearly half of study respondents said automating parts of the trading process was their top technology priority heading into 2025.

“Municipal bond dealers are fully focused on automation when laying out 2025 technology investment budgets and on e-trading skills when hiring for trading desks,” says Kevin McPartland.

Muni Bond Market Structure 2025: The Dealer View includes a detailed examination of the impact of changes in market structure on client needs and sell-side priorities, and insights into where the municipal bond market is headed next.

marketsmedia.com

12/9/24

[S&P U.S. Not-For-Profit Acute Health Care 2025 Outlook: Stable But Shaky For Many Amid Uneven Recovery And Regulatory Challenges]

Sector View: Stable

- Good revenue and demand for services, easing of certain labor-related and inflationary expenses, and generally sound balance sheets support S&P Global Ratings' stable outlook on U.S. not-fo--profit acute health care providers. This is translating to outlook trends that show signs of stabilization following a period of increased rating activity.
- Our stable outlook also incorporates a meaningful reduction in organizations with negative outlooks and far fewer negative outlooks among higher-rated categories. Although we will likely continue to see some negative bias related to credit activity in 2025, we expect the pace of rating changes will slow and could be more concentrated among lower-rated categories.
- That said, sector uncertainty persists as a subset of providers continues to work toward improved and stable cash flow, with likely increased capital investments in coming years. Industry headwinds and an incoming new federal administration could set new priorities and policies that may alter our view of credit quality for the sector.

Continue reading.

4 Dec, 2024

[S&P U.S. Not-For-Profit Higher Education Outlook 2025: The Credit Quality Divide Widens]

Sector View: Bifurcated/Mixed

- S&P Global Ratings' view of the higher education sector in the U.S. remains mixed for the third consecutive year. Our outlook is negative for highly regional, less-selective institutions that lack financial flexibility, but it is stable for institutions with broad geographic reach, steady demand, and sufficient liquidity and financial resources to navigate operating pressures.
- While enrollment declines and financial stresses likely will continue, these problems are not affecting all schools equally. Competition for students and operating expenses remain elevated, sustaining budget pressures for many, but these issues are most pronounced at the lower end of the ratings scale.
- Credit quality bifurcation has widened. Strong institutions hold their market position, excel at fundraising, and have healthy balance sheets while working to improve operating margins; struggling schools face enrollment declines, leading to strained operations and, often, liquidity issues. Industry headwinds and a new federal administration with different priorities could create additional obstacles.

Continue reading.

5 Dec, 2024

S&P U.S. Rated Not-For-Profit Retail Electric And Natural Gas Utilities - Sector Update And 2023 Medians

S&P Global Ratings rates 189 NFP retail electric utilities (including combined utilities) and 23 NFP retail gas utilities under its "U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions." The 'A+' median and modal ratings of U.S. not-for-profit (NFP) retail electric utilities reflect generally healthy operations and finances amid utility-specific and industrywide challenges.

Download

Fitch U.S. Public Finance Rating Action Report 2024 Year to Date (1 January to 6 December)

Access Report

Mon 09 Dec, 2024

Fitch U.S. Not-For-Profit Hospitals and Health Systems Outlook 2025.

Fitch Ratings Sector Outlook for U.S. Not-for-Profit Hospitals and Health Systems has been revised to neutral from deteriorating. While operating headwinds remain, the sector has shown steady improvement following considerable margin compression in 2022-2023. The rate of labor expense escalation in particular continues to attenuate, as well as a moderation of general inflation. Balance sheets remain robust, benefiting from improving cash flows and equity market returns.

Access Report

Mon 09 Dec, 2024

Fitch Revises Sector Outlook for U.S. NFP Hospitals to Neutral

Fitch Ratings-Austin/Chicago-09 December 2024: U.S. not-for-profit hospitals have made enough meaningful strides over the last several months to lead Fitch Ratings to revise its sector outlook to Neutral from Deteriorating, according to the rating agency's 2025 outlook report.

While headwinds are still formidable, the sector has shown steady and notable improvement in operating margins following considerable margin compression over the last three years. "The rate of labor expense escalation in particular continues to attenuate as inflationary pressures subside, while balance sheets are benefiting from improving operating cash flows and strong equity market returns," said Senior Director and Sector Head Kevin Holloran.

Improving operating margins should translate to continued slow yet steady improvement for core credit drivers in 2025. Fitch forecasts a median operating margin of between 1% and 2%, barring any unforeseen shocks to the system. Volumes remain very healthy, particularly in growth markets, leading to a renewed focus on access and capacity. Labor shortages remain a preeminent struggle for hospitals, though the staffing picture has stabilized compared to the pronounced challenges that reached a peak in 2022.

As for potential headwinds for health systems in the coming year, major policy shifts that resulted in a considerable decline in health insurance coverage for a broad segment of the population or a material decline in net cash flows from supplemental funding streams could shift the sector outlook to Deteriorating. In addition, "a macroeconomic disruption leading to a combination of payor mix deterioration, volume softening, or equity market losses could lead to Fitch revising the sector outlook back to Deteriorating," said Senior Director Mark Pascaris.

Fitch's "U.S. Not-For-Profit Hospitals and Health Systems Outlook 2025" report is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Munis Join Treasury Rally After Bessent Chosen for Trump Cabinet.

Municipal bonds jumped on Monday, following gains in the US Treasury market after Scott Bessent was named as President-elect Donald Trump's nominee for Treasury secretary, with traders betting the hedge fund manager will bring a Wall Street mindset to the role.

Benchmark state and local government yields fell by as much as 7 basis points as of 4:00 p.m. New York time. Tax-exempt yields on 10-year, top-rated benchmark bonds fell 5 basis points to 2.89%, according to data compiled by Bloomberg. That gauge is hovering near the lowest since late October, the data shows.

Bessent — who runs macro hedge fund Key Square Group — has called for a gradual approach to implementing trade restrictions, and has appeared open to negotiating the exact size of tariffs proposed by Trump. Treasuries traded up on the news with yields falling more than 10 basis points across five- to 30-year maturities.

Continue reading.

Bloomberg Markets

By Aashna Shah

November 25, 2024

Incoming Administration Puts Municipal Bonds in Play.

With an incoming presidential administration in 2025, municipal bonds are in play as infrastructure plans and other project initiatives could shape the muni debt space in the new year. On that note, Vanguard has a pair of muni bond-focused exchange-traded funds (ETFs) to consider.

Furthermore, a new administration typically brings its own policy agendas that could impact the current muni market. As Alliance Bernstein noted, tax policy could be a hot topic for the incoming administration, which could affect the tax-exempt status of municipal bonds.

Alliance Bernstein in particular cited the Tax Cuts and Jobs Act (TCJA) that will expire at the end of 2025. An extension of this act could increase the federal budget, unless other revenue streams are generated to keep muni bonds tax-exempt. It's a topic that's been discussed in the past in order to prevent the federal budget deficit from getting out of hand. Thankfully, it hasn't come to fruition just yet. The tax-exempt feature is an obvious draw to munis, which simultaneously allows governments to fund their infrastructure projects.

"Tax-exempt municipal bonds are critical to America's infrastructure and to a functioning US economy," explained Alliance Bernstein. "Muni bonds' tax exemption dates back to the earliest federal income tax in 1913 and has been a pillar of state and local project funding ever since."

In the meantime, interest in muni bonds expand as the market itself experiences expansive growth. Whether for tax-exempt income, solid credit quality, or yield, munis offer a variety of benefits to fixed income investors.

"According to the National League of Cities, municipal bonds are a $4 trillion market and have financed approximately 75% of US infrastructure—with hospitals, schools, airports, water and sewer systems, public power facilities and toll roads among the many beneficiaries," Alliance Bernstein added.

2 Muni Options to Ponder

Fixed income investors considering muni exposure can ponder a pair of options from Vanguard. One offers broad-based exposure via the Vanguard Tax-Exempt Bond ETF (VTEB) and another tailormade exposure to short-term munis via the Vanguard Short-Term Tax-Exempt Bond ETF (VTES).

Per its baseline fund description, VTEB tracks the Standard & Poor's National AMT-Free Municipal

Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. Overall, this index includes municipal bonds from issuers, primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes, and the federal alternative minimum tax.

VTES is a viable option for fixed income investors concerned about rate risk. VTES tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index seeks to balance the need for tax efficiency with the need for tax-exempt yield. This balance can translate to potentially higher yields than those afforded by competing strategies, for an appropriate level of duration risk.

etftrends.com

by Ben Hernandez

December 4, 2024

Municipal Bonds Win: Why Smart Investors Focus on Tax-Equivalent Yield

One of the best pieces of investment advice could be, “It’s not what you earn, it’s what you keep that matters.” As such, active tax management is a key piece of portfolio management. And many investors use a variety of techniques and strategies to keep Uncle Sam out of their pockets. But one strategy is often underappreciated by many investors no matter what their tax bracket is.

And that’s the taxable equivalent yield on municipal bonds.

Munis provide many tax advantages over taxable bonds such as U.S. Treasuries and corporates, chief of which is their ability to provide tax-advantaged and tax-free income. Often, investors ignore the real after-tax yield when building their fixed income portfolios. And that’s a shame as, more often than not, munis win out on yield.

Continue reading.

dividend.com

by Aaron Levitt

Dec 05, 2024

Implications for Public Finance in a Trump II Era.

His second presidency could recolor the landscape for federal spending, with ramifications for states, local governments, schools and public pensions. Governors and mayors will need to try to discern where the political wind is blowing — and what to watch out for.

The re-election of Donald Trump and the Republican takeover in the Senate portend the very real possibility of a seismic shift in federal tax and budget policies. It’s premature to make predictions of what will ultimately pass in Congress, of course, so the magnitude of fallout at the state and local level is a guessing game at this point. But experience from the first Trump presidency and the ground rules for passing fiscal legislation without a Senate filibuster do shed light on the playing field and how the game will likely be played next year.

During the campaign, neither Trump's team nor Kamala Harris' had much to say about public finance beyond the issues of tariffs and tax cuts. Neither candidate addressed the federal deficit or the bond market in a meaningful way. The closest they got to public finance was the way each side portrayed the benefits vs. the inflationary impact of COVID-19 recovery legislation, and neither campaign team made reference to state and local budget consequences. Inflation was the issue: Egg prices were more important than intergovernmental fiscal policy.

So while it remains to be seen as to what exactly the new political team in the White House will propose on Capitol Hill, it is pretty clear that the first orders of business will be to extend the 2017 tax cuts, push for lower corporate taxes for domestic manufacturers, fulfill some of candidate Trump's promises for idiosyncratic tax exemptions and cut government spending. The big unknown, as explained below, will be whether there are enough votes in both houses of Congress to sustain the wild card of dramatic budget cuts of the magnitude ballyhooed by billionaire/influencer Elon Musk.

Continue reading.

governing.com

OPINION | Nov. 19, 2024 • Girard Miller

Munis Join Treasury Rally After Bessent Chosen for Trump Cabinet.

Municipal bonds jumped on Monday, following gains in the US Treasury market after Scott Bessent was named as President-elect Donald Trump's nominee for Treasury secretary, with traders betting the hedge fund manager will bring a Wall Street mindset to the role.

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Bessent — who runs macro hedge fund Key Square Group — has called for a gradual approach to implementing trade restrictions, and has appeared open to negotiating the exact size of tariffs proposed by Trump. Treasuries traded up on the news with yields falling more than 10 basis points across five- to 30-year maturities.

"He'll be a little bit more mindful of both sides of the respective balance sheets of the government," said Chris Brigati, director of strategic planning at SWBC. "To me, that means lower deficits and a little bit of stability in the market."

Municipals have gained 0.88% so far this month, headed for its seventh-straight November of gains, according to data compiled by Bloomberg.

Bloomberg Markets

By Aashna Shah

November 25, 2024

[S&P States' Median Reports: Our New Methodology Highlights Rating Consistency]

Key Takeaways

- S&P Global Ratings notes positive momentum in state ratings in calendar 2024 with three upgrades, six with positive outlooks, and only one with a negative outlook.
- U.S. states' economic metrics reflect stability in the near term despite expectations of more tepid growth.
- States' financial performance and institutional frameworks are largely clustered around our highest assessments across rating levels within the portfolio, while fixed-cost liabilities and management practices are more distinctive indicators of a state's rating level.
- The recent strong revenue environment has led to surplus operating results and historical reserve levels for most states across rating levels.

Continue reading.

20 Nov, 2024

S&P: How Proposed Immigration Policy Could Affect U.S. Public Finance Issuers' Creditworthiness

Despite considerable uncertainty about President-elect Donald Trump's policy proposals for immigration reform, S&P Global Ratings believes it could be helpful to provide its preliminary views on how a stricter approach to immigration could affect certain sectors in U.S. public finance.

What's Happening
The incoming administration hasn't released details on how proposed immigration policies would be structured or enforced, and the timing and extent of any policy changes remain unclear. Nevertheless, Trump's first term, campaign priorities, and early cabinet appointments serve as a preliminary guide for gauging potential areas of credit impact.

Why It Matters
In addition to potential economic and workforce impacts, a proposed change in federal immigration policy could put financial pressure on some public finance sectors, although significant uncertainty remains around the timing, magnitude, and implementation that complicate making cost or economic projections. Tighter border policies could relieve some costs for governments that experienced higher social service expenditures to support new arrivals entering the U.S. during the past few years, even as they potentially raise costs for labor and construction.

Continue reading.

20 Nov, 2024

Fitch: U.S. States Sector Monitor (2024 State Liability Report)

State long-term liability (LTL) burdens rose as of their fiscal 2023 audits, as the previous year's surge in pension asset market values reversed, unwinding part of the temporary improvement in LTL burdens reported in state fiscal 2022 audits. Despite variability in the LTL metric, stronger state contribution practices are supporting the sustainability of pensions and could lower net pension liabilities over time.

Access Report

Wed 20 Nov, 2024

Fitch: U.S. Pension Liability Burdens Rebound Even as More States Contribute

Fitch Ratings-New York-20 November 2024: Overall long-term liability burdens rose among U.S. states in fiscal 2023, reflecting a rebound in pension liabilities, even as outstanding direct debt fell, according to Fitch Ratings in its latest annual report.

Coming off of the very strong market rebound following the pandemic, less robust pension asset returns in 2022 resulted in the median ratio of state pension assets to Fitch-adjusted liabilities falling significantly in fiscal 2023, to 66% from 73.5% the previous year based on data from states' annual comprehensive financial reports (ACFRs, or audits). Pension data in state ACFRs generally lags actual pension system results by one year. The decline in pension asset values did not erase all of the improvement reported in fiscal 2022, with the median ratio in fiscal 2023 still above the 60.2% fiscal 2021 level. "Additionally, stronger market performance reported by pensions in their own fiscal 2023 audits will result in improved ratios and steady or lower pension burdens in upcoming state fiscal 2024 audits," said Senior Director Doug Offerman.

Despite reporting weaker ratios of assets to liabilities in fiscal 2023, U.S. states continued to improve their pension contribution practices, with 40 states making at least full actuarially determined contributions (ADCs) in fiscal 2023, up from 37 states in fiscal 2022 and 25 in fiscal 2016. Continued improvement in fiscal 2023 reflected favorable state fiscal conditions, with reserve balances at historically high levels, even as the post-pandemic revenue surge began to slow. State liability burdens remained unevenly distributed, with only nine states having burdens above 10% of personal income.

At the state level, there were few material changes to rankings in fiscal 2023. Tennessee's long-term liability burden metric, which measures direct debt plus Fitch-adjusted net pension liabilities from 2023 state audits to calendar year 2023 personal income, remains the lowest, at just 1% of personal income, followed by Nebraska, South Dakota, Florida and Arizona. The rankings remain unchanged at the opposite end with Connecticut carrying the highest long-term liability burden, at 23% of personal income, and Illinois, Hawaii, New Jersey and Kentucky rounding out the top five.

Fitch's 'U.S. States Sector Monitor (2024 State Liability Report)' and a supplementary data file are available at www.fitchratings.com.

Fitch: Expiration of Home Healthcare Program Threatens US NFP Hospital Recovery

Fitch Ratings-New York-21 November 2024: Congressional failure to extend the Acute Hospital Care at Home program and certain features of telehealth policy could threaten the U.S. not-for-profit (NFP) hospital sector's nascent financial recovery, Fitch Ratings says.

The Acute Hospital Care at Home (hospitals at home) and certain Medicare telehealth services that were extended under the 2023 Consolidated Appropriations Act (CAA) will expire on Dec. 31, 2024, unless Congress acts to renew the programs. Hospitals have increasingly incorporated these services into their operations, which has helped to alleviate revenue and expense pressures. Hospital financials have shown signs of improvement, although challenges lurk with increased Medicare payors as the U.S. population ages, shifts from inpatient to outpatient services, and achieving sustainable levels of cash flow given high costs and fixed revenues.

The hospitals at home program was implemented by the Centers for Medicare and Medicaid Services (CMS) during the pandemic to allow Medicare-certified hospitals to provide in-patient care at home. Length of stay (LOS) increased during the pandemic, as staffing challenges in post-acute care settings, particularly at skilled nursing facilities (SNF), limited hospitals' ability to discharge patients. Employment at SNFs remains below pre-pandemic levels, and the program has helped hospitals reduce LOS by allowing certain lower acuity patients to recover at home. Hospital at home patient quality indicators and patient/caregiver satisfaction data have been positive for the program, according to a study conducted by the CMS as required under the CAA.

Telehealth, which was essential in providing access to care during the pandemic, has become a normal part of healthcare and hospital operations. The key provision that will expire in December allows Medicare patients to receive broad telehealth services at home. Telehealth reduces hospital costs and provides critical, additional revenue by increasing patient volumes and broadening access, especially in rural areas, where physician coverage is limited.

Not-for-profit hospital and health systems are slowly recovering from their worst year financially in 2022 due to high labor costs that contributed to operating margin pressure. The overall median operating margin improved to 0.4% in 2023 from 0.2% in 2022, but we expect ongoing stresses will keep margins compressed relative to pre-pandemic levels of 2%-3%, even as volumes remain strong. Labor costs, which have abated from pandemic peaks, remain elevated, and NFP hospitals have limited flexibility to raise rates.

We anticipate hospital Medicare volumes will increase over time, absent service line and catchment area expansion, as the baby boom generation ages. In addition, given the strong patient volumes, capacity constraints are re-emerging, with the need for capital spending and a corresponding increase in debt issuance.

U.S. CDFIs Take On More Debt To Grow Their Lending Capacity: Ratings Will Likely Remain Stable - S&P

Key Takeaways

- U.S. CDFIs are looking to grow by attracting new capital to expand their lending capacity in

underserved communities.
- Capital adequacy is weakening but remains at levels commensurate with current ratings.
- Diligent underwriting and effective portfolio oversight underpin the rated sector's asset quality, but delayed project stabilization or take-out financing could impair loan performance for certain organizations.
- Lending strategies and funding sources vary among rated CDFIs, which is reflected in our view of their individual financial strength.

Continue reading.

19 Nov, 2024

Data Centers: U.S. Not-For-Profit Electric Utilities Explore Ways To Mitigate Risks From Load Growth - S&P{

Key Takeaways

- In our view, prospects for load growth from data centers and beneficial electrification mandates have the potential to expose U.S. not-for-profit electric utilities to negative credit pressures due to the substantial investment requirements to serve load growth.
- For those electric utilities with surplus power generation resources, load growth might strengthen credit metrics as utilities spread fixed costs over more megawatt hours.
- S&P Global Ratings' base case assumes annual electricity sales growth of about 1% for the next several decades, which is a significant rise following nearly flat sales growth in the past two decades.
- Preserving credit quality among not-for-profit electric utilities will require mitigating customer nonpayment, avoiding cost shifting among new and existing customers, and developing rate structures that provide for the timely and sufficient recovery of the costs of adding resources to support new loads.

Continue reading.

21 Nov, 2024

Fitch: Spirit Airlines' Bankruptcy Will Not Affect Airport Ratings

Fitch Ratings-New York-21 November 2024: Spirit Airlines' bankruptcy filing is unlikely to have a material impact on U.S. airport operations, finances, or ratings, Fitch Ratings says. In the near term, Spirit plans to continue operating normally during the bankruptcy process, which it expects to complete in 1Q25.

As a low-cost carrier Spirit is focused is on leisure travel, servicing predominately origin and destination markets. Spirit has a small share of flights and passenger levels at most airports it serves. However, Spirit does have a meaningful share of enplanements at Myrtle Beach Airport and Fort Lauderdale-Hollywood Airport, both of which have strong financial profiles, and a more modest share of traffic at Orlando Airport (Greater Orlando Aviation Authority) and Las Vegas (Harry Reid International) Airport, with both airports demonstrating positive financial trends.

Continue reading.

Fitch: US Airports and Toll Roads Maintain Strong Momentum in 1H2024

Fitch Ratings-Austin-22 November 2024: Traffic at U.S. airports and on toll roads continued to grow year-over-year in 1H2024, according to Fitch Ratings in its latest U.S. Airports & Toll Roads Traffic Monitor.

Average airport traffic growth for 1H2024 across the Fitch Traffic Monitor portfolio was 6.5% higher than the same period in 2023. Leisure markets continued to perform well, and a new top performer emerged, with Charlotte Douglass International Airport experiencing strong year-over-year growth.

The toll road sector began the year with modest year-over-year growth across the Fitch Traffic Monitor portfolio compared to 1H2023. Southern California toll roads performed exceptionally well in 1H2024 due to rapid growth in the corridor. Only two toll roads are still below 90% of pre-pandemic levels.

The traffic monitor is a web-based interactive platform that provides traffic volume information for more than 50 U.S. issuers. It compares current traffic levels as a percentage of 2019 traffic levels, to allow tracking of the sector's recovery to pre-pandemic levels. It provides several ways to sort data and produces charts to allow for visual comparisons between issuers.

To access the Traffic Monitor, visit: https://www.fitchratings.com/infrastructure-projec--finance/traffic-monitor.

State and Local Officials Urge Congress to Fund Lead Pipe Removal.

New federal rules require localities to get rid of all their lead water pipes in the next 10 years. Officials say they need help – and money.

A new federal rule will require water utilities across the country to pull millions of lead drinking water pipes out of the ground and replace them, at a cost of billions of dollars.

States, cities and water utilities agree that the lead pipes need to go to ensure safe water for residents. But they say they may struggle to do so in the 10-year window required under the rule, and they fear some ratepayers will be hit with massive cost increases to pay for the work.

State officials are urging Congress to provide ongoing funding for the lead replacement effort. Local leaders say they'll need lots of help to meet the deadline. And environmental advocates are calling on states to issue bonds or provide other financial support to water utilities.

Continue reading.

governing.com

Nov. 22, 2024 • Alex Brown, Stateline, TNS

APPA Earns DOE Grant to Draft Elective Pay "Blueprint" for Public Power.

The Department of Energy's Office of Policy announced this week that the American Public Power Association is one of five organizations that will receive funding to develop "blueprints" for developing projects making use of elective pay energy tax credits.

APPA submitted its request to DOE in August and has been working through the fall with the department to finalize details of the agreement.

Under the agreement, APPA will develop a "blueprint" specifically designed to guide public power utilities through the process of developing elective pay tax credit projects.

The goal is a step-by-step review of project development – from assembling your project team to filing for elective pay once the project is in service. The blueprint will focus at each stage on issues of specific concern as a result of elective payment, while also providing direction to readers as to where additional resources can be found for issues that fall outside the blueprint's scope.

The document is scheduled to be completed in May and will be drafted relying on in-house staff and outside experts in project development, tax law, accounting, and municipal finance.

In addition, APPA has obtained commitments from public power utilities that have already gone through the elective pay process to "stress test" the document to ensure that it provides the breadth and depth of guidance needed.

American Public Power Association

by Paul Ciampoli

November 21, 2024

States Are Exploring Paths to Finance Climate Resilient Infrastructure.

Recent programs and legislative proposals highlight diverse approaches

As extreme weather events become more intense and more common, states already face an estimated backlog of nearly $1 trillion for deferred maintenance and needed upgrades to public infrastructure. To finance long-overdue repairs and ensure that America's roads, bridges, and water systems can withstand future climate impacts, states are turning to new strategies and adapting existing approaches to address the substantial work needed to boost the resilience of these vital systems.

Doing so is critical as aging and often undermaintained systems are increasingly vulnerable to the rising frequency and intensity of natural disasters, extreme heat, heavy rainfalls, drought, and other shifting environmental impacts—all of which increase maintenance costs.

In recent years, policymakers have been exploring approaches to manage these rising costs and address emerging financial challenges while also attending to other essential public spending priorities such as health care and education.

Continue reading.

The Pew Charitable Trusts

By Fatima Yousofi & Eli Gullett

November 21, 2024

Intersection of AI and Muniland: Bloomberg Masters of the Muniverse

In this months episode we take a break from the discussing nuts and bolts of asset management and instead focus on the bits and bytes of how technology is applied to and even changing the municipal landscape. Joining us this month is Issac Kuo from Parametric portfolio associates. Issac is a portfolio manager, technologist and painfully shy scratch golfer.

Listen to the podcast

Bloomberg Intelligence

Nov 20, 2024

Muni Market Heads for Seven-Year Streak of November Gains.

- **Seasonal slowdown in municipal bond sales provides tailwind**
- **30-year munis most expensive to Treasuries since January 2022**

The municipal bond market is headed for its seventh-straight November of gains, with the US presidential election and a Federal Reserve meeting keeping issuers on the sidelines, while strong investor demand has boosted prices.

Municipal issuance, usually slow in the 11th month, was more muted than usual because state and local governments sought to avoid election-related volatility. Long-term muni bond issuance through Nov. 22 was $23.4 billion, down 6% year-over-year.

Meanwhile, investors typically have more cash on hand from principal and coupon payments than available debt to purchase. This November, demand exceeds supply by $12 billion, according to PGIM. The upshot is that over the past decade, November has tended to be the strongest month of the year, returning 1.1% on average, data compiled by Bloomberg show.

Continue reading.

Bloomberg Markets

By Martin Z Braun

November 22, 2024

Invesco Muni Spotlight: Our Approach to Evaluating Housing Finance Authorities

Key Takeaways

- **Our approach** – Given the uniqueness of the Housing Finance Authority (HFA) sector among municipal bond issuers, we updated the way they're evaluated under our ratings methodology.
- **More opportunities** – This change makes it possible to take advantage of more opportunities that support positive social outcomes, specifically affordable housing and poverty reduction.
- **Case study** – The Statewide Communities Development Authority joined our list of eligible HFAs, thanks to this approach.

Housing Finance Authorities are a fundamentally different sector than other municipal sectors. The purpose of an HFA is to provide affordable housing to low- and middle-income individuals and households. How effective an HFA is varies depending on local and state regulations, availability of funding/financial support, and management. Even if an HFA is providing less affordable housing than one of its peers, it's better that some affordable housing is being provided versus none, in our view.

Given the uniqueness of this sector, we updated the way HFAs are evaluated under our ratings methodology. Headline risk now determines whether an HFA is eligible or ineligible for inclusion in our funds.

What do we mean by headline risk?
Headline risk is the risk of negative environmental, social, and governance (ESG) events that call into question an issuer's ESG bona fides. What constitutes a negative ESG event varies by sector. For utilities, for example, it would most likely be a significant environmental accident that could have been prevented through better management or climate resilient infrastructure.

For HFAs, headline risk events include possible corruption, poor or dangerous living conditions, and misuse of resources. Examples we've encountered in our credit research include extreme heat conditions, possible mishandling of complaints, maggot infestations, possible corruption by preventing federal funds from being distributed properly, delayed or bungled distribution of federal funds, and others.

All of the above issues are significant and concerning; they call into question the management of these HFAs and their ability to make good on their mission of providing affordable housing.

What did this change mean?
This change made it possible for us to take advantage of more opportunities that support positive social outcomes, specifically affordable housing and poverty reduction.

HFAs continue to be scrutinized as carefully as before. We continue to monitor headline risk, as well as whether an HFA provides reasonable affordable housing opportunities. When possible, we engage with problematic issuers to understand their perspective on headline risk events and how they plan to address these risks and events in the future.

Issuer case study: Statewide Communities Development Authority
This Statewide Communities Development Authority joined our list of eligible HFAs, thanks to our present approach. Based on our previous approach to the sector, this Authority likely wouldn't have been eligible, since it doesn't conform to the typical HFA structure.

This Authority was established in the 1980s for the purpose of supporting community-based programs for public benefit. The Authority currently serves as a conduit issuer for more than $530 cities, counties, and special districts. As a conduit, it has issued more than $70 billion in tax-exempt bonds and supported community infrastructure, education accessibility, health care accessibility, affordable housing, and job creation projects.

The Authority's finance programs include the following:

- **Public Agency Program**s are low-cost, pooled finance programs designed to address short-term borrowing needs and budget shortfalls and provide capital for critical infrastructure improvements.
- **Property Assessed Clean Energy Programs** provide financing to residential and commercial property owners for water conservation, seismic improvement, energy efficiency, and renewable energy projects.
- Through the issuance of government bonds, the **Community Improvement Authority Workforce Housing Program** acquires market-rate apartment buildings that are then converted to income and rent-restricted affordable housing units for moderate/middle-income households. It's the largest workforce housing program in its state, having converted more than 7,700 units for low- and middle-income tenants.
- The **New Markets Tax Credit Program** encourages and supports businesses and real estate projects in low-income communities through Community Development Entities.
- The **Statewide Community Infrastructure Program** provides financing to enable developers to pay impact fees and finance public infrastructure projects.
- **Private Activity Programs** finance high quality public benefit projects, including qualified non-profit organizations; housing bonds for low-income multifamily and senior housing; tax-exempt bonds for the rehabilitation or acquisition of equipment for exempt and solid waste facilities; and taxable bonds for public benefit projects by both public and private entities.

November 20, 2024

Vanguard Launches Two Active Municipal ETFs.

VALLEY FORGE, PA (November 21, 2024)—Vanguard today launched Vanguard Core Tax-Exempt Bond ETF (VCRM) and Vanguard Short Duration Tax-Exempt Bond ETF (VSDM), two active municipal ETFs managed by Vanguard Fixed Income Group. The new ETFs offer diversified exposure to municipal bonds across sectors, states, and credit quality with the potential to outperform their benchmarks over the long term.

"These new ETFs combine our top-tier active fixed income capabilities with our expert municipal bond team, all within an actively managed ETF wrapper that's becoming an essential for many investors," said Sara Devereux, Global Head of Vanguard Fixed Income Group. "We envision these ETFs playing an integral role in investors' portfolios; with Vanguard Core Tax-Exempt sitting centrally as part of their tax-exempt allocation and Vanguard Short Duration Tax-Exempt leveraging our expert active capabilities, helping investors to get the most out of their short-term allocation."

Vanguard Core Tax-Exempt Bond ETF offers broad exposure to high-quality municipal bonds with an expense ratio of just 0.12% compared with the average expense ratio for competing funds of 0.36%.1 It will be managed by industry veteran Stephen McFee. With two decades of experience at Vanguard, McFee has successfully managed several active mutual funds and indexed ETFs in our fixed income offerings.

Vanguard Short Duration Tax-Exempt Bond ETF is designed for investors seeking tax-exempt municipal income at the short end of the yield curve. Investors in the ETF can expect a portfolio of short-duration and primarily high-quality, investment-grade municipal bonds that generates tax-exempt income with lower interest rate sensitivity. Adam Ferguson, who has successfully managed Vanguard municipal funds for more than 20 years, will oversee management for this fund. It has an estimated expense ratio of 0.12%, compared with the average of 0.27%1 for competing funds.

Vanguard Core Tax-Exempt Bond ETF and Vanguard Short Duration Tax-Exempt Bond ETF provide an active counterpart to Vanguard's existing suite of index municipal ETFs and build on Vanguard's growing active fixed income ETFs alongside the recently launched Vanguard Core Bond ETF (VCRB) and Vanguard Core-Plus Bond ETF (VPLS).

Vanguard Fixed Income Group

With more than $2.4 trillion globally in fixed income assets under management, Vanguard Fixed Income Group is one of the world's largest managers of bond mutual funds and ETFs,2 overseeing the full spectrum of fixed income asset classes and sectors. The new ETFs will be managed by Vanguard Fixed Income Group's municipal team, which has proven expertise and a track record of producing strong client outcomes across Vanguard's extensive municipal bond fund lineup. The municipal team includes 40 tenured portfolio managers, traders, and analysts, who leverage their deep experience, scale, and sophisticated processes to navigate this complex segment of the fixed income market.

Vanguard's track record as an investment manager remains unparalleled—95% of Vanguard active fixed income funds outperformed their peer group averages over the past ten years ended September 30, 2024.3

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About Vanguard

Founded in 1975, Vanguard is one of the world's leading investment management companies. The firm offers investments, advice, and retirement services to individual investors, institutions, and financial professionals. Vanguard operates under a unique, investor-owned structure where Vanguard's fund shareholder clients own the funds, which in turn own Vanguard. As such, Vanguard adheres to a simple purpose: To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. For more information, visit vanguard.com.

All figures as of September 30, 2024, unless stated otherwise.

1 Morningstar data as of September 30, 2024.

2 Assets under management figures as of September 30, 2024

3 For the ten-year period ended September 30, 42 of 44 Vanguard active bond funds outperformed their peer group averages; results will vary for other time periods. Only funds with a minimum ten-year history were included in the comparisons. (Source: Lipper, a Thomson Reuters Company.)

Freddie Mac To Bring Tax-Exempt Loan CMBS Product to Municipal Investors.

New Approach Will Increase Liquidity in CMBS and Municipal Markets and Support Affordable Multifamily Housing

MCLEAN, Va., Nov. 21, 2024 (GLOBE NEWSWIRE) — Freddie Mac (OTCQB: FMCC) Multifamily today announced a new CUSIP registration capability to better align its ML-Deal offerings for both commercial mortgage-backed securities and municipal bond investors, increasing liquidity across both markets and advancing Freddie Mac's mission.

The new CUSIP registration capability will allow investors to choose their preferred CUSIP identifier, Mortgage or Municipal, at deal settlement and subsequently exchange their certificates between either of the two CUSIPs through a Freddie Mac approved Broker Dealer.

"This new registration capability streamlines our product to both mortgage and municipal bond investors, which is important to meet market needs and deliver on Freddie Mac's mission to support affordability, liquidity and stability in the multifamily housing market," said Robert Koontz, SVP of Multifamily Capital Markets at Freddie Mac. "We look forward to continuing to innovate and advance our offerings to respond to market changes while keeping a clear focus on our mission."

Continue reading.

Fixed-Income Investors: Look for 'Shock Absorbers' Like Corporate Debt or Muni Bonds

Investors looking to build their fixed-income portfolio should look for high-quality corporate debt, mortgage-backed securities and municipal bonds, one head of fixed income said.

Gene Tannuzzo, the head of fixed income at asset manager Columbia Threadneedle, said as interest rates fall, "Inevitably we will have some volatility and I think high-quality bonds, whether they be taxable or muni, are well positioned to be a shock absorber," he said. That's why he likes debt in sectors such as healthcare, financials and utilities.

Tannuzzo believes inflation will continue to fall toward the Federal Reserve's 2% target and that the central bank will push interest rates below 3% by the end of 2025.

However, his forecast isn't necessarily in line with consensus.

Continue reading.

marketwatch.com

By Paulo Trevisani

Nov. 25, 2024

Fitch Takes Various Rating Actions on U.S. Enhanced Municipal Bonds and TOBs.

Fitch Ratings – New York – 13 Nov 2024: Fitch Ratings has taken various conforming rating actions on U.S. enhanced municipal bonds and tender option bonds (TOBs) corresponding to actions taken on their associated enhancement providers, liquidity providers or underlying bonds.

Key Rating Drivers

The U.S. enhanced municipal bonds and TOB ratings addressed in this rating action commentary (RAC) are dependent ratings, being the subject of pre-existing rating dependencies. A list of the U.S. enhanced municipal bond and TOB ratings actions can be seen via the "View Additional Rating Details" link below.

All rating actions announced in this RAC are directly driven by separately announced rating actions on associated enhancement providers, liquidity providers or underlying bonds. The most recent RAC with respect to the credit rating of each associated enhancement provider, liquidity provider or underlying bonds referenced herein sets out the key rating drivers and names and contact details of the relevant primary and secondary analysts and committee chair in relation to the credit ratings of such enhancement providers, liquidity providers or underlying bonds.

Continue reading.

S&P U.S. Social Housing Providers: Laying The Groundwork To Address Affordable Housing Needs

Key Takeaways

- S&P Global Ratings expects affordable housing funding gaps will continue to widen as U.S. Department of Housing and Urban Development support had remained stagnant from political deadlock and budgetary impasses in 2024. Future budgetary cuts could occur as part of Congress' proposed spending.
- However, social housing provider ratings will remain stable as a result of strategic competence and operational effectiveness of management teams, as many issuers seek to increase revenue amid inflationary expenditure pressures, including rising insurance costs.
- Debt profiles could weaken in the short term as many issuers execute aggressive growth strategies, including preservation of affordable units with Section 8 conversions under the Rental Assistance Demonstration program.
- Opportunities to increase funding for affordable housing may occur through local ballot measures and proposed federal fiscal policy, but ultimately partisan dynamics could shape outcomes.

Continue reading.

14 Nov, 2024

S&P U.S. Not-For-Profit Transportation Infrastructure 2023 Medians:

Demand And Revenue Growth Improved Financial Medians To Post-Pandemic Highs

Key Takeaways

- U.S. not-for-profit transportation infrastructure enterprise (TIE) financial medians improved in fiscal 2023 across the asset classes given continued revenue and activity growth (passengers, tolled transactions, and tonnage) and a combination of management actions such as increasing rates, fees, and charges and reserves.
- S&P Global Ratings expects that stable-to-improving demand and revenue trends and proactive management practices will continue to mitigate the impact of higher debt for larger issuers and of rising operations-and-maintenance (O&M) costs to support financial medians into fiscal 2024.
- Despite 14% median growth in operating expenses attributable to inflationary pressures combined with higher debt outstanding, virtually all TIE medians improved as S&P Global Ratings-calculated median net revenue available for debt service increased, resulting in improved overall coverage, debt capacity, and cash reserves.
- Improved financial metrics contributed to overwhelmingly positive rating actions with 32 upgrades and one downgrade from Sept. 1, 2023, through Sept. 1, 2024.

Continue reading.

12 Nov, 2024

S&P: Strong Financial Resources And Innovation Are Paving A Path Forward For U.S. Not-For-Profit Cultural Institutions

Key Takeaways

- Most U.S. cultural institutions have emerged on solid footing from one of the most operationally challenging periods in recent history
- Annual attendance has increased from record lows but very few institutions have seen it recover to pre-pandemic levels
- Greater philanthropic support and heightened endowment draws have helped several institutions ease their reliance on federal support and stabilize operations
- Although financial resources remain a key driver of credit strength, most institutions are cautiously anticipating further market volatility

Continue reading.

12 Nov, 2024

Resource Explores Local Government AI Use, Offers Advice.

The National League of Cities released a report this week outlining strategic ways municipalities are using artificial intelligence to better serve constituents. An accompanying toolkit aims to facilitate analysis.

The National League of Cities' (NLC) new AI in Cities report and toolkit illustrates various use cases of artificial intelligence in local government.

Amidst the rise of AI use, local governments are expected to quickly adapt in order to successfully implement the technologies. Some resources already exist to support local government in this work, like a toolkit from the National Association of Counties.

NLC's report was created in partnership with Google, with the input of local leaders serving on the NLC AI Advisory Committee. It includes expertise from elected officials, technology innovators and state municipal league staff.

Continue reading.

govtech.com

November 14, 2024 • News Staff

NLC Releases New Report on Local Governments & AI Use.

Washington D.C. – A new report from the National League of Cities in partnership with Google highlights practical ways that local governments are maximizing the use of Artificial Intelligence (AI) to optimize city services. From improving traffic systems to enhancing public safety, the AI in Cities report profiles innovative use of AI in municipalities and includes a toolkit to help local leaders adopt the use of AI effectively and efficiently.

Drafted with input from local leaders serving on NLC's AI Advisory Committee, the report showcases the strategic way that local governments are exploring opportunities to use technology like AI in its many forms to better serve their communities.

"Technology has always been an essential tool to help local governments respond to the changing needs of their residents," said National League of Cities CEO and Executive Director Clarence E. Anthony. "Our Artificial Intelligence report is a collection of both the potential pitfalls and the overwhelming opportunities that exist for our local communities with AI. As part of NLC's centennial celebration, we are focused on helping local officials prepare for the next chapter in local governance."

"We are excited to partner with the National League of Cities, providing tools, resources and expertise to help its members leverage AI in ways that meet the unique needs of their communities," said Karan Bhatia, Vice President & Global Head Government Affairs & Public Policy at Google. "We believe that by working together, we can unlock the transformative power of AI to build a better future for everyone."

NLC was proud to partner with Google and to have them share their expertise with our members who are eager to learn how to navigate this technology and leverage it, where valuable, to make their communities stronger.

National League of Cities

November 13, 2024

Report Details How States Can Implement Reliable, Effective Generative AI.

For generative AI initiatives to be successful, a new report suggests a slow and steady approach to the technology.

A new report highlights how generative AI could impact state operations and offers insights to effectively implement the burgeoning technology.

The explosive debut of generative AI following the 2022 launch of the popular ChatGPT chatbot catapulted the technology into the public sector's eyes, and state officials have since explored its potential to streamline workflows and boost productivity.

Over the next few years, generative AI is expected to take over routine government functions — such as program eligibility determination or policy assessments — and improve employee and customer experience, according to a report released this week from the National Association of State Chief Information Officers.

Continue reading.

Route Fifty

By Kaitlyn Levinson,
Reporter, Route Fifty

November 15, 2024

State and Local Security Adjusting to Shifting Cyber Threats, Insurance Requirements.

State and local governments are under the radar no more. Although security has always been taken seriously, many governments didn't consider going as far as taking out cybersecurity insurance because they didn't feel they were lucrative enough targets to attract the persistent attention of cyber threat actors.

But any added sense of security from being perceived as relatively inconsequential targets is quickly eroding. The attacks this summer on the City of Columbus, Ohio, and the New Mexico public defender's office were notable on their own, but they also continued a trend. Malware attacks and ransomware incidents targeting state and local governments increased by 148% and 51%, respectively, from 2022 to 2023, and show no signs of slowing down.

At the state level, CISOs are facing this increasingly pernicious threat, with nearly 40% of them saying they don't have the IT budgets or resources to protect systems that are heavy with legacy equipment, according to a report released Sept. 30 by Deloitte and the National Association of State Chief Information Officers (NASCIO).

Continue reading.

Route Fifty

By Paul Underwood,
VP of Security, Neovera

November 12, 2024

[What the 2024 Election Could Mean for Transportation Policy.]

Local taxes to fund public transit fared well on Election Day. But state and federal election results could alter the outlook for infrastructure investment long term.

In Brief:

- Voters backed most of the local transportation funding measures on ballots last week, approving around $25 billion in revenue for public transit.
- Other election results could signal potential shifts in policies related to electric vehicles and transportation emissions.
- Congress faces longer-term challenges over the solvency of the Highway Trust Fund, which pays for most transportation infrastructure.

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governing.com

Nov. 13, 2024 • Jared Brey

[Subways, Buses and Bike Lanes Scored Billions in Local Ballot Wins.]

Voters overwhelmingly supported local measures to improve mass transit from Arizona to Tennessee.

While most of the country was transfixed by the presidential vote earlier this month, voters in Nashville quietly supported a major transit plan by a 2-to-1 margin after roundly rejecting a similar one in 2018 by the same margin.

It was part of a wave of mass transit-oriented measures that passed this election season, even as Republicans — who tend to oppose mass transit — won many up-ballot races. Of the 26 transit initiatives, 19 passed for communities including Columbus, Ohio; Maricopa County, Arizona; and metro Denver, Colorado. All told, the initiatives along with other wins earlier this year will raise roughly $25 billion, according to the American Public Transportation Association. The widespread support reflects the broader reality that “people want to have good transit, they want alternatives, they want their workers to be able to get to their jobs reliably,” said Beth Osborne, vice president for transportation and thriving communities at Smart Growth America.

Continue reading.

Bloomberg Green

By Kendra Pierre-Louis

November 16, 2024