Payroll Growth Uneven; Hourly Earnings Climb for U.S. Life Plan Communities - Fitch

Fitch Ratings-New York/Austin-13 December 2022: Payrolls for U.S. life plan communities (LPCs) and assisted living (AL) facilities are showing payroll growth divergence, according to Fitch Ratings in its latest monthly labor dashboard for the sector.

LPC payrolls grew by 3,200 (+0.71%) in October 2022 and nursing facility payrolls grew by 2,800 (+0.20%) in November 2022. Conversely, AL facility payrolls declined by 500 (-0.50%) in October 2022, according to preliminary data released by the U.S. Bureau of Labor Statistics (BLS). Even with the material payroll growth in 2022, LPC, AL facility and nursing facility payrolls remain 11.15%, 1.43% and 13.59% below February 2020 levels, respectively.

“LPCs with a significant skilled nursing component, which tend to be lower rated, may experience additional pressure given their exposure to governmental payors limits their ability to raise rates,” said Director Richard Park. “Most of Fitch’s rated LPCs have been able to pass on these higher costs through rate and fee increases, which have been well above the typical 3% to 5% increase in 2022 and 2023.”

As of Nov. 20, 2022, 18.1% and 18.7% of nursing facilities reported shortages of nurses and aides, respectively. These figures are well below the January 2022 peak (28.3% and 29.9% of nursing facilities reported shortages of nurses and aides, respectively).

Fitch’s latest “Life Plan Communities Labor Dashboard: December 2022” is available at ‘www.fitchratings.com’

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[Fitch: CDFI Ratings Reflect Strong Asset Quality and Solid Financial Profiles]

Fitch Ratings-Chicago/New York/San Francisco-14 December 2022: The demand for affordable housing and community development lending is stronger than ever, with housing affordability at its weakest level in decades, according to Fitch Ratings. Given the worsening macroeconomic environment forecast for 2023, demand for the affordable housing and community development loans offered by community development financial institutions (CDFIs) is expected to rise. At the same time, rising unemployment and declining incomes could potentially lead to higher delinquency and default rates among CDFIs' borrowers.

In Fitch's view, however, CDFIs are well positioned to face these headwinds, given the strong asset quality of their loan portfolios, their solid financial profiles, and the effective oversight provided by their underwriting and servicing teams. It is these factors that support the high to medium investment-grade ratings currently assigned to CDFIs.

Fitch's existing ratings on CDFIs are currently in the 'A' and 'AA' categories and are assigned in accordance with Fitch's Public Sector, Revenue-Supported Entities Rating Criteria. The approach to assigning CDFI ratings under the Revenue-Supported Entities Criteria is in many ways similar to, yet distinct from, the approach to rating U.S. housing finance agencies under Fitch's U.S. Housing Finance Agency General Obligation Rating Criteria. By utilizing the Revenue-Supported Entities Criteria, Fitch acknowledges the similarities between CDFIs and other entities that provide essential public or social services, including social housing providers, public housing authorities, social service providers and charitable institutions. At the same time, the Revenue-Supported Entities Criteria provide enough flexibility such that Fitch is able to tailor its analysis to the unique characteristics of each CDFI.

As part of its rating analysis for CDFIs, Fitch assesses three key rating drivers (KRDs): revenue defensibility, operating risk and financial profile. Under the revenue defensibility KRD, Fitch assesses a CDFI's exposure to revenue disruption by evaluating the asset quality of its loan portfolio, including loan performance, portfolio composition, and the availability of collateral and reserves to offset loan losses. Under the revenue defensibility KRD, Fitch also assesses a CDFI's market position and the demand characteristics that influence revenue volatility. When assessing operating risk, Fitch considers the CDFI's risk profile, operating profitability, and its reliance on potentially volatile funding sources. With respect to financial profile, the CDFI's level of financial flexibility and the quality and stability of its financial resources are assessed through various leverage, capital base and liquidity metrics. Notably, Fitch evaluates each CDFI's loan portfolio individually and incorporates historical loan performance into the rating analysis, rather than relying on models or standard default and loss assumptions.

Generally speaking, CDFIs tend to exhibit stronger or midrange credit characteristics, including solid demand, low loan delinquencies and losses, conservative risk management and strong financial profiles. While loan performance may deteriorate next year given Fitch's expectations for a mild recession beginning in 2Q23, loan losses are expected to remain well within Fitch's stressed rating assumptions. As such, rating changes are not anticipated, and CDFIs remain well positioned to respond given their solid financial profiles. Notably, Fitch's risk analysis for CDFIs is forward-looking, with the aim of achieving ratings stability through economic cycles. Rating changes are therefore intended to reflect shifts in fundamentals for the CDFI or the sector, rather than cyclical or transitory changes in credit quality.

As the CDFI industry continues to evolve, Fitch is committed to ensuring that its rating opinions and criteria reflect the true nature of credit risks in this industry. In fact, Fitch reviews all of its criteria no less than once a year, providing ample opportunities to update the criteria to reflect current trends and market developments and/or incorporate any new risks identified in the sector.

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Fitch Rtgs 2023 Outlook: Govt Support & Strong Financials to Insulate CDSL from Looming Recession

Fitch Ratings-New York/Chicago/San Francisco-14 December 2022: Fitch Ratings views the outlook for the Community Development and Social Lending (CDSL) sector as neutral for 2023. The CDSL sector faces numerous headwinds heading into 2023. The decline in home prices thus far has not been enough to offset rising mortgage rates, exacerbating the already acute housing affordability crisis. Homeowners and renters are contending with the looming threat of job losses as the risk of recession escalates, further contributing to housing insecurity. Persistent shortages of affordable housing and ever-increasing community development needs continue to present challenges. At the same time, falling home prices and rising unemployment could potentially lead to higher delinquency and default rates.

“Although the CDSL sector is facing strong headwinds, demand for the essential services provided by CDSL issuers will inevitably rise, given the worsening macroeconomic environment that is forecast for 2023,” says Karen Fitzgerald, Fitch Senior Director and Sector Head. “In our view, CDSL issuers are well positioned to respond due to their solid financial profiles and the strong federal government support from which they typically benefit.”

While the sector’s ratings are largely unchanged, there were a number of favourable Rating Outlook revisions during 2022. The rating actions taken by CDSL in 2022 included two upgrades, two downgrades, and 26 favourable Outlook revisions (from either Negative to Stable or from Stable to Positive). Many of the Outlook revisions to Stable from Negative were driven by the direct linkage between certain housing finance agencies (HFAs) and the U.S. Issuer Default Rating, the Outlook of which Fitch revised to Stable from Negative in July.

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S&P U.S. Charter Schools 2022 Year In Review.

Key Takeaways

U.S. charter schools maintained credit stability in 2022. With significant help from federal emergency funds, as well as stable to increasing per-pupil funding and general enrollment growth across the sector, charter schools entered 2022 with greater financial flexibility.

Proactive management supported credit quality across the sector. Management teams were able to pivot swiftly and successfully to varied instructional modes, reinforcing the need for sound governance and communication, contingency planning, and internal controls to mitigate risk.

As we look ahead to 2023, key questions will affect credit quality. What will be the lasting implications of the COVID-19 pandemic on kindergarten to grade 12 learning loss, and will it affect charter authorization and renewals? Will enrollment continue to increase post-pandemic? How will per-pupil funding for charter schools fare as inflation and rising expenses affect state budgets? These questions will be addressed in our 2023 sector view report.

Continue reading.

12 Dec, 2022

S&P U.S. Not-For-Profit Health Care Rating Actions, November 2022

S&P Global Ratings affirmed 20 ratings without revising the outlooks, took seven rating actions, and revised five outlooks without changing the ratings in the U.S. not-for-profit health care sector in November 2022. There were five new sales in November, of which two had outstanding ratings affirmed with no outlooks revised, one had a revised rating, and two had outlooks revised unfavorably. The 12 rating and outlook actions consist of the following:

- Five downgrades on two hospitals and three health systems, three of which were also placed on CreditWatch with negative implications. Two of the five downgrades were within the speculative-grade category and one other downgrade went to speculative-grade from 'BBB-';
- Two upgrades on one hospital and one human service provider;

- Four unfavorable outlook revisions on two hospitals and two health systems (three from stable to negative, one from positive to stable); and
- One favorable outlook revision to positive from stable due to a merger and acquisition.

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

Continue reading.

14 Dec, 2022

Quantifying Financial Impact of Climate Risk with Moody's Climate on Demand.

Climate change is widely accepted as the next great integrated risk challenge. To ensure long-term economic resilience, a wholly robust and comprehensive approach for estimating climate impacts will be required, one that captures real asset losses as well as distributive business interruptions.

Read more.

December 13, 2022

S&P U.S. Transportation Infrastructure Port Sector Update And Medians: Ports Are Resilient In Shifting Tides

Key Takeaways

- The key near-term challenge for U.S. ports will be managing through economic headwinds, as S&P Global Economics includes a shallow recession in the base-case forecast for the first half of 2023, coupled with continuing supply chain issues that will keep inflation high.
- Ports also face lingering congestion issues caused by supply chain disruptions and logistical bottlenecks, which, while they will subside, could shift import container traffic from the West Coast to the East Coast.
- Container growth has continued in the pandemic rebound and we expect this year will be 1.6% higher compared with 2021, or 13% higher than levels in 2019, although recent monthly container traffic has fallen significantly.
- Our analysis of rated port issuers' fiscal 2021 financial metrics shows relatively stable performance with median revenues increasing 2.9% in 2021, resulting in median debt service coverage of 2.6x in 2021, compared with 2.3x in 2020 and 3.0x in 2019.

Continue reading.

13 Dec, 2022

[S&P U.S. Municipal Retail Electric Sector Update And Medians: Resilient Metrics Support Ratings]

Key Takeaways

- About 60% of S&P Global Ratings' municipal retail electric utility ratings are in the 'A' category, with a median and modal rating of 'A+', reflecting our view of healthy operations and finances amid utility-specific and industrywide challenges.
- Largely stable outlooks reflect our expectation that most issuers are well positioned to manage the challenges facing the sector.
- Financial metrics influence the highest and lowest ratings more than operational characteristics do.
- Median financial metrics, including fixed-charge coverage, liquidity, and debt, have remained steady over the past three years, which we attribute to widespread rate-setting autonomy, the general practice of passing through power and fuel costs to ratepayers, and credit-supportive management policies and practices.

Continue reading.

14 Dec, 2022

Should the Deadline to Spend ARPA Dollars be Extended?

Some local officials involved in managing American Rescue Plan Act aid describe a 2026 cut-off to use up all of the money as uncomfortably close.

Local government officials involved in overseeing hundreds of millions of dollars in federal pandemic aid are cautioning that a 2026 deadline to spend the money could be tight.

Part of the reason it's taking awhile to get the American Rescue Plan Act dollars out the door, they say, is that governments devoted significant time during the past two years to conducting community outreach to align their spending with residents' priorities. Another set of difficulties is that the money can get bogged down in bureaucratic finance procedures, rigid procurement processes and working with outside "subrecipient" organizations brought on to run programs.

In many cases, local governments are moving to spend on initiatives that they are either starting from scratch or significantly expanding, which can also prove to be time consuming. And while President Biden signed the law in March of 2021, the Treasury Department didn't finalize guidance for the $350 billion State and Local Fiscal Recovery Funds Program until January of this year, leaving some governments hesitant to start putting the money to use right away.

Continue reading.

ROUTE FIFTY

by BILL LUCIA

DECEMBER 15, 2022

Municipal Water Leaders Want More Federal Help for Poor Customers.

They say they're facing an untenable situation as low-income households are pressured by higher rates and systems need major upgrades. One official warns that a recent drinking water failure in Mississippi "is a harbinger of a wider national problem."

In the wake of a drinking water crisis in Mississippi earlier this year, several municipal water utility leaders called on Congress Wednesday to take a greater role in helping low-income residents pay for their water bills.

The assistance would be similar to how the federal government helps poor people with other utilities, they said, and could help cash-strapped customers cope with water bills that have been rising at twice the rate of inflation since 2000. Those rate increases, the executives noted, are often required to help water utilities comply with federal mandates.

The added money would also put the utilities themselves on better financial footing, which would help them avoid systemic failures of municipal water systems, like the one seen over the summer in Jackson, Mississippi and previously in places like Flint, Michigan, they added.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

DECEMBER 14, 2022

Transit-Oriented Planning Grants Begin to Change Cities.

A pilot program has gradually amassed more than $100 million in Federal Transit Administration grants, which are laying the groundwork for land use projects that promote mobility and affordability.

For the last decade, Woodlawn United, a nonprofit group in Birmingham, Ala., has been working to revitalize its corner of the city and secure long-term accessibility for the people who've built their lives there.

The group works in Woodlawn, a northeast Birmingham neighborhood that's seen decades of disinvestment since the deindustrialization and white flight of the mid-20th century, says Joe Ayers, the group's real estate director. Its approach is modeled on the East Lake Initiative in Atlanta, a three-pronged revitalization effort focused on education and community wellness as well as physical redevelopment of property.

Ayers says it's also hoping to learn from that effort's shortcomings: how the improvements in income and educational attainment in the target area were accompanied by a substantial decrease in Black residents and increase in white residents — what one Urban Institute study described as "changes of people rather than changes for people." Woodlawn United has focused on buying and banking property to create long-term opportunities for affordable housing even as the neighborhood improves.

Continue reading.

governing.com

by Jared Brey

Dec. 16, 2022

Muni Bonds Look Forward To 2023 (Bloomberg Audio)

Eric Kazatsky, Senior Municipal Strategist with Bloomberg Intelligence, joins the show to break down the municipal bond market. Hosted by Paul Sweeney and Kriti Gupta.

Listen to audio.

Bloomberg

Dec 16, 2022

JPMorgan to Convert Another $2 Billion of Mutual Funds to ETFs.

- **Plans follow success of firm's first four conversions in June**
- **The funds' long track records help the conversions: Seyffart**

JPMorgan's asset management arm filed to convert four more mutual funds with assets of about $2 billion into exchange-traded funds.

The plans follow the success of the firm's first four conversions in June and would bring JPMorgan's US ETF lineup to 50 funds. The funds slated to be changed are two municipal bond funds, one short-dated bond fund and one equity fund, according to a press release.

"We think one of the big benefits of conversion versus other options is the ability to carry over track records. And these funds have seriously long track records," said James Seyffart, ETF analyst at Bloomberg Intelligence.

Continue reading.

Bloomberg Markets

By Emily Graffeo

December 15, 2022

Nuveen's Rodriguez Says Fundamentals Back Return in Demand for Munis.

Tony Rodriguez, head of fixed income strategy at Nuveen Asset Management, says a likely peak in long-term interest rates and the credit health of state and local governments is behind the recovery in municipal bond markets. He speaks on "Bloomberg Surveillance."

Watch video.

Bloomberg SurveillanceTV Shows

December 12th, 2022

How the Current Interest Rate Environment Is Shaping the Municipal Debt Markets.

With the ongoing interest rate hikes, the cost of accessing the capital market to finance municipal capital projects has become significantly more expensive than a year ago. More and more local governments are pricing in the increased cost of capital, the interest cost on the entire debt issuance, and the increased cost of procuring the materials, due to the supply chain imbalance and overall market inflation, in their timing decision to undertake any large capital projects.

Due to the aforementioned reasons, some local governments are considering current market conditions as a double whammy on their finance – both from financing a project at an increased cost and the need to allocate more capital for the project that perhaps would have cost less in normal market conditions.

In this article, we will take a closer look at current market conditions and their adverse impacts on municipal debt markets.

Continue reading.

municipalbonds.com

by Jayden Sangha

Dec 14, 2022

Muni-Bond ETFs Lure $28 Billion as Mutual Funds Bleed Cash.

- **Citigroup says market volatility catalyst to greater adoption**
- **Low costs and model portfolios also spur adoption, bank says**

Market volatility supercharged the growth of municipal-bond exchange traded funds in 2022 at the expense of open-end mutual funds, which may lose some of those assets for good.

Despite the worst market rout in 40 years, investors plowed a record $27.8 billion into municipal-bond ETFs this year, a striking contrast to open-end funds which lost more than $130 billion. As much as half the inflows came from mutual fund holders selling shares at a loss to offset gains and swapping into ETFs, according to estimates by Drew Pettit, director of ETF analysis and strategy at Citigroup Inc.

Municipal bond Investors, who had been reluctant to move out of mutual funds during the bull market because of capital gains, have seen muni market losses of 8% this year, as the Federal Reserve hiked interest rates at the fastest pace in decades. The historically poor returns, however, provided tax conscious municipal-bond investors the opportunity to harvest losses.

Continue reading.

Bloomberg Markets

By Martin Z Braun

December 13, 2022

Municipal Bonds May Be About to Rebound.

Municipal bonds and the related exchange traded funds have been under pressure this year due to rising interest rates. However, there are examples of muni bond ETFs outperforming aggregate bond funds.

With that in mind, some market observers are constructive on municipal debt as a 2023 rebound idea, noting that investors can currently use munis and the corresponding ETFs to access above-average yields without taking on undue risk.

That setup could be encouraging for ETFs such as the SPDR Nuveen Municipal Bond ESG ETF (MBNE). MBNE debuted earlier this year as one of the few ETFs offering the coveted combination of municipal bonds with an environmental, social, and governance (ESG) overlay. Adding ESG to the equation could make MBNE all the more attractive in 2023.

“For the first time in a long time, yields are attractive. At the beginning of the year, the yield on the Bloomberg Municipal Bond Index was close to 1%, near the lowest level in the history of the index. That’s no longer the case,” according to Charles Schwab research. “The yield on the index has risen to roughly 3.4%. While this isn’t as high as other fixed income options, municipal bonds are one of the few investment options that are often exempt from federal and potentially state income taxes if the issuer is located in your home state, so after adjusting for this, they are attractive relative to alternatives.”

Further bolstering the allure of MBNE as a muni rebound idea is the point that the ETF is actively managed, meaning the fund’s managers can work to mitigate credit and interest rate risk. Likewise, they can also scour the landscape of municipal bonds with strong ESG credentials to identify potential value opportunities.

Speaking of credit, the muni-to-Treasury ratio, which evaluates AAA-rated munis against U.S. government debt, indicates there are opportunities with intermediate-term munis. That’s relevant to investors considering MBNE because the ETF’s option-adjusted duration is 5.16 years, which is firmly in the intermediate-term territory.

“The ratio is below its five-year average for most maturities on the curve. It’s especially below its longer-term average for short-term bonds. Tactically, this can be translated to mean that intermediate-term bonds offer more attractive relative yields than shorter-term bonds. This isn’t to say that we don’t suggest holding some short-term bonds, but we think investors should consider extending duration in 2023 to take advantage of the move up in longer-term yields,” concluded Schwab.

by Tom Lydon

Dec 14, 2022

etfdb.com

Technical Headwinds Create a Silver Lining for Municipal Bonds.

Municipal bonds have seen significant outflows this year as higher yields have caused one of the largest drawdowns on record for the asset class. But these technical headwinds have also created attractive valuations relative to U.S. Treasuries, creating an opportunity for investors who can also benefit from munis’ tendency to do well in late-cycle and recessionary environments.

Like most areas of the bond market, municipal bonds have been under considerable pressure throughout the course of this year. Inflation has proven to be stickier than previously thought, spurring the U.S. Federal Reserve to embark on its most aggressive tightening cycle in decades, shifting bond rates across the curve sharply higher than they were at the start of this year.

This rise in yields has caused a spate of negative performance for the municipal bond space and investors within the asset class are understandably nervous. As of the end of October, the drawdown in the Bloomberg Municipal Bond Index has reached -10.83%. By comparison, this drawdown is larger than that experienced during March 2020 as pandemic fears weighed on the markets, or even in 2008 during the global financial crisis.

Continue reading.

jhinvestments.com

December 14, 2022

S&P U.S. Public Finance Year In Review: Credit Stability. Will It Last?

Year in review for 2022 and look ahead to 2023.

DOWNLOAD

[Free registration required.]

Municipal CUSIP Request Volumes Increase for Second Straight Month in November.

NORWALK, Conn., Dec. 09, 2022 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for November 2022. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly increase in request volume for new municipal identifiers, while volumes slowed for corporate securities.

North American corporate requests totaled 5,644 in November, which is down 6.2% on a monthly basis. On a year-over-year basis, North American corporate requests are up 8.7%. The November decline was driven by a 17.1% decline in requests for U.S. corporate equity identifiers and a 6.8% decline in requests for U.S. corporate debt identifiers. Requests for short-term certificates of deposit (CDs) stabilized this month, rising just 0.3% from October totals. On a year-over-year basis, CUSIP request volume for short-term CDs is up 251.5%. This is the 11th straight monthly increase in short-term CD CUSIP request volume.

Municipal request volume increased for a second straight month in November. The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 10.5% versus October totals. On a year-over-year basis, overall municipal volumes were down 19.7%. Texas led state-level municipal request volume with a total of 148 new CUSIP requests in November, followed by New York with 75 and California and Indiana, which each had 66.

"The big story this month is in short-term CDs, where total CUSIP request volumes are still up on a monthly basis but have slowed considerably from the double- and triple-digit growth rates we've been seeing over the course of this year," said Gerard Faulkner, Director of Operations for CGS. "While elevated interest rates should keep CD activity high for the near-term future, it's impossible to ignore the effects of consistent market volatility and the unpredictable nature of the current economy in our overall CUSIP request volumes so far this year."

Requests for international equity CUSIPs fell 1.4% in November while international debt CUSIP requests fell 23.7%. On an annualized basis, international equity CUSIP requests were down 34.4% and international debt CUSIP requests were down 41.0%. Syndicated loan requests were up 6.5% on a monthly basis and down 17.6% year-over-year.

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

State Credit Enhancement Programs Promote Capital Investment in Low-Income Districts.

Public school districts in the United States spend, on average, 9.5% of their budget, or $1,440 per student, on capital projects, which includes spending on school building construction, equipment purchases, and bus acquisition. Notwithstanding the magnitude of these costs, schools should probably be spending more on capital projects, since over half of all public school districts are in need of physical improvement in their schools. Moreover, per-student capital spending has been historically higher in the highest-income districts compared to the lowest-income districts (in the average state), though the gap has narrowed since 2008.

Is there anything that can be done to reduce these historical gaps in capital spending? This is the subject of my new working paper, where I explore the role of access to credit as a leading factor in these spending patterns. In the paper, I provide the first nationwide, comprehensive evaluation of state credit enhancement of school district debt

ACCESS TO CREDIT AND ITS EQUITY IMPLICATIONS

The average annual spending figures mask the fact that capital outlays are "lumpy": districts pay a large upfront cost to acquire the infrastructure and then use it for many years to come. To pay for the upfront cost, districts often borrow money from investors by issuing bonds on the municipal bond market. The interest rate on a bond varies across districts and bonds. To help market the bond, a district may hire independent credit rating agencies to assess the creditworthiness of the bond and to assign an underlying credit rating.

Continue reading.

The Brookings Institution

by Lang (Kate) Yang

December 6, 2022

Mispriced Municipal Bonds Cost Mutual Fund Shareholders And Taxpayers Billions Of Dollars.

In a market where at least 99% of trillions of dollars of fixed income securities have no trades to offer price discovery and the financial data to assess credit risk cannot be readily downloaded to a spreadsheet for analysis and comparison, how can there be "fair market value" in pricing?

That question has vexed investors, issuers, and regulators in the $3.9 trillion municipal bond market for decades. The market's lack of trade data is only matched by its lack of digitized financial data. This "dual data void" compounds the problem, causing municipal bonds to be mispriced and undervalued and it costs mutual fund shareholders and taxpayers alike billions of dollars.

On Your Mark to Market, Get Set, Go

At the close of every business day, billions of dollars of municipal bonds are "mark to market", that is, valued at the closing price of the bonds that day. If you own shares in a municipal bond mutual fund, the prices of those bonds determine the net asset value of that fund and, in turn, the value of your shares.

Continue reading.

Forbes

by Barnet Sherman

Dec 5, 2022

Fitch: State, Local Govts' Cybersecurity Staffing Challenges Raise Risks

Fitch Ratings-Austin/Chicago/New York-12 December 2022: Lack of qualified cybersecurity workers is a concern for both the public and private sectors, but state and local governments may face a greater hurdle to fill these positions, particularly as public sector IT wages lag the broader market, Fitch Ratings says.

State and local governments are cybersecurity targets given the essential services they provide and the personally identifiable information they maintain. Attacks that affect critical government functions could result in serious operational disruptions and disclosure of sensitive information. The ability of management to address cyber risk is an asymmetric risk factor, and attacks that materially compromise operations and financial performance could negatively affect a government's rating. Local governments with weaker risk management and financial profiles may struggle to recognize and address IT staffing needs.

State and local government IT salaries are generally less competitive than those in the private sector, although public sector workers generally receive greater non-wage compensation through defined benefit pension plans. According to the Bureau of Labor Statistics (BLS), while the median hourly wage for state and local government and private sector information security analysts has grown only by 1% to 2%, respectively, from 2019 to 2021, the private sector on average paid 35% higher than state and local government sector in 2021. Wage gaps can further widen with experience and seniority. Public sector wages are often constrained by salary bands and caps, limiting governments' ability to attract and retain IT staff.

Inadequate staffing can create gaps in security that can be exploited by threat actors. According to a recent survey of state and local governments by the cybersecurity firm Sophos, there was a 70% increase in ransomware attacks among respondents in 2021 compared to 2020, while 82% of respondents stated that ransomware had a meaningful impact on operations. According to a recent 2022 ISC^2 cyber security workforce study, only 42% of public sector and government-related respondents were confident in their ability to mitigate long-term risks based on their current staff and tools. The recent high-profile cyberattacks on school districts like LAUSD and local governments such as Suffolk County highlight public entities' vulnerability and the importance of cyber risk mitigation, preparedness, and sound recovery plans.

Talent flight could lead to further issues as cyber risks increase. Municipal governments are aware of these risks and are also well acquainted with struggles in hiring experienced IT staff. Fitch anticipates that many local governments will take steps to increase salaries/benefits and/or lean on shared-services or loaned executive models to acquire and retain qualified staff in necessary roles, as they have in the past for other difficult-to-fill positions. Recent layoffs and downsizing in the technology labor market could present hiring opportunities for the public sector, although retaining IT professionals once hired will continue to be a challenge.

A joint Deloitte and National Association of State CIOs (NASCIO) study found that in 2022 the average cybersecurity expenditure for most states as a percentage of total IT budget was at most 10%, compared with spending at federal agencies of approximately 16%. The study found that cybersecurity budget size topped the list of institutional security concerns, followed by lack of available cybersecurity talent and use of legacy systems in the face of emerging threats. Deloitte reported that 55% of states reported no more than a 5% increase in cybersecurity budgets in 2022 despite the expanding threat.

The American Rescue Plan Act and the Infrastructure Improvement and Jobs Act provides $1.0 billion via a cybersecurity grant program for state and local governments to address cybersecurity risks. However, these funds are generally one-time in nature, necessitating state and local governments to source recurring revenue for ongoing IT needs.

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

ESG Investing's Real Problem Is a Lack of Data, Fixed-Income Pros Say.

- **Consensus in a new report is that strategy more than a fad**
- **Data quality, access seen as obstacles to meeting ESG goals**

As the debate heats up over ESG investing, fixed-income professionals say they need more data than what's currently out there.

A survey of 111 senior buy-side fixed-income investors, conducted by analytics firm Coalition Greenwich, found that 90% believe the popular strategy, which prices in environmental, social and governance risks, is important to decision making. Yet only about a third of investors have fully integrated ESG into their risk-analysis. The reason? Not enough data.

"It boils down to risk-management," said Coalition Greenwich's senior analyst Stephen Bruel. "If you don't have reliable ESG data about an issuer or issuance, then it's harder to calculate what the negative consequences might be."

Continue reading.

Bloomberg Green

By Allison Nicole Smith

December 9, 2022

Transcript: What Extreme Weather Events Are Doing to Global Insurance Markets

How a changing climate impacts reinsurance and catastrophe bonds.

Heatwaves, droughts, hurricanes, floods… in a year of commodity shortages and supply chain disruptions, a host of extreme weather events have added stress to the system. So how do companies address the financial risks associated with these events? Catastrophe bonds and reinsurance markets have existed for a long time, but the more extreme the disruptions, the more these industries change. On this episode of the podcast, we speak to Steve Evans, owner and editor-i--chief of Artemis.BM, about recent developments, new types of insurance products and how financial markets are incorporating the effects of climate change. This transcript has been lightly edited for clarity.

Key insights from the pod:

Is extreme weather becoming more of an issue for insurers? — 4:10
The importance of modeling in the insurance industry— 7:08
Are cat bonds actually uncorrelated with markets? — 11:12
How cat bonds are priced — 14:05
What is parametric insurance? — 23:00
How are triggers on parametric insurance calculated? — 25:58
Insurance for non-damage business interruption — 29:58
Should insurers insure climate change-related risk at all? — 32:46
Impact of higher interest rates and inflation on insurance — 38:30

View the transcript.

Bloomberg Markets

By Tracy Alloway and Joe Weisenthal

December 8, 2022

How Wall Street Banks Will Reap Billions From Tax-Free Renewable Energy Bonds.

One of the hottest trends in finance is prepaid muni bonds structured to help local utilities buy decades worth of renewable electricity. They're good for the environment, but even

better for the banks that will profit from cheap financing, trading profits and federal tax breaks.

Socially responsible investing, marketed under the moniker “ESG” (short for environmental, social and governance), is a huge and growing business. In 2015 global ESG-related assets were $2.2 trillion, according to PwC, growing to $9.4 trillion in 2020 and nearly doubling in 2021 to $18.4 trillion. Sustainable bonds are a big slice of this pie. Globally, over the last two years, an average of more than 400 bonds have been issued per quarter, totaling over $1.7 trillion, according to the London Stock Exchange’s Refinitiv group. European issuance is more than double that of the U.S., but a wave of new green bonds is coming here.

One particularly vibrant corner of this market: ESG-certified municipal bonds, such as those designed to help local communities prepay for decades’ worth of green electricity. According to Monica Reid, the founder of Kestrel, which charges “a fraction of a basis point” of a new bond deal’s face value to verify new issues as “social,” “green” or “sustainable,” there have been $85 billion worth of these municipal bonds issued in the U.S. in the last two years. Reid’s Hood River, Oregon–based team of 27 analysts and engineers certified nearly a third of them.

“Not everything is green or sustainable or socially beneficial because it’s financed with municipal bonds,” Reid says. “The muni market is also where coal ash dumps are financed, ports and airports. It’s where turnpikes and toll roads are financed. We are very discerning. Internally we have a do-n--harm criteria. If repayment is from oil royalties or gambling revenues, that’s a problem.”

Continue reading.

Forbes

by Christopher Helman & Matt Schifrin

Dec 7, 2022

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17 Attorneys General Write Letter Supporting Consideration of Climate Change Issues in Investment Process: Cadwalader

The Governor of New York, Kathy Hochul, has signed a bill establishing a two-year moratorium on new or renewal permits necessary to modify certain fossil fuel plants for cryptocurrency mining operations using proof-of-work (POW) authentication methods. This moratorium, which took effect immediately, is the first of its kind in the United States. It will only apply to fossil fuel power plants that house energy-intensive proof-of-work cryptocurrency mining operations and will not apply to individuals or companies that currently have valid permits. Mining operations that connect directly to the power grid or use renewable energy are not affected. Some miners, especially larger scale operations, bypassed the power grid and re-opened closed power plants in an attempt to produce lower cost electricity. The law, which was passed by the State Assembly in May and the State Senate in June, requires the Department of Environmental Conservation to study the environmental impact of POW crypto mining activities, including the amount of energy used and the carbon emissions produced. According to the University of Cambridge, global mining of Bitcoin, the largest of the cryptocurrencies, consumes more electricity than all residential lighting in the United States.

Hochul made the following statement: “As the first governor from Upstate New York in nearly a century, I recognize the importance of creating economic opportunity in communities that have been left behind" and "I will ensure that New York continues to be the center of financial innovation, while also taking important steps to prioritize the protection of our environment." The Business Council of New York State responded to the announcement by stating: "To date, no other industry in the state has been sidelined like this for its energy usage. This is a dangerous precedent to set in determining who may or may not use power."

Continue reading.

Cadwalader Wickersham & Taft LLP – Jason M. Halper

December 6 2022

[How Green Banks Are Financing the Fight Against Climate Change.]

Investing is risky business, but these institutions know that failing to fund clean energy is even riskier.

Imagine you've got a brilliant idea for some promising new business in the clean energy sector—maybe one that connects farmers with agrivoltaics developers, or one that helps property owners cut through all the red tape that's involved with installing rooftop solar. You've written up a solid business plan. You've already lined up potential clients and suppliers. You just need some capital investment to help get the whole thing up and running. How do you go about finding it?

You might start by looking into green banks.

What are green banks, and how do they differ from regular banks?

Green banks are financial institutions that are specifically designed to help speed up the transition to a clean energy, net-zero-emissions future. By using public money to leverage private capital, they help finance a wide variety of projects that aim to lower carbon emissions, create jobs, and strengthen local communities. Unlike conventional banks, green banks are generally established with public dollars; as a result, most are either public or quasi-public. And while green banks are mission-driven, they're not philanthropic institutions. They don't give money away. Instead, they seek to be bridges between private capital and the demonstrable public interest in clean energy and sustainable development.

Continue reading.

Natural Resources Defense Council

by Jeff Turrentine

December 12, 2022

[Cyber Risk In Health Care: High Stakes, Valuable Data, And Increasing Connectivity Attract Bad Actors]

Key Takeaways

- Cyber risk poses a mounting threat to the operations of health care providers, pharmaceutical companies, and medical device manufacturers. The increasing connectivity of hospital systems, medical devices, and the global pharma industry creates credit risks due to their high sensitivity to disruption, as well as the potential compromise of sensitive personal and/or financial data of patients, customers, or employees, or of intellectual property.
- Given these risks, many health care companies have made significant investments to improve their abilities to prevent, detect, and respond to cyber threats. In addition, many entities now carry fairly expensive cyber insurance policies which could mitigate the financial cost of an incident.
- To date, reported cyber incidents have had minimal impact on our credit ratings. Despite their high exposure, we believe U.S.-based health care companies can largely manage their cyber risk, assuming they continue to proactively manage risk and adapt to the evolving threat landscape.

Continue reading.

6 Dec, 2022

Fitch: Deteriorating Outlook for North American Utilities, Power & Gas in 2023

Fitch Ratings-New York-07 December 2022: The sector outlook for North American Utilities, Power and Gas in 2023 is deteriorating, according to Fitch Ratings.

Key concerns include mounting costs pressures for electric and gas utilities, due to elevated commodity prices, inflationary headwinds and rising interest costs. High capex and recovery of storm restoration costs from more frequent extreme weather activity are compounding cost pressures, leading to significant increases in customer bills. Deferred fuel balances are on the rise, weighing on the balance sheets of many integrated utilities and parent holding companies.

Despite the deteriorating sector outlook, approximately 88% of rated entities in the sector have Stable Outlook based on an expectation that retail electricity sales will remain resilient and most integrated utilities that have deferred fuel balances would be able to recover these over 2-3 years.

Fitch expects median FFO leverage for the sector to modestly improve to 5.3x in 2023, from 5.7x in 2022, but remain elevated compared to historical levels. Ongoing management actions to monetize parts of businesses at attractive valuations is driving an improved business mix for the sector and, in some cases, leading to deleveraging.

The full “North American Utilities, Power & Gas Outlook 2023: Cost Pressures Challenge the Status Quo” report is available at ‘www.fitchratings.com’.

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Fitch: Inflation, Higher Mortgage Rates Making U.S. Affordable Housing More Elusive

Fitch Ratings-New York/San Francisco-08 December 2022: Inflation and the increasing likelihood of a mild U.S. recession will exacerbate supply shortage stress already being acutely felt within U.S. affordable housing in 2023, according to Fitch Ratings in a new report.

Historically low housing supply and homeownership has been placed even further out of reach for many low-income households, according to Senior Director Karen Fitzgerald. “Competition has intensified for rental units, which has accelerated rent growth,” said Fitzgerald. “These factors have intensified the housing cost burden among low income households, further widening the affordability gap.”

The strain on housing affordability is notable with all 50 states experiencing a dearth of affordable housing units. In particular, California has a gap of more than 1.4 million units for households earning at or below 50% of area median income (AMI). Following California are Texas, New York, Florida, New Jersey and Illinois, all with large deficits of affordable units for households earning at or below 50% of AMI.

Worsening affordability is paving the way for some regional home price corrections, though a crash similar to what the broader housing market endured in 2008-2009 is highly remote. Inflationary pressures on household budgets and higher mortgage rates are creating additional barriers to homeownership, increasing down payment requirements and monthly mortgage payments. “Despite the economic recovery and resurgence in employment since the initial months of the pandemic, lower income homeowners and renter households are still in need of broader reforms to address persistent affordability issues,” said Fitzgerald.

“Persistent Lack of Supply and Rising Rates Strain Housing Affordability” is available at www.fitchratings.com.

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Fitch: More Operating Woes Await U.S. Colleges & Universities in 2023

Fitch Ratings-New York/Chicago-08 December 2022: Ongoing enrollment pressures along with labor and wage challenges will likely erode operating performance for U.S. colleges and universities next year, according to Fitch Ratings' 2023 outlook report for the sector.

Fitch has a 'deteriorating' sector outlook in place for 2023. "U.S. higher education institutions will continue to struggle with inflationary costs, labor pressures, mixed enrollment trends and a continued need for elevated expenditure controls," said Senior Director Emily Wadhwani. "Continued controls over operational and capital spending should preserve some budgetary flexibility, albeit to diminishing returns amid the current macro environment."

Inflation has provided some practical cover for some limited increases in tuition, though these increases are unlikely to be sufficient to mitigate increased costs. Fitch expects the credit gap to widen further between larger, more selective institutions versus their smaller, less selective and more tuition-dependent counterparts over the course of the year.

Amid flat enrollment overall in recent months lies some mildly encouraging signs. Freshman and international enrollment is up modestly entering the 2022-2023 academic year. More favorably, new international enrollment returned to pre-pandemic levels this fall with students originating from China comprising over 30% of total.

Other areas worthy of note in 2023 will be post-election decisions relating to affirmative action, loan forgiveness, immigration policy and, according to Wadhwani, "Low- or no-cost public higher education options that could materially impact the sector in the coming year, with any impact likely to lag well into calendar year 2023."

Fitch's "U.S. Higher Education Outlook 2023" report is available at www.fitchratings.com.

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Supply Chain, Markets, and Muni Bonds.

Gene Seroka, CEO at the Port of LA, joins us in studio to discuss the latest developments on the supply chain. Build America Mutual CEO Sean McCarthy joins us on site to discuss BAM's services and outlook for the municipal bond market. Bloomberg News Wall Street reporter Eric Kazatsky, Senior US Municipal Strategist with Bloomberg Intelligence, and Chris Brigati, Managing Director and Senior VP of Municipal Investments with Valley National Bank, join us on site for a roundtable on the municipal bond market and investments to look for in 2023. Glenn McGowan, co-head of municipal underwriting at RBC Capital Markets, and Kevin Danckwerth, head of municipal trading at Citi, discuss the outlook for cities, municipalities, and the muni bond market heading into 2023. Jennie Huang Bennett, Chief Financial officer for the City of Chicago, joins us on site to discuss financing a major economic hub like Chicago and plans for the city's financial management post-pandemic. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg

Dec 07, 2022

S&P U.S. Transportation Infrastructure Airport Update And Medians: Sector View Is Now Stable After Historic Disruption

Key Takeaways

- Most U.S. airport ratings are now at the same level or higher than they were before the COVID-19 pandemic, as air travel accelerated in 2022, paving the way for a recovery in activity-based revenues and more predictable financial performance.
  Our view of the sector has changed to stable from positive, reflecting our opinion that demand has substantially recovered, resulting in airport operators returning to business-as-usual rate-setting flexibility and supporting rating stability.
  Although demand could soften due to inflation and recessionary pressures in 2023, we believe the potential drag will be relatively benign and temporary.
- Our analysis of sector financial metrics for fiscal years 2019-2021 shows that operating revenue decreases were much less severe than enplanement declines due to airports' revenue diversity and cost-recovery mechanisms. Our median rating in the sector has risen to 'A+' (as of Dec. 7, 2022) from 'A' (as of Dec. 7, 2021).
- We expect airport operators will exhaust most of the significant federal assistance they received by fiscal years 2023-2024, resulting in improved debt service coverage (S&P Global Ratings-calculated) from a median low of 1.0x in 2021 and a likely erosion in liquidity levels from a high of more than 600 days' median cash on hand.

Continue reading.

8 Dec, 2022

Fears Grow Over Plan to Distribute Billions in Broadband Dollars.

State and local officials are raising alarm about what they say are major flaws with a federal map that will guide where the infrastructure money is sent. They want the Biden administration to extend a timeline for flagging the problems.

In several states around the country, officials say they are finding major problems with a crucial, new federal map meant to show the adequacy of internet service at the household level.

The Federal Communications Commission map, released last month, is critical in determining how the Biden administration will distribute billions of dollars in federal broadband funding from last year's infrastructure law around the country. But state and local officials say they're seeing discrepancies that have them concerned the money will not go to the places where it's most needed to give Americans improved access to high-speed internet.

With a deadline looming in just over a month for states to find inaccuracies in the map that could affect how much of the money they'll get, some heads of state broadband offices and local officials are saying the federal government should offer more time to find and report problems.

Continue reading.

ROUTE FIFTY

by KERI MURAKAMI

DECEMBER 8, 2022

Passenger Rail Set to Expand with $2.3B Up for Grabs.

The Federal Railroad Administration is accepting applications for projects that expand service and improve safety and reliability.

The Biden administration opened applications Wednesday for one of the most high-profile initiatives in last year's federal infrastructure law: expanding passenger rail.

The $2.3 billion to expand or establish passenger service on routes outside of Amtrak's Northeast Corridor "will reshape America's passenger rail network for generations to come," said Amit Bose, the head of the Federal Railroad Administration (FRA).

The grants are open to Amtrak, states, Washington, D.C., federally recognized Indian tribes and local governments. Those applicants can also apply for projects using private passenger rail companies (like Brightline in Florida), but the applicants would still be responsible for administering the funds and delivering the project.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

DECEMBER 7, 2022

What Types of Bonds Deliver the Best Returns?

We looked at the performance of all sorts of fixed-income securities over the past 50 years. Here's what we found.

With interest rates on the march this year, many investors are looking at bonds again, for the first time in 10-plus years, as a true income-delivering alternative to stocks.

Indeed, while investors have exited equities along with the downturn in that sector, many have sought safety in short-term debt holdings such as money-market funds.

No longer are we in the days of what Wall Street calls TINA (There Is No Alternative to stocks). Instead investors are welcoming the days of TARA (There Are Reasonable Alternatives) with bonds.

Continue reading.

The Wall Street Journal

By Derek Horstmeyer

Dec. 3, 2022

Vanguard's Malloy Sees 'Muni Renaissance' Extending Into 2023.

- **State and local fiscal health supports rosier outlook**
- **'A lot of bad news is already priced in' to muni market**

Paul Malloy, the head of municipals at Vanguard Group Inc., is seeing signs of a revival in the $4 trillion market that he expects will stretch into 2023, in part as this year's surge in yields lures investors back to state and city debt.

Yields on benchmark 10-year munis are still more than double their level at the start of the year, even after dropping in recent weeks on signs of ebbing inflation pressure. What's more, pandemic relief aid and swelling tax revenue have helped shore up the finances of US states and local governments.

It's "a really great point to re-enter municipals for the long-run given the increased yields in the marketplace on top of some of the best credit quality that we've had in decades," Malloy, who oversees $228 billion, said in an interview. "It sets us up for a 2023 that we like to call a muni renaissance."

Continue reading.

Bloomberg Markets

By Shruti Singh

December 7, 2022

Muni Outlook: Back in Vogue

For the first time in a long time, muni investors may be able to earn attractive yields without having to take undue risk.

Like high-waisted bellbottoms and baggy overalls—fashions that were once out but are making a resurgence—2023 should be the year that municipal bonds come back in vogue, too. Although 2022 so far has been a brutal year for the muni market, we expect things to change in 2023. For the first time in a long time, investors can earn appealing income on their muni bond portfolio, which should begin to attract investors back and bode well for total returns.

Recovering from a tough year

So far, 2022 has been characterized by the Federal Reserve aggressively tightening monetary policy in an effort to quell decades-high inflation. Fed policymakers hiked short-term rates six times. However, the worst is likely behind us, as the Fed has indicated it will slow the pace of rate hikes and may be done in early 2023.

Continue reading.

advisorperspectives.com

by Cooper Howard of Charles Schwab, 12/11/22

Here's Why Munis Will Be Back in Vogue Next Year.

Schwab Center for Financial Research Director Cooper Howard explains why he thinks municipal bonds will be back in vogue next year. He speaks with Katie Greifeld and Romaine Bostick on this edition of “Muni Moment.”

Watch video.

Bloomberg Markets: The Close

December 7th, 2022

Muni Demand Will Rebound in 2023 as Rates Ease, Schwab Strategist Says.

- **Higher yields, healthy state and local finances are tailwind**
- **Public transit debt an ‘area of opportunity’ for investors**

Charles Schwab’s Cooper Howard is predicting a bounce back year for the $4 trillion municipal debt market in 2023.

A slower pace of interest-rate hikes, attractive yields and relatively healthy state and local government finances should lure investors back after demand plunged this year, the director and fixed-income strategist for the Schwab Center for Financial Research said in a Bloomberg TV interview Wednesday.

“Credit quality is very high in the municipal bond market. State and local revenues have surged to record-level highs driven by the economic recovery,” Howard said. “Given the rise in yields, it is more attractive for retail investors, so there will be more demand coming into the market.”

Municipal-bond sales this year are down nearly 19% at about $351 billion, according to data compiled by Bloomberg. Meanwhile, 10-year muni yields are more than double where they were at the start of 2022.

The Federal Reserve's aggressive interest-rate hikes and recession fears had soured investors on the municipal-bond market, but signs of ebbing inflation will lend the Fed leeway to relax on its tightening, Howard said. "Rising interest rates will not be as big of a headwind."

Issuance will remain relatively subdued since municipal coffers are at record-high levels thanks to last year's windfall of federal stimulus funds.

The threat of a recession still looms, but not as large in the muni market thanks to healthy credit ratings for states and municipalities that saw more upgrades than downgrades this year. That bodes well for state and local governments in the event of an economic downturn.

"If the economy does slow, we do not think it will be as big of a headwind in the muni market as other parts of the credit markets," said Howard.

With airline travel bouncing back, Howard expects municipal debt tied to the public transportation sector to lead the market rebound and sees it as "an area of opportunity" for skittish investors.

Bloomberg Markets

By Allison Nicole Smith, Romaine Bostick, and Katherine Greifeld

December 7, 2022

Bond Investors Swap Mutual Funds for ETFs at Record Pace.

Amount invested in exchange-traded funds climbs to 21% of bond-fund assets

Worn down from record losses, investors have fled bond mutual funds en masse. But many aren't quitting on bonds—they are just turning to exchange-traded funds.

One main reason: taxes. Some investors sell beaten-down positions in bond funds to harvest tax losses. In many cases this year, investors have opted to put cash into similar ETFs to maintain bond exposure in their portfolios. As long as the securities within the ETF aren't nearly identical to those in the mutual fund, swapping the so-called wrapper around the holdings allows investors to stay invested, while capitalizing on tax benefits.

"More sophisticated investors are employing tax strategies, as well as trading up in credit quality," said Simon Hamilton, portfolio manager and managing director at the Wise Investor Group of Raymond James.

Continue reading.

The Wall Street Journal

By Eric Wallerstein and Heather Gillers

Dec. 10, 2022

SIFMA 2023 Capital Markets Outlook.

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets.

On behalf of our industry's one million employees, we advocate on policy, legislation, regulation and business practices, affecting retail and institutional investors, equity and fixed income market participants and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development.

This report contains our insights into market performance, resiliency and policy, as well as several helpful resources.

Download Report

Fitch: Outlook 'Deteriorating' for U.S. States & Local Governments in 2023; Ratings Stable

Fitch Ratings-New York-02 December 2022: U.S. states and local governments are generally well-positioned to withstand a mild recession, though close ties to a weakening macro environment mean a 'deteriorating' sector outlook next year for both sectors, according to Fitch Ratings in its 2023 outlook report.

Economic growth is slowing, with Fitch economists calling for a mild U.S. recession by 2Q23. Since state and local governments rely on tax revenues that respond quickly to changes in the economy, a rapidly cooling housing market and a commercial real estate market adjusting to less people working in the office could pressure property taxes more quickly than in the past. Against these headwinds, ample fiscal buffers are in place and should allow most state and local governments to absorb a moderate downturn. As such, Fitch anticipates state and local governments ratings will be largely unaffected despite a deteriorating sector outlook.

What will be critical is how long and severe the recession turns out to be. "A significantly deeper and prolonged recession could lead governments towards credit negative budget choices such as sustained pension funding deferrals or payment delays," said Eric Kim, Senior Director and Fitch's head of U.S. state ratings. Conversely, state and local budgets will directly benefit should the recession be relatively quick and subsequent economic growth materially exceed expectations.

Return to office trends, which are flattening, are particularly integral for local governments over the medium and long-term. "The ability of cities with large downtown office cores to continue making progress towards pre-pandemic levels of economic activity could become a more salient credit issue over the next several years," said Senior Director Michael Rinaldi, who oversees Fitch's U.S local government ratings.

Fitch's "U.S. States and Local Governments Outlook 2023" report is available at www.fitchratings.com.

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Barclays Sees Municipal ESG Bond Sales Climbing 20% in 2023.

- **Such borrowings will reach $45 billion to $50 billion: bank**
- **Influx of new money is bolstering the ESG supply outlook**

While US state and local government borrowings have slumped this year, a growing share of the deals are labeled as environmental, social and governance debt, and such issuance will climb roughly 20% next year, according to Bloomberg data tallied by Barclays.

ESG muni-bond issuance will likely reach $45 billion to $50 billion in 2023, the bank forecast. New money deals are expected to rise as some governments struggle with higher costs amid inflation and federal Covid funds near exhaustion. Plus the Inflation Reduction Act of 2022 allocated funds for climate and energy. If the total amount of new money deals and the ESG share both rise, the amount of ESG bonds will also "likely increase," according to Barclays.

"We believe that the trend of increasing ESG issuance is firmly entrenched for the foreseeable future," Barclays municipal strategists led by Mikhail Foux wrote in a research note published Monday.

Continue reading.

Bloomberg Markets

By Skylar Woodhouse

November 29, 2022

S&P: U.S. Not-For-Profit Cultural Institutions' Credit Quality Held Steady During The Pandemic

Key Takeaways

- Despite our initial rating actions following the onset of the pandemic, long-term credit quality held steady for U.S. cultural institutions.
- The majority of rated cultural institutions successfully offset lost or reduced revenue with expense cuts, federal support, additional fundraising, or a combination of methods.
- Balance sheets for cultural institutions improved in fiscal 2021 as a result of strong investment gains, although headwinds could be in store for fiscal 2022 and beyond given market volatility, inflationary pressures, and uncertainty around tourism.

Continue reading.

28 Nov, 2022

S&P Outlook For U.S. Not-For-Profit Acute Health Care: A Long Road Ahead

Sector View: Negative

We have revised our not-for-profit health care sector view to negative given persistent operating pressures coupled with investment market volatility that has eroded much of the balance sheet cushion built during the pandemic. Margins and cash flow recently have at best demonstrated limited sustainability of a post-pandemic recovery and at worst have accelerated to uncharacteristically high losses. We do not expect full margin recovery in 2023 and will likely see continued operating losses, albeit at lower levels than 2022, for many institutions. Meaningful improvement will likely take multiple years.

Continue reading.

1 Dec, 2022

Fitch: Labor Pains to Intensify for U.S. NFP Hospitals in 2023

Fitch Ratings-Austin/Chicago-01 December 2022: High labor expenses will remain a formidable challenge for U.S. NFP hospitals next year even if broader inflation cools, according to Fitch Ratings in its 2023 outlook report for the sector.

The labor shortage is the single largest contributor to operational losses for hospitals with 75% or more of a providers' expenses currently under intense expense pressure. The biggest loss is due to a shortage of nurses, who were already in high demand before the pandemic. COVID has exacerbated departures of nurses with the dearth now estimated anywhere from one to two million.

"Volumes have generally rebounded from early pandemic lows, but expense inflation remains pronounced for hospitals, particularly for labor," said Senior Director Kevin Holloran. "It's evident that labor expenses have been reset at a permanently higher level, the remedying of which will take all of 2023 and likely beyond."

Fitch revised its sector outlook for hospitals to 'deteriorating' in August 2022. The rate of Negative Rating Outlooks has more than doubled, to 7% from 3% the year prior, along with some rating downgrades. However, concerted efforts by healthcare management teams to reduce operational losses should help curb the rate of downgrades in 2023.

“The coronavirus may become very similar to non-seasonal influenza, requiring yearly vaccine shots to provide protection against serious illness,” said Holloran. “Conversely, labors pain will worsen, revenues will drop and expenses will spike if a highly transmissible and deadly variant emerges in the winter months and into next year.”

Fitch’s ‘U.S. Not-For-Profit Hospitals and Health Systems Outlook 2023’ is available at ‘www.fitchratings.com’ or by clicking the link above.

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Fitch: Recessionary Fallout Muted for U.S. Transportation Infrastructure in 2023

Fitch Ratings-New York-01 December 2022: Growth should remain largely undeterred for U.S. airports, toll roads and ports next year in the face of recession, according to Fitch Ratings in its 2023 outlook report for transportation infrastructure.

Fitch holds a Neutral Outlook for the sector and for ratings, despite a significant softening of the broader economy in 2023 with Fitch economists calling for recession in the spring, . This is not to say that transportation will not need to weather some headwinds, according to Senior Director Lehman.

“Persistent inflation and higher interest costs will make operating costs and financing of capital projects significantly more expensive,” said Lehman. “This could lead to delays or paring back of capital improvement projects, though Federal funding could serve as a positive counterbalance.”

Federal grant awards have helped jump-start liquidity for many U.S. airports during the pandemic. With national passenger traffic currently at 89% of 2019 levels, the move towards more air travel following years of pandemic restrictions should keep the rate of growth positive.

Traffic growth should continue for toll roads, though it will level off to some extent in 2023. Toll roads with automatic inflation-linked toll rate increases are facing a second year of atypically high annual rate increases, though some toll roads are hitting ‘pause’ on automatic increases to provide customers some economic relief.

Broader economic headwinds are unlikely to change the mildly positive trajectory for ports next year. Cargo-focused ports are expected to see further near-term volume adjustments due to continued operational disruptions related to supply chain bottlenecks and labor uncertainty. Meanwhile, activity at cruise ports has seen a resurgence over the last few months with continued strong growth likely in 2023.

Fitch's "North American Transportation Infrastructure Outlook 2023" is available at www.fitchratings.com.

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As Climate Damage Rises, Utilities Turn to 'Recovery Bonds'

As climate change makes extreme weather events more common, US utilities and energy companies are turning to a once rare vehicle to raise funds for coping with the infrastructure damage they cause: recovery bonds. By late November, utilities were on track to sell nearly $20 billion of recovery bonds in 2022, a record, and up from $2.3 billion in 2021. What's the attraction? Companies issuing recovery bonds aren't on the hook to pay them back out of their own coffers. Expect the demand for recovery bonds to heat up even more as the Earth does.

1. What is a recovery bond?
It's a type of bond that is sold by an energy or utility company to "recover" the costs of a one-time big expense, most commonly storm damage or the retirement of a coal plant or to pay for other plant equipment costs. Here's how recovery bonds are different from typical debt offerings: Utilities can seek regulatory approval to set up a special finance subsidiary to sell the recovery bonds and are then authorized to add a small ongoing charge to customers' monthly electricity bills. Those charges, which can continue for dozens of years in some cases, get transferred to the finance subsidiary and the finance subsidiary then distributes that money to bondholders in the form of regular coupon payments plus principal. If some customers don't pay their charge, then the shortfall is made up by increasing the charge on all other customers. The state pledges never to interfere with this collection mechanism.

2. Can you give me an example?
You probably remember headlines from the winter storm, called Uri, that paralyzed Texas in February 2021. That same storm inflicted billions in economic costs on energy utility companies in Oklahoma, Louisiana and Kansas. Utilities in all four states chose to issue recovery bonds rather than add a massive one-time surcharge to customers' bills. In Oklahoma, after receiving permission from the state legislature, four utilities sold about $2.8 billion in recovery bonds to investors, including BlackRock, Citadel and a collection of insurance companies.

3. Why are so many of them being sold recently?
Fire and ice. A big chunk of the recent increase comes from bonds sold to deal with the damage from massive wild fires in California from 2017-19 as well as Uri. In Texas, a planned $3.4 billion in taxable municipal debt issued by a state agency to help utilities there will be the state's largest long-term muni offering ever. The fires and ice storms have been linked to climate change, which is making extreme weather more likely worldwide, leading to greater damage to energy grids in the wake of hurricanes or blizzards. Climate change is also leading to more pressure to retire coal plants early. Utilities in some states, including Indiana, aim to sell recovery bonds to help cover the costs of shutting down their coal plants early.

4. What's the advantage of a recovery bond?
From the point of view of investors, recovery bonds are unusually secure: They're backed by state laws guaranteeing that payments will continue even if the utilities go bankrupt. Recovery bonds have also offered higher yields than on comparable corporate bonds. Securities offered in August by the Oklahoma Development Finance Authority included debt with a weighted average life of about 22 years that yielded about 4.7%, or 135 basis points above Treasuries, data compiled by Bloomberg show. That spread was fatter than on other debt with top credit ratings. For example, a comparable Microsoft Corp. bond maturing in 2045 traded in late August at around 76 basis points above Treasuries, according to Trace pricing data.

5. How can the bonds both be safe and offer such high returns?
In Oklahoma and other states where utilities have sold recovery bonds, some critics have claimed that the bonds are being sold at higher-than-necessary interest rates. They argue that's because the utilities aren't paying the interest — their customers are — meaning the utilities have little incentive to push for a better deal. If true, households and business customers are getting the short end of the stick, facing an unnecessarily large extra charge on their monthly electricity bills for decades — even if that's still better than the alternative of a huge one-time utility bill hike.

The Reference Shelf

- A Bloomberg article on the rise in recovery bonds.
- An article on PG&E's fire-related recovery bond.
- A paper by the Natural Resources Research Institute on non-traditional approaches to borrowing for utilities' capital expenditures.

Bloomberg Green

By Scott Carpenter

November 29, 2022

What Is the Financial Impact of Legislation Targeting Companies Taking Disfavored Stances? - Cooley

As discussed in this PubCo post, we've lately been witnessing a profusion of state and local legislation targeting companies that express public positions or adopt policies on sociopolitical issues or conduct their businesses in a manner disfavored by the government in power. *Bloomberg* observes that, while "companies usually faced mainly reputational damage for their social actions, politicians are increasingly eager to craft legislation that can be used as a cudgel against businesses that don't share their social views." And many of these state actions are aimed, not just at expressed political positions, but rather at environmental and social measures that companies may view as strictly responsive to investor or employee concerns, shareholder proposals, current or anticipated governmental regulation, identified business risks or even business opportunities. These laws are presumably detrimental to the targeted companies, but are there any adverse consequences for the state or locality adopting this legislation and its citizens? To better understand the phenomenon and its impact on financial market outcomes, this paper from authors at the University of Pennsylvania and the Federal Reserve Bank of Chicago looked at the impact of one example of this type of legislation—a law recently adopted in Texas that blocks banks from government contracts in the state if the banks restrict funding to oil and gas companies or gun manufacturers. The authors concluded that the Texas legislation has had, and is expected to continue to have, a "large negative impact on the ability for local governments to access external finance. Our results suggest that if economies around the world that are heavily reliant on fossil fuels attempt to undo ESG policies by imposing restrictions on the financial sector, local borrowers are likely to face significant adverse consequences such as decreased credit access and poor financial markets outcomes."

According to *Reuters*, some "states have unleashed a policy push to punish Wall Street for taking stances on gun control, climate change, diversity and other social issues, in a warning for companies that have waded in to fractious social debates." For example, Reuters reports, last year, states passed legislation sidelining companies "that 'boycott' energy companies or 'discriminate' against the firearms industry from doing new business with the state," contending that the "policies of such companies deprive legitimate businesses of capital." Bloomberg reports that several states have "passed legislation that requires financial firms to say whether they have policies that limit doing business with oil, gas and coal companies, a common practice for firms that have made pledges to reduce their own carbon footprint. Banks that demur could lose their licenses in those states. Another 12 states are considering similar measures." According to a new Reuters analysis, in 2022, there were at least 44 bills or new laws in 17 states "penalizing such company policies, compared with roughly a dozen such measures in 2021….The growing restrictions show how America's culture wars are creating new risks for some of the most high-profile U.S. companies, forcing them to balance pressure from workers and investors to take stances on hot-button issues with potential backlash from conservative policymakers." Some state officials accuse the targeted companies of "using the power of their capital to push their ideas and ideology down onto the rest of us."

Not that these measures come solely from one side of the political spectrum—Bloomberg reports that some politicians have taken aim at tax breaks for companies that oppose workers' union-organizing activities, offering a bill that "would propose that employers' spending on anti-union activities qualifies as political speech under the tax code, barring those companies from deducting the costs on their taxes." In addition, some states are reportedly considering actions such as a "climate resiliency fee" for institutions that fund fossil fuel projects or a prohibition against state pension plan investment in fossil fuel companies. Still, Reuters indicates that states favoring ESG policies are "not pursuing as many punitive measures, according to the review and sources." Of course, that could change. And the review conducted by Reuters showed that it's not just states that are sitting clearly on one side of the culture line or the other that are adopting these types of measures; some "swing" or purple states are also getting into the mix.

These new prohibitions can create serious impediments to companies' ability to conduct state business, implicating billions of dollars. In addition, Reuters reports, the "issues such measures target are also mushrooming. Guns and energy were the focus of the roughly dozen state laws and bills last year and of at least 30 legislative measures this year. But this year there were also more than a dozen bills relating to social and other issues," including many divisive concepts, such as mandatory COVID-19 vaccines.

To examine the effect of this type of targeted legislation, the authors conducted a study looking at the impact of "a significant and unexpected regulatory change" in Texas, implemented in September 2021, that barred some of the largest banks from government contracts in the state if the banks restricted funding to oil and gas or firearms companies. The laws "led to the abrupt exit of five of the largest municipal bond underwriters from Texas." The study looked at how this legislation affected borrower behavior and outcomes.

The authors found that, after the state adopted its prohibition, issuers that had relied on the targeted banks prior to the legislation were more likely to negotiate pricing in subsequent bond financings than to conduct an auction, received fewer competitive bids from underwriters, raised less financing and incurred higher borrowing costs. According to the paper, "borrowing costs increase because there are fewer municipal underwriters competing for the state's municipal bonds, and because issuers no longer have access to the national bond placement networks of the major banks." More specifically, they found that borrowing costs increased by approximately 10 basis points for some issuers (those with an additional 22% higher bond dollar volume underwritten by exiting banks), and by up to 45 basis points for issuers that had previously raised the majority of bond financing through the exiting underwriters. The study also found that, among remaining competitive offerings, the number of underwriting bidders "declines sharply, the variance among remaining bids increases, and the winning bid in terms of yield to maturity increases after the implementation of the Texas laws for issuers with previous reliance on the exiting banks. These results suggest that the exit of the targeted underwriters from the Texas market has significant impact on underwriter competition and that the remaining banks may enjoy increased market power due to barring banks with certain social and environmental policies from the market."

Placement of municipal bonds with investors also changed substantially as issuers lost direct access to the distribution networks of the five exited large banks. The authors note that the "large underwriters targeted by the new Texas laws typically have national distribution networks and may be better able to place municipal bonds with a wider array of investors than regional underwriters." Because Texas municipal bonds are widely held out of state (as a result of the absence of Texas state income tax), the availability of wide distribution was "especially important."

The study also examined the efficiency of bond placement by comparing the underpricing of new issues before and after implementation of the Texas laws. Although the authors concluded that, on average, underpricing of the municipal bonds was similar both before and after implementation of the laws, they found that "issuers previously reliant on the targeted banks for the majority of underwriting activity face increases in underpricing of about 14 basis points." The authors also found changes in placement patterns consistent with more costly placement, implying a "higher direct participation of retail investor trades and less dealer intermediation," and suggesting that issuers substituted the "national intermediation of municipal bonds provided by the exiting banks with a more local placement at higher average costs."

The authors estimated that Texas entities will pay an additional $303 to $532 million in interest on the $32 billion in borrowing during the first eight months following implementation of the Texas laws. "Assuming no other banks leave the state," the authors concluded, "Texas taxpayers can expect these bills to cost them about $445 million a year in additional borrowing costs. If more banks leave, these costs will go up.

Cooley LLP – Cydney S. Posner

December 2 2022

Make Data-Driven Decisions with Newly Released Moody's Climate on Demand Sea Level Rise Risk Model

The potential impact of sea level rise cannot be taken lightly. According to Moody's Climate on Demand application, by 2040, 135 million people and up to 9% of GDP from the world's 10 largest economies will be exposed to rising sea levels and associated flood risk.

Moreover, modeling sea-level-rise (SLR) risk is complex and requires the application of world-class peer-reviewed science and leading risk assessment methods. In addition to climate change model variances and uncertainties, asset locations can vary in coastal proximity, elevation, and connectivity to the ocean – all of which impact a site's relative exposure to sea level rise. Cutting through this complexity is crucial to a wide variety of stakeholders with coastal assets and investments.

Designed to make sense of these complexities, Moody's Climate on Demand is a leading application that provides forward-looking risk scoring on assets and locations globally. Climate on Demand measures the exposure and sensitivity of a given facility or location to six key climate hazards: floods; heat stress; hurricanes & typhoons; water stress; wildfires; and sea level rise.

What's new?

Moody's is continually innovating the modeling approach that underpins the Climate on Demand platform – by further refining hazard scores. Climate on Demand's sea level rise hazard score takes into account the absolute and relative increase in frequency of coastal flooding, as well as capturing inundation related to sea level rise, storm surge, high tides and vertical land movement.

We recently released a significantly enhanced sea-level-rise risk scoring methodology that considers not only topography and coastal proximity, but also connectivity to the ocean.

Prior to this release, our approach to assessing sea-level-rise risk used a set distance from the coast with topographic adjustments to calculate sea-level-rise risk scores. Following the enhancement, our model evaluates locations considering ocean connectivity and evaluating extreme water levels against local topography – thereby capturing nuanced variations in coastal flooding potential. This enables users to assess and identify locations that are hydrologically connected to the ocean and, in turn, more susceptible to flooding. In addition, the application includes a more granular breakdown of risk exposure to capture how certain regions – due to varying degrees of coastal proximity – may be indirectly impacted by flooding.

Why does it matter?

Quantitatively, customers can expect these enhancements to revise and refine some coastal region asset scores. To demonstrate, Figure 1 (below) shows the 2040 sea-level-rise boundary of a segment of Florida's Tampa Bay coastline calculated using the original sea-level-rise risk scoring methodology (left), as well as the revised methodology (right).

With the enhanced approach applied, users can see a far more granular and sophisticated sea-leve--rise boundary and, therefore, a significantly larger area considered "at-risk". Previously, assets that fell outside the sea-level-rise boundary set by the original methodology were not flagged for exposure to coastal flooding, and received a score of zero, as is the case in Figure 2 pictured below. Now, assets in regions with high ocean connectivity and/or low-lying areas can be screened more accurately. For this exercise, we chose to focus on a region with particularly high ocean connectivity. While we do not expect all coastal assets' scores to be impacted to this degree, the methodology update represents a significant leap forward in the accuracy of our insights on low-lying coastal regions.

Measuring exposure to physical climate risks remains a complex business, but high-quality climate data delivered through Climate on Demand is beginning to turn the tide. Moody's newly-released sea level rise methodology will have far-reaching impacts across coastal portfolios and assets, flagging new at-risk locations, and overall providing a more comprehensive view of the physical impact of sea level rise.

Figure 1: Updated multi-pronged approach to SLR

Example site illustrating improved SLR exposure score

Previous SLR (Sea Level Rise) Score: 0

Facility is outside the previous SLR boundary

New SLR score: 100

Facility is now inside the SLR boundary

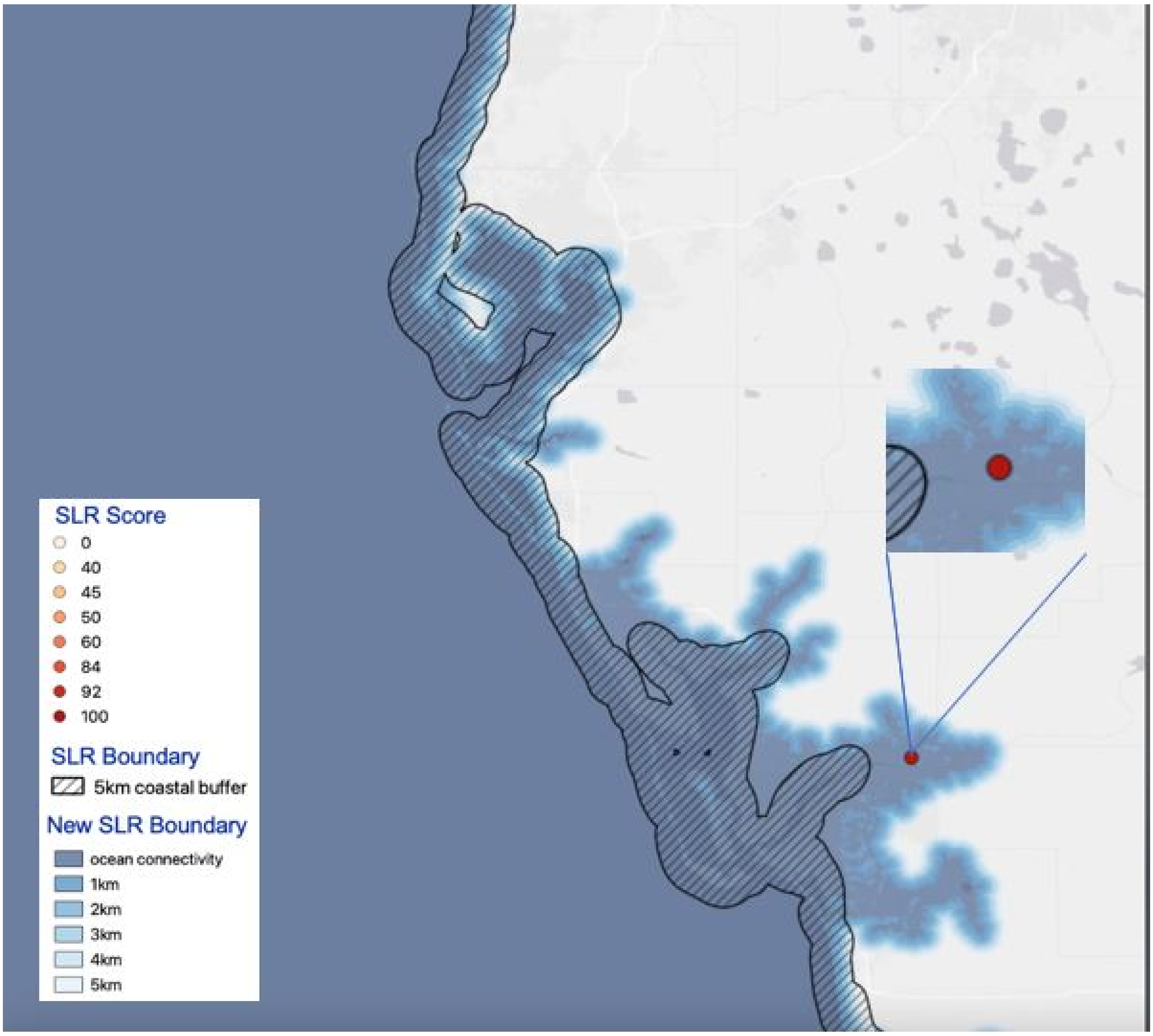

Figure 2: Improvement in accuracy of SLR exposure scores

To learn more about Climate on Demand, please contact MESG@moodys.com.

Existing users can direct any queries to clientservices@moodys.com

November 16, 2022

Wildfires are Burning an Ever-larger Hole in State Budgets.

New research looks at the fiscal pressure states are under dealing with the blazes and makes suggestions for funding improvements.

The growing cost of wildfires is putting bigger strains on state budgets, often forcing public officials to scramble to find money for firefighting efforts, researchers at a think tank warned Wednesday.

The words of caution come from a new report from The Pew Charitable Trusts that describes the increased demands on fire-related programs. The report also highlights the complex budgetary maneuvers that state officials must take to share costs of fire prevention and fire suppression with local and federal agencies.

"The growing incidence, size and spending required to deal with wildfires pose a major challenge across the United States," the researchers wrote. "The nation's complex, intergovernmental approach to wildfire management means that efforts to manage growing spending—not to mention impacts on the environment and human lives—must be well coordinated and based on the best possible information."

Continue reading.

Route Fifty

by Daniel C. Vock

NOVEMBER 30, 2022

Pew Study Unpacks how State Wildfire Spending Norms Fall Short and Strain Budgets.

Every year, dramatic photographs of smoldering communities and grieving loved ones portray the physical cost of wildfire season. What isn't captured in those heart-wrenching images is the fiscal implications of increasingly catastrophic wildfires; they're straining state budgets to the breaking point.

A new report from The Pew Charitable Trusts, "Wildfires: Burning Through State Budgets," sheds light on the financial burden wildfires are placing on state budgets and highlights a need for more research and data collection on the subject while unpacking inefficiencies of the current administrative system.

"The overarching context is that wildfires are becoming bigger and more costly over time. As fires have grown, so have government costs associated with them," said Colin Foard, lead author of the report and a manager of the The Pew Charitable Trusts' fiscal federalism initiative. He was speaking Wednesday in a briefing about the report's findings.

Compared to a 33-year period beginning in 1983, the average amount of acreage that burned annually between 2017 and 2021 was 68 percent larger. And in correlation, combined funding for wildfire activities undertaken by the U.S. Department of the Interior and the Forest Service more than doubled from 2011 to 2020, according to the report.

States are likewise facing a dramatic increase in wildfire spending. Washington, for example, spent an annual average of $24 million on wildfire suppression between 2010 and 2014. From 2015 to 2019, it more than tripled to $83 million, the report notes.

In response to the growing need, states are taking a two-pronged approach to mitigate wildfires, according to Foard: they're allocating resources for unpredictable year-over-year costs, and they're trying to reduce fire risk over time. Given the variables, this is easier said than done.

"Wildfire needs vary a lot year over year, and planning for that is a challenge," Foard said.

Confronting wildfire is a complex and tedious process that begins with smart forest management and cooperation agreements between jurisdictional agencies. From managing forests to making sure buildings are less susceptible to fires, preparation and prevention measures are undertaken constantly, but they aren't prioritized as highly as suppression.

Administratively, it's difficult to make sure that line items for prevention aren't "swallowed up by suppression costs," he said. In this, it's important for administrators to consider the macro perspective, "taking stock" and considering "if there's a way to more accurately represent those costs in their budget."

When a fire does break out, researchers found that states "most commonly draw on general fund revenue for wildfire activities and often pay upfront for these costs while awaiting reimbursement from other levels of government. States primarily use backward-looking estimates based on past suppression costs to decide how much funding to allocate for these expenses."

These reactionary practices, while flexible in the moment, aren't working to reduce wildfire in the long run. They also obscure the true cost of wildfire mitigation, the report says.

"These budgeting practices are under strain: In recent years, the estimates states have used to inform their wildfire budgets have frequently proved insufficient, forcing states to cover spending gaps using after-the-fact budgeting tools such as supplemental appropriations," the report continues. "While these reactive mechanisms provide needed flexibility during emergencies, they also obscure from the state budgeting process the true costs of wildfire mitigation. Complicating things even further, patchwork of land management complicates the response of all agencies involved—state, local, federal or private. And while federal agencies have more stability, states "must balance their spending and revenue every budget cycle," the report says. "Local governments, although not the focus of this study, also face significant challenges meeting wildfire expenses and navigating the direct impacts of fires on communities."

To address these issues, the report highlights a need for more data on wildfire spending, more evidence-based investments, and for states to "evaluate and strengthen current budgeting practices to account for growing risk," the report says. "By comparing actual spending versus expected spending, assessing the threat of future fires, and implementing other tools, states can more accurately understand how much to budget for wildfire management, including mitigation."

americancityandcounty.com

Written by Andy Castillo

1st December 2022

[Inflation Is Cutting Into States' Big Infrastructure Windfall.]

The costs of road and bridge projects have increased by as much as 40%.

When Ohio transportation officials got the bids back in spring for the next phase of an expansion of Interstate 75 north of Cincinnati, they had a rude awakening.

Inflation had driven up the mega-project's cost by about $100 million above the $171 million state engineers had estimated. Officials decided to redesign the project, break it up into smaller phases and rebid it, putting off construction until the fall of 2023.

Ohio transportation officials are getting nearly $2 billion over five years from the $1.2 trillion federal bipartisan infrastructure law. But so far, the money they've received "has largely been gobbled up by inflation," said Matt Bruning, spokesperson for the Ohio Department of Transportation. "It didn't take all of it, but we're pretty close to a net sum zero because of it."

Continue reading.

Route Fifty

By Jenni Bergal

DECEMBER 1, 2022

[U.S. Department of Transportation Proposes Important Buy America Actions; FTA Administrator Issues Buy America Dear Colleague Letter - Nossaman]

The Infrastructure Investment and Jobs Act (P.L. 117-58; IIJA) expanded the scope of the Buy America preference by requiring that all construction materials, iron and steel, and manufactured products used in federally supported infrastructure projects be produced in the United States. Prior to the IIJA, Buy America requirements did not apply to construction materials.

The federal government began implementing the new requirements earlier this year, beginning with the Office of Management and Budget's implementation guidance, followed by the U.S. Department of … Continue

By Alyn Shen, Shant Boyajian on 11.14.2022

Nossaman LLP

The Long-Term Decline in Fertility - and What It Means for State Budgets

States with low birth rates and shrinking populations face fiscal risks

Overview
When the economy takes a downward turn, couples often temporarily put off having children.1 But in the years following the Great Recession, births never rebounded. Instead, fertility has largely continued to follow a downward trajectory across the country, falling to a record low in 2020.2 State budgets have started to feel the effects of this long-term decline. The future course of fertility represents a key source of fiscal uncertainty for states as smaller working-age populations may eventually threaten tax bases.

Fertility is one of several demographic pressures states are experiencing: In addition to recent declines in international migration and life expectancy, the broader aging of the population and the large-scale exit of Baby Boomers from the workforce will pose challenges to states over the long term.3 Total U.S. population growth hit a record low last year as the pandemic exacerbated some of these issues.4

This brief examines the historic decline in fertility and its wide-ranging potential effects on state budgets. Fewer births could yield cost savings: Many school districts are experiencing drops in enrollment and a sharp reduction in teenage pregnancies has already helped limit growth in health expenditures.5 In the coming decades, however, governments may face resource challenges, with a smaller pool of workers likely suppressing income, sales, and other tax revenue sources.

The Pew Charitable Trusts analyzed the most recent Centers for Disease Control and Prevention data and reviewed a cross-section of state budget reports detailing projected population trends and their fiscal effects. Among the key findings:

Continue reading.

The Pew Charitable Trusts

December 5, 2022

New Municipal Issuance: Supply Constraints to Persist?

During the remainder of the year, demand for tax-exempt income is expected to continue to outpace the supply of new municipal issuance, increasing the likelihood of solid performance into 2023.

Roadblocks to Refunding Continue to Pressure Tax-Exempt Supply
The flow of newly issued bonds is the lifeblood of any bond market. For municipals, in particular, refunding deals have played a key role in new issuance. The reliance on refunding debt is so high that in a typical year, it makes up one-third to 40% of supply. As opposed to new money bonds, which are issued for new projects, refunding bonds replace outstanding debt (aka refinancing). Several recent policy decisions have curtailed the use of refunding issuance, severely reducing tax-exempt supply in the market.

Pre-Refunding Bonds Become Taxable

In 2018, the Tax Cuts and Jobs Act eliminated tax-exempt pre-refunded debt – a subset of refunding bonds. As a result, refunding debt dropped to 18% that year, slowly creeping up to 31% in 2020. Low interest rates ensured that refunding outstanding debt still made sense, and even pre-refunding taxable debt could be advantageous.

Continue reading.

VANECK

By Tamara Lowin
Senior Municipal Credit Analyst

DECEMBER 4, 2022

The Latest Developments in Muni Bonds (Bloomberg Audio)

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

Listen to audio.

Bloomberg

Dec 02, 2022

UBS: Municipal Investors Should Position Defensively

The value of municipal bonds suffered one of the worst declines on record in 2022 as the Federal Reserve aggressively raised interest rates to combat high inflation.

While inflation is moderating, the odds of a recession next year have risen. In this environment, we advise investors should position themselves to take advantage of attractive municipal bond yields. We prefer higher-quality bonds in low risk sectors such as states, water sewer and electric utilities as opposed to lower-rated bonds in private higher education and healthcare. This allows investors to benefit from higher yields but without exposing them to greater relative spread widening that the riskier sectors may experience.

The Bloomberg state GO index is yielding 3.15%, greater than its long-term average of 2.73% over the last two decades. The hospital bond index however, is currently yielding 111bps over the state GO Index, a little below its long-term average of 114bps. While this spread differential is influenced by various factors over time, including changes in relative duration, it tends to increase significantly in periods of crisis, reflecting the impact of greater credit risk.

In our view, this spread differential is likely to increase next year, given the increasing odds of an economic slowdown and even recession. We believe investors with a higher risk tolerance will get better entry opportunities in hospital bonds next year. Till then, we believe a defensive posture in the lower risk sectors has a better risk reward dynamic.

by UBS Editorial Team

01 Dec 2022

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

[View the Current List.]

22 Nov, 2022

[Fitch: Significant Job Loss Expected in 2023 as U.S. Labor Market Rebalances]

Fitch Ratings-New York/London-21 November 2022: U.S. labor market imbalances are currently adding to wage and inflation pressures, but labor demand will fall significantly next year as Fed tightening weighs on economic activity, according to Fitch Ratings.

Labor demand – as measured by employment plus job openings – currently exceeds labour supply by around 5 million. This imbalance is unlikely to recede through a labor supply recovery, but the economic downturn expected in 2023 will likely result in lower labor demand through both job losses and falling job openings.

“The lagged impact of aggressive Fed tightening, the drag on real wages from high inflation, and knock-on impacts from the downturn in Europe will drive the U.S. economy into recession territory next year – with the unemployment rate increasing to 4.7% at the end of 2023, and peaking at 5.3% in 2024,” said Olu Sonola, head of U.S. Regional Economics.

“As a result, the job openings rate (job openings as a percent of employment plus job openings) is expected to decline from the current rate of 6.5% to 5.2% in 2024, reducing job openings by 2.1 million. This would reduce the job openings to unemployment ratio to approximately 1.0 in 2024 from its currently elevated level of 1.86”, says Sonola.

The U.S. labor market imbalance peaked in March 2022 at approximately 3.5%, or 5.9 million jobs. At the end of September 2022, labor demand exceeded labor supply by approximately 2.9% of the labor force, or 5 million jobs.

While the U.S. civilian labor force has recently returned to pre-COVID levels, it remains more than 4 million people below the pre-COVID trend. Excess retirements during the pandemic, lower immigration, lingering impact of COVID on work absenteeism, and the entrenched trend of the aging U.S. labor force have all contributed to the lack of recovery in the participation rate.

For more information, a special report titled “Economics Dashboard: U.S. Labor Market Imbalances Won’t Ease Without Job Losses” is available at www.fitchratings.com.

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S&P: U.S. Transportation Infrastructure Toll Sector Update And Medians: Rebounding Traffic And Toll Increases Are Key Ingredients For Credit Strength And Stability

Key Takeaways

- We expect U.S. not-for-profit toll road ratings, which were among the most resilient of the transportation infrastructure asset classes, with no downgrades throughout the COVID-19 pandemic, will be stable given the almost complete rebound in traffic during 2022 supported by continued commercial vehicle traffic and toll rate increases implemented by many operators.
- The recovery in traffic and revenues is expected to be accompanied by increased operations and maintenance expenses and a return to capital program spending to expand capacity and continue the conversion to all-electronic toll collection, which accelerated in 2020-2021.
- Toll increases implemented since January 2020 buoyed the credit quality of toll road and bridge operators. Of the 15 largest U.S. toll-backed issuers as measured by debt outstanding, 12 raised toll rates, which in some instances compensated for weaker passenger vehicle traffic. Across the rated universe, the median decline in 2020 operating revenues was approximately 5% less than the decline in transactions.
- A weakening economic outlook could cool the impacts of construction cost inflation and supply chain pressures on capital projects, although the massive federal investment in infrastructure could keep input and labor prices elevated in many markets over the medium term.
- Our analysis of S&P Global Ratings' universe of rated toll road and bridge fiscal 2021 financial metrics–including debt service coverage, debt to EBIDA, and liquidity–shows relatively stable performance with median revenues and toll transaction growth of about 6%, resulting in median debt service coverage of 1.6x in 2021 compared with 1.7x in 2020 and 1.9x in 2019.

Continue reading.

17 Nov, 2022

S&P U.S. And Canadian Municipal Toll Road Ratings And Outlooks: Current List And Recent Rating Actions

View the S&P Ratings and Outlooks.

18 Nov, 2022

ESG Fight Injects Fresh Risks Into Public Pension Portfolios.

- **Investment decisions driven by politics seen hurting retirees**
- **Many public pensions in US grappling with funding shortfalls**

When Florida Governor Ron DeSantis emerged as one of the most vocal critics of so-called woke money managers, he thrust the state's pension funds into a red-hot debate.

On one side are Republicans, who say ESG investment strategies leave returns on the table for the sake of political correctness. On the other are Democrats who argue failing to account for climate change will exact steep financial costs in the long term.

Both say they're upholding their fiduciary duty to act in the best interests of clients. Making investment decisions based on anything other than performance would violate that obligation. But some research has found that politically motivated investment decisions can hurt long-term performance, costing some state pension funds billions of dollars as they're struggling to keep the promises made to retirees.

Continue reading.

Bloomberg Green

By Sabrina Kharrazi

November 23, 2022

Where 'Vision Zero' Is Working.

A dramatic reduction in traffic deaths in US cities is possible, despite huge headwinds. In some places, progress is starting to become visible.

When I was a reporter at the transportation advocacy publication Streetsblog, we used to do a little data exercise looking at places that had declared themselves "Vision Zero cities." Vision Zero is an international safety campaign that aims to completely eliminate traffic fatalities and injuries. Like other journalists, we tried to determine if these civic pledges made any detectable difference in the number of roadway deaths.

At the time, in 2018 and 2019, it was very hard to tell. The data was noisy, especially at the city level. A lot of cities treated Vision Zero more as a declaration than the kind of radical change in policy it demands. Some traffic safety advocates were skeptical of Vision Zero's prospects for success. And as US traffic fatalities continued to grow during the Covid-19 pandemic, many have remained so.

But some solid evidence is now emerging that it is working, or can work.

Continue reading.

Bloomberg CityLab

By Angie Schmitt

November 25, 2022

White House Announces $13 bln in Funding to Modernize Power Grids.

Nov 18 (Reuters) – The White House announced through the Department of Energy (DOE) on Friday that it is soliciting grant applications for $13 billion in new financing under the bipartisan infrastructure bill for the expansion and modernization of the U.S. electric grid.

The $1.2 trillion infrastructure law, passed last year, provides $10.5 billion to harden power systems against growing threats like extreme weather and climate change, the DOE said, and a further $2.5 billion to help build new transmission lines.

An estimated 70 percent of the nation's transmission lines are over 25 years old, and this aging infrastructure makes American communities, critical infrastructure and economic interests vulnerable, the White House said.

The upgraded transmission system is also critical to cost-effectively achieving Biden's goals of reducing greenhouse gas emissions 50% below 2005 levels in 2030 and achieving 100% clean electricity by 2035.

The White House highlighted other initiatives aimed at boosting the power grid, such as expediting approval of new transmission lines, advancing major project reviews and supporting wind-power transmission.

Energy Sets Aside $550 Million for State and Local Clean Energy Efforts.

The money is available through the Bipartisan Infrastructure Law.

The Energy Department on Wednesday announced $550 million in funding for state, local and tribal governments to support community-based clean energy projects, continuing an assortment of recent funding efforts geared toward energy modernization.

The announcement was made through a notice of intent, with investments from the Bipartisan Infrastructure Law available through the Energy Efficiency and Conservation Block Grant program. According to Energy, the program will fund 50 states, five U.S. territories, the District of Columbia, 774 tribes and 1,878 local governments "in a variety of capacity-building, planning and infrastructure efforts to reduce carbon emissions and energy use and improve energy efficiency in the transportation, building, and other related sectors."

"This funding is a streamlined and flexible tool for local governments to build their clean energy future," Secretary of Energy Jennifer M. Granholm said in a statement. "State, local, and tribal communities nationwide will be able to leverage this funding to drive greater energy efficiency and conservation practices to lower utility bills and create healthier environments for American families."

Continue reading.

Route Fifty

By Frank Konkel

NOVEMBER 23, 2022

Backlash Over New 'Buy America' Rules for Infrastructure Projects.

State and local transportation agencies are concerned the feds are moving too fast in imposing tighter requirements, complicating a wave of new construction.

The Biden administration is pushing state transportation departments and their contractors to use more U.S.-made materials as they build new infrastructure, but many industry groups worry the federal government is rolling out the changes too quickly.

"AASHTO is still concerned that the quick implementation of Buy America requirements for such a broad range of materials will cause delays in project delivery while states, contractors, manufacturers, and suppliers continue working to determine how best to track and verify these materials," wrote Roger Millar, Washington state's secretary of transportation and the president of the American Association of State Highway and Transportation Officials, in a letter to federal officials.

"Delays and costs will likely increase, at least in the short term, as contractors are forced to shift material purchases to domestic suppliers, who in turn may struggle with availability due to limited quantities and high demand," he added.

Continue reading.

Route Fifty

By Daniel C. Vock

NOVEMBER 21, 2022

Here's Why Municipal Bonds Are Rallying.

Bloomberg Intelligence's Eric Kazatsky explains what's behind the rally in municipal bonds. He speaks on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

November 23rd, 2022

Fixed Income Portfolios in the Current Market Uncertainty.

With continued Fed rate hikes, many fixed income investors are currently sitting on hefty unrealized market losses from their existing fixed income securities in their respective portfolios.

The picture isn't any rosier when looking at the equity markets. The pandemic effect and supply chain issues are continuing to dampen the growth of many sectors of the economy, in turn presenting major headwinds for the equity markets. Furthermore, when pairing these challenges with broader economic issues like historic inflation, the near-term forecast looks uncertain for economic growth in the U.S. However, record high interest rates can be significantly beneficial for investors with access to liquidity and the ability to capitalize on current market conditions.

In this article, we will take a look at the overall impact of rising interest rates and how fixed income portfolios can capitalize on current market conditions.

Continue reading.

municipalbonds.com

by Jayden Sangha

Nov 23, 2022

NASBO State Expenditure Report

This annual report examines spending in the functional areas of state budgets: elementary and secondary education, higher education, public assistance, Medicaid, corrections, transportation, and all other. It also includes data on capital spending by program area, as well as information on general fund and transportation fund revenue collections.

View the report.

Borrowing to Backfill Public Pensions Makes a Comeback.

Low interest rates made the potentially risky and often criticized practice more attractive. But then the stock market plummeted, complicating the outlook for some places that took on the debt.

Welcome back to another edition of Route Fifty's Public Finance Update! I'm Liz Farmer and this week I'm writing about an oldie but a goodie: pension obligation bonds (POBs). These bonds, which are also issued in the municipal market as "certificates of participation," are taxable debt issued by governments looking to shore up their pension plans. Proceeds from the sale are typically used to pay off part or all of a pension's unfunded liability, making future bills much more manageable. The debt comes at a higher interest rate than non-taxable general obligation bonds, but governments who issue POBs generally view the added stability they get for their retirement plans as worth the extra financing cost.

Still, POBs are a gamble and they fell largely out of favor after the Great Recession. Timing is everything and governments always face the risk of putting a bunch of borrowed money into their pension plan only to see it lose value in the event of a downturn. That happened to a number of places after the 2008 financial crisis and contributed to Stockton, California's bankruptcy. In these worst-case scenarios, governments are now saddled with 30 years of debt payments and a pension plan that's not much better off.

But last year, debt for pensions made a big comeback. More than 110 governments issued bonds to pay off pension liabilities, totaling nearly $13 billion in new debt, according to data compiled by Municipal Market Analytics. It's more than double the issuance compared with recent years and the highest total since 2003, according to Bloomberg.

Continue reading.

ROUTE FIFTY

By Liz Farmer | NOVEMBER 15, 2022

S&P Pension Brief: A Closer Look At A New Actuarial Liability Measure And What It Means For U.S. Public Finance Issuers

What Is The New Actuarial Liability Measure?

The Actuarial Standards Board (ASB), which sets and monitors actuarial practices in the U.S., is mandating that effective Feb. 15, 2023, actuarial funding reports include a new liability measure called the low-default-risk obligation measure (LDROM). This new liability measure supplements the actuarial funding recommendations in the report.

There are multiple definitions of pension liability that might be useful for analyzing an issuer's finances. Here are a few such definitions:

- Total pension liability (TPL): Reported in financial audits, this accounting liability is based on a discount rate typically equal to the assumed asset return, although it could be lower if funding discipline is poor.
- Actuarial accrued liability (AAL): Included in the actuarial funding valuation, the actuary uses this to guide their contribution recommendations. This funding liability is typically based on a discount rate equal to the assumed asset return.
- Low-default-risk obligation measure (LDROM): To be included in the actuarial funding valuation and based on a very low discount rate derived from low-default-risk fixed income securities. The impact of a lower discount rate is a higher liability calculation.

LDROM: What It Is And What It Isn't

The LDROM could provide additional information regarding the security of benefits that members have earned as of the measurement date. Plan sponsors have flexibility to define LDROM in multiple ways, as long as the discount rate is very low. For example, it could be defined such that neither benefit accruals nor assets are projected to grow for the employee population, similar to how corporate liability is calculated, which would provide a point-in-time measure of liability. However, S&P Global Ratings expects that LDROM will generally be calculated with projected benefit accruals, but without expected asset growth–essentially the funding calculation (AAL) but with the lower discount rate. This could be used to hypothetically indicate what future costs might be if the plan were to practically eliminate market risk from its asset profile.

We foresee that the inclusion of LDROM could result in some confusion and potential misunderstanding, as it will have the lowest funded ratio, which is likely to generate discussion and could be misconstrued as a true measure of funded status. Although LDROM could be a valuable tool in risk and benefit security discussions, it does not represent a real-word expectation of future funding needs, so a ratio of assets to LDROM may be less of a “funded ratio” than a tool for risk analysis. For S&P Global Ratings to view a low discount rate as a conservative assumption, it would expect to see less volatile investments, and that is not necessarily the case with LDROM. Given the ongoing nature of governmental entities, the inherent revenue and expenditure flexibility to absorb minor variations in benefit costs, and the long time frame over which benefits are accrued and paid, S&P Global Ratings does not expect U.S. public finance issuers to adopt nearly risk-free pension funding practices.

How Will S&P Global Ratings Use This Information In Determining Ratings?

When assessing benefit obligations and their associated funded status, we analyze the TPL as reported in a plan or issuer’s audit. Under guidelines set by the Governmental Accounting Standards Board that are applicable for all public sector plans, the TPL best suits the purpose of measuring expected future obligations while being comparable across the public sector. We have detailed our views on differing approaches to the discount rate in our article, “Looking Forward: The Application Of The Discount Rate In Funding U.S. Government Pensions,” published Sept. 13, 2018, on RatingsDirect.

Our focus on the actuarial funding valuation, within ratings, is primarily toward the expected contributions, and associated assumptions and methods in the calculation, that might help us assess funding discipline and future budgetary stress for an issuer.

We incorporate additional information, including the LDROM and any other useful information that is provided outside of the audit, on a credit-specific basis. Conceptually, a plan’s assets are invested to provide the long-term assumed return, typically near 7% for public plans in the U.S., and the LDROM might be a useful way to measure market risk in the pension trust by comparing it to the AAL, assuming it’s defined according to our expectations noted above. This could then be used as an illustration of market-driven contribution volatility risk for a specific issuer, which could aid in credit risk analysis because a plan’s funded level, if based on risky investments, could quickly turn in down markets.

Additional Complications With The LDROM As A Risk Metric

As a risk metric, there could be complications with the LDROM calculation for variable or risk-sharing benefits that the plan actuary is expected to discuss in detail. Examples of state pension plans with variable benefits include:

- South Dakota Retirement System: If the funded ratio were to fall below 100%, the cost-of-living adjustment (COLA) would be lowered to reach 100% funding.
- Tennessee Consolidated Retirement System: COLAs, as well as active and employer contributions, may be adjusted to maintain full funding.
- Wisconsin Retirement System: Benefit levels, as well as active and employer contributions, may be adjusted to maintain full funding.

The LDROM for the above plans might not reflect these variable risk-sharing attributes if the only change is the discount rate, and so would require further discussion from the actuary to fully understand market risk to an issuer sponsoring such a plan. For more detail on risk-sharing plans, see “Pension Spotlight: Risk Sharing Dilutes Pension Burden For Five States,” published April 21, 2021.

15 Nov, 2022

Fitch: State Ballot Initiatives May Affect Budgets Over Time

Fitch Ratings-New York-16 November 2022: Recently passed state ballot initiatives and political leadership changes following the mid-term elections may lead to budget decisions or shifts in fiscal direction that could have credit implications in the medium- to long-term, Fitch Ratings says.

While the power balance in most states remains the same, there were four states, Maryland, Massachusetts, Michigan, and Minnesota, where the Democrats gained control of the executive and legislative branches and may now appear to have a mandate to enact party priorities. Single party control can also lead to more predictable and orderly fiscal decision-making as evidenced in states such as Illinois. Fitch anticipates states will generally maintain a focus on long-term structural balance, even as they implement new policy initiatives. Where policymakers fail to prioritize balance, new initiatives could add to credit pressures.

Most states have broad budgetary authority, which is a core credit strength. Some ballot initiatives that passed restrict states’ fiscal powers by lowering taxes or limiting how funds may be spent. While these initiatives will not affect ratings in the near-term, greater limits on state governments’ ability to respond to changing circumstances could negatively affect credit quality over time.

Prop 28 in California and Prop 123 in Colorado are examples of ballot initiatives that would put constraints on state spending decisions by directing a portion of existing revenue to specific purposes. California’s Prop 28 allocates general fund money to arts and music education in public schools, while Colorado’s Prop 123 commits 0.10% of existing income tax revenues to housing programs. Neither of these initiatives will materially shift Fitch’s assessment of these states’ fiscal flexibility, but are indicative of the broader trend toward the use of the voter initiative process to restrict states’ budget powers.

Another example is Colorado’s Prop 121, which reduces the state income tax to 4.4% from 4.5%. The state’s legislative council staff expects the law to lead to a general fund decrease of $638 million in fiscal 2023 and $413 million in fiscal 2024.

Another successful and notable ballot initiative was Massachusetts’ Question 1, which raises new revenue by levying a 4% surtax on incomes above $1 million with a constitutional amendment. The surtax does not have immediate credit implications, but could generate an estimated $1.2 billion, or approximately 2.4% of the current state budget according to the commonwealth’s official voter guide. The amendment specifies that surtax revenues must be used for public education (K-12 and higher education) and transportation (roads, bridges and public transit). Fitch considers the new revenues will provide Massachusetts with additional fiscal flexibility, as these designated uses are typically amongst the largest components of the commonwealth’s budget. The income limit for the commonwealth’s new levy will adjust annually for inflation, unlike some ‘millionaires’ taxes’ in other states. Taxes levied on high income earners tend to exhibit more revenue volatility.

South Carolina increased its General Reserve Fund to 7% from 5% and the Capital Reserve Fund to 3% from 2%, which will provide the state with greater cushion during a recession. Fitch views this as credit supportive.

Oregon voters passed Measure 111, which obligates the state to provide all residents with cost-effective, clinically appropriate and affordable health care. The measure is notable in its broadness and potential fiscal implications. Legislators referred the question to voters on a largely party-line basis with nearly all Democrats in favor and all Republicans against. Fitch considers the amendment somewhat akin to the requirements in many state constitutions (including Oregon's) for public education. Importantly, the proposed amendment does not confer unlimited resources but requires that implementation of a right to healthcare "must be balanced against the public interest in funding public schools and other essential public services".

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

Fitch: U.S. NFP Hospitals Under Pressure to Fill Record High Job Openings

Fitch Ratings-Austin-15 November 2022: Staff shortages continue to plague U.S. Not-For-Profit (NFP) hospitals with job openings now at all-time highs, according to Fitch Ratings in its labor dashboard for the sector.

Health care and social assistance job openings increased by 115,000 to an all-time high of 9.2% as of September. However, the number of quits in the health care and social assistance sector is still high at 2.5% in September with little change in the hires rate (3.6% in September). "Hospital staff shortages are a predicament that could worsen come the winter months if COVID infection rates increase again," said Director Richard Park.

Against a dearth of hospital jobs being filled, average hourly earnings of hospital employees declined to $39.59 from $39.85 (-0.65%), ending a 17-month streak of consecutive increases. Meanwhile, ambulatory health care services employees' average hourly earnings grew to $36.62 from $36.57 (+0.14%) from August to September.

In addition to hospital staffing challenges, 18.5% of nursing homes are reporting a shortage of nurses and 19.3% are reporting a shortage of aides according to Oct. 23, 2022 data. "Without appropriate staffing at nursing homes, hospitals will continue to face length of stay/discharge challenges resulting in a greater need for nurses at hospitals," said Park.

Fitch's latest 'Hospitals and Healthcare Systems Labor Dashboard: November 2022' is available at 'www.fitchratings.com'.

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Fitch: U.S Life Plan Communities Struggle to Fill Record High Job Openings

Fitch Ratings-Austin-15 November 2022: Staff shortages continue to be a major dilemma for U.S. life plan communities (LPCs) and nursing care facilities as payrolls remain well below pre-pandemic levels and job openings have reached all-time highs, according to Fitch Ratings in its latest monthly labor dashboard for the sector.

Health care and social assistance job openings increased by 115,000 to an all-time high of 9.2% as of September and 18.5% of nursing homes are reporting a shortage of nurses and 19.3% are reporting a shortage of aides according to Oct. 23, 2022 data.

This comes as average hourly earnings continue to increase at LPCs, assisted living facilities and nursing facilities, now ranging from $20.37 to $24.75 an hour. This represents wage growth ranging from 19% to 21% since just before the onset of the pandemic.

"Many life plan communities, assisted living and nursing facilities are benefiting from smaller payrolls that reduced salaries and benefit expenses in recent quarters," said Director Richard Park. That said, these benefits will have a short shelf life. "Life plan communities will need a strategy to respond to a permanently increased cost structure with some combination of increased entrance fees/monthly service fees and redesigned service delivery," said Park.

Fitch's latest 'Life Plan Communities Labor Dashboard: November 2022' is available at 'www.fitchratings.com'.

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Voters Passed More Than 80% of Bond Measures in Midterms.

US voters signed off on at least $44 billion of local-government debt sales on ballots across the country during this year's midterm elections.

The approvals bring the passage rate to roughly 83% of the $53 billion in proposed bond referendums that have results available so far, according to a Bloomberg analysis of a preliminary tally by S&P Global Market Intelligence. That excludes proposed borrowings for Texas's utility and water districts. Nearly $15 billion of measures were still pending as of Monday.

With a majority of measures slated to pass, the $4 trillion municipal bond market looks set to absorb a wave of new issuance as states and cities borrow for infrastructure projects, particularly for schools. Bonds to fund schools made up the largest chunk of this year's biggest ballot measures.

Continue reading.

Bloomberg Markets

By Nic Querolo

November 14, 2022

Voters Approve Tens of Billions of Dollars in Muni Projects: WSJ Podcast

A week after the U.S. midterm elections, one issue has emerged as having received roughly 90% support at the ballot box: new borrowing to support municipal projects. Wall Street Journal reporter Heather Gillers joins WSJ What's News host Luke Vargas to explain why the bonds associated with those projects are so attractive for many investors.

Listen to audio.

The Wall Street Journal

11/15/2022

Study Shows That Polarization in Local Government Decreases After Participation in Online Learning Program

GFOA and The Constructive Dialogue Institute (CDI) have released a joint research study, Bridging Political Divides in Local Government, recommending methods to enhance cooperation within local governments, including participation in the Perspectives program.

LEARN MORE

Suffolk County, N.Y., Hack Shows Ransomware Threat to Municipalities.

Aging tech and valuable data create lucrative opportunities for hackers, and severe problems for residents

Lisa Black, chief deputy county executive for Suffolk County, N.Y., received a call in early September that government leaders and company executives dread: A suspected attack of tech systems was under way.

Immediately after the midday call on Sept. 8, county workers began to isolate financial databases and disconnect the network from the internet to prevent the spread of what would later be discovered as ransomware. That evening, Ms. Black gathered department heads and commissioners to announce a new challenge.

“I need you to pivot to, basically, 1990,” she told the assembled staff.

Continue reading.

The Wall Street Journal

By James Rundle

Nov. 16, 2022

How Civic Tech Got a Pandemic Upgrade.

For many cities, Covid-19 was a catalyst for boosting their digital presence and shifting services online. Here’s what’s driving municipal technology’s much-needed reboot.

Cyd Harrell was driving through San Francisco’s Golden Gate Park on a chilly day in June 2011, when her seven-year-old daughter asked why the sprinklers were on. It was a waste of water, she said, and they had to do something.

“You can’t say no to your kid,” Harrell says. “But I had no idea at that time who I would call about that.”

So she tweeted the city’s 311 line, for reporting non-emergency situations. Shortly after, the sprinklers were turned off.

Continue reading.

Bloomberg CityLab

By Jennah Haque

November 17, 2022

Muni Market Getting Better: Kayne Anderson's Friedricks

Kim Friedricks, Kayne Anderson Rudnick managing director of fixed income, says she’s finding attractive opportunities in the municipal bond market. She speaks with Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

November 16th, 2022

Managing Social Risks and Addressing Racial Inequities in the Muni Bond Market.

ImpactAlpha, Nov. 14 – “Elevate and Rise” bonds in Denver. ESG-labeled bonds in Chicago. Social bonds in New York.

Cities that issue hundreds of billions of dollars in municipal bonds each year are trying to identify how the proceeds address longstanding racial inequities. It reflects the growing sophistication of bond issuers in managing social risks – and reducing their cost of capital.

There’s at least anecdotal evidence that markets are rewarding efforts to build more affordable housing, stimulate equitable post-pandemic growth and fund greater access to healthcare.

Case in point: New York City, one of the largest issuers of municipal debt in the country. The city in September attracted more than $1.8 billion in investor interest for the city’s first bond with a ‘social’ label, a $400 million issue for affordable housing.

Continue reading.

Why Munis Could Become a Lot More Attractive in 2023.

The Federal Reserve's efforts to contain inflation have taken a toll on the bond markets in recent months. Since the beginning of the year, the iShares Core U.S. Aggregate Bond ETF (AGG) is down more than 16%. While that's better than the S&P 500 Index, it's significantly worse than simply holding cash in a high-yield bank account.

With the economy heading into a recession, the central bank's interest rate hikes could slow over the coming quarters. The slowdown in interest rate hikes could help stabilize interest rates, making the bond market more attractive, particularly as a safe haven. And, thanks to its unique characteristics, the municipal bond market looks especially attractive.

Let's examine why the muni bond market looks so inviting and where investors can seek out the best opportunities.

Continue reading.

municipalbonds.com

by Justin Kuepper

Nov 09, 2022

High Yield Muni Bonds Present New Opportunities.

With aggregate bond indexes flailing this year at the hands of rising interest rates, fixed income investors are understandably frustrated and wary about the asset class at large.

However, this year's turbulence could be giving way to opportunities in the bond market, including with municipal bonds. Some experts might argue that sentiment extends to high yield munis, which are accessible via exchange traded funds such as the VanEck High Yield Muni ETF (HYD A-) and the VanEck Short High Yield Muni ETF (SHYD C+).

Helped by its short duration, SHYD is outpacing the Bloomberg US Aggregate Bond Index this year. With yields elevated across the muni spectrum, both HYD and SHYD could be worthy of consideration by income investors.

"The yield on the Bloomberg U.S. Aggregate Bond Index stood at about 5.0% as of the end of October. Yields for the Bloomberg Municipal Bond Index edged up to 4.1%, while the high-yield municipal benchmark yielded 6.3%," noted Morningstar analyst Amy Arnott.

For its part, the $3 billion HYD sports a 30-day SEC yield of 4.81%, while SHYD features a 30-day SEC yield of 4.23% — impressive considering the ETF's effective duration of 4.46 years. On a standalone basis, these yields are impressive, but there's more to the story.

Historically, the higher a bond's starting yield is when an investor purchases it, the better the investor's odds are of positive outcomes. Second, the yields currently found in the municipal bond segment are unusual relative to historical norms.

“Munis haven’t always offered such a generous yield advantage. As of December 2019, for example, the gap between taxable and tax-equivalent yields for funds in the muni-national intermediate category was only 3 basis points for investors in the 32% bracket and 10 basis points for investors in the 35% tax bracket. Investors in the top 37% bracket could eke out 20 additional basis points versus the average intermediate-term core bond fund,” added Arnott.

Of course, “high-yield” could give some investors pause, but when it comes to HYD and SHYD the credit quality found within the ETFs isn’t alarmingly “junky” and municipal bonds across the ratings spectrum are backed by strong fundamentals, indicating default rates are likely to remain low for the foreseeable future.

“With unemployment still running at historically low rates, state and local governments have also been collecting more revenue from income taxes and property taxes. Many municipalities have used this extra cash to build up their reserves, which should help cushion the blow if a weaker economy leads to lower tax revenue,” wrote Arnott.

etfdb.com

by Tom Lydon

Nov 18, 2022

U.S. States — Revenue and Economic Monitor 4Q22 (Economic and Revenue Moderation Anticipated Amidst Inflation Headwinds) - Fitch Special Report

Fitch Ratings has made sharp cuts to U.S. GDP growth forecasts for 2022 and 2023 on weak incoming data, much more aggressive than anticipated Fed monetary tightening and the downturn in Europe. A mild recession is now expected in mid-2023. State tax collections expanded 14.8% yoy in the last 12 months ending (LTME) in June 2022, which, although impressive by historical measures, represented a notable deceleration from the 24.3% yoy tax revenue expansion of the prior year. Importantly, this deceleration does not account for the shift in income tax filing deadlines, which inflated LTME June 2021 numbers considerably. Both years were well above the pre-pandemic average of 4.4% yoy growth. Furthermore, elevated wage and goods price inflation likely contributed to growth in tax collections.

ACCESS REPORT

Tue 08 Nov, 2022 – 2:00 PM ET

Fitch: US State Tax Collections, GDP, and Job Recoveries Still Strong Despite Looming Recession

Fitch Ratings-New York-08 November 2022: U.S. state tax collections expanded 14.8% yoy in the LTM ending in June 2022, with all states experiencing revenue gains, according to Fitch Ratings.

“The surge in consumer spending and personal income that powered fiscal 2021 state tax revenues out of the deep, but short-lived, 2020 ‘pandemic recession’ is showing early signs of moderating,” said Olu Sonola, Head of US Regional Economics. “Although impressive by historical measures, the 2022 gain is a deceleration from the 24.3% yoy tax revenue growth of the prior year (which was also supported by delayed income tax payments carried over from fiscal 2020 into fiscal 2021).”

States with some of the slowest growth in 2021 rebounded to be among the fastest growing in LTM ending June 2022. Alaska stands out as the top performer in LTM ending June 2022, with tax collections up over 160% yoy after a 19% drop in LTM ending June 2021. Elevated wage and goods price inflation likely contributed to growth in tax collections.

Yoy real GDP growth for states was mixed at the end of 2Q22. Idaho, Tennessee and Florida were the top three fastest growing states in this period, with New York, Nevada and North Carolina close behind. Nine states realized declines in real GDP yoy in 2Q22. Alaska, Louisiana and Iowa were the hardest hit states, with Oklahoma, North Dakota and Wyoming following closely.

Through September, the median jobs recovery rate for states was 98%, up nine percentage points from 1Q22. Twenty-three states have now recovered all job losses connected to the pandemic’s onset. Several deserve special note, including recoveries in Utah at 172%; Idaho at 168%; Texas at 142%; North Carolina at 136%; and Florida at 133%. The states with the weakest employment recoveries are Hawaii at 69%; Alaska at 71%; Vermont at 79%; and Louisiana at 80%.

Notably, LTM ending June 2022 tax collections continued to outstrip both GDP and personal income growth, suggesting that the cessation of direct federal stimulus to taxpayers by late 2021 had little effect on consumer behavior.

For more information, a special report titled “U.S. States — Revenue and Economic Monitor 4Q22” is available at www.fitchratings.com.

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Fitch: U.S. Job Recovery Maintains Remarkable Pace Despite Inflation and

Recession Risk

Fitch Ratings-New York-10 November 2022: Most states reported solid employment growth in 3Q22, with the state median jobs recovery rate at 98 percent – up six percentage points from 2Q22, according to Fitch Ratings.

Indiana, Nebraska, Missouri, New Jersey, Alabama, Arkansas, Florida, Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Texas, Virginia, Arizona, Colorado, Idaho, Montana, Nevada, Oregon, South Dakota, Utah and Washington have all achieved full job recovery, while recovery lagged in Alaska, Hawaii, Louisiana and Vermont.

"The full post-pandemic employment recovery milestone was reached in July 2022. The latest U.S. unemployment rate is at 3.7 percent, just shy of the 50-year low of 3.5 percent," said Olu Sonola, Head of U.S. Regional Economics. "The demand and supply imbalance is very significant, equal to approximately 2.9 percent of the labor force, or roughly 5 million workers."

Job growth in Florida, Georgia, North Carolina and Texas has seen a marked shift in recovery toward high wage sectors. Forty states have fully recovered all high wage jobs lost to the pandemic; 16 states have recovered all mid-wage jobs; and 20 states have recovered all low wage jobs.

Wage growth, particularly in the lowest wage quartile where labor market shortages are most chronic, has surged since 2021. Elevated job openings-to-unemployed and quit rates further point to a very tight labor market.

The median unemployment rate of 3.4 percent at the end of 3Q22 remains below the February 2020 pre-pandemic median rate of 3.6 percent, and below pre-pandemic levels in 30 states.

For more information, Fitch's report "U.S. States Labor Markets Tracker" is available at www.fitchratings.com.

S&P US Municipal Bond ESG Recap - Q3 2022

View the S&P report.

GFOA Capital Planning Resources.

GFOA's Executive Board recently approved a revision to the Multi-Year Capital Planning best practice. View updated guidance as well as other best practices, resources, and case studies related to capital planning and infrastructure.

CLICK HERE

Black Tax: Evidence of Racial Discrimination in Municipal Borrowing Costs

Municipalities with higher proportions of Black residents pay higher borrowing costs to issue bonds rated by credit rating agencies compared to other cities and counties that issue within the same state and year. These higher costs are unexplained by credit risk, more pronounced in states with higher levels of racial resentment, and robust to state-tax incentives to hold municipal bonds. The findings illustrate that racial bias can increase borrowing costs, particularly in states where racial resentment is severe. In time-series tests using presidential and gubernatorial election periods during which racial resentment has been shown to intensify, we find that the differences in borrowing costs also increase. Collectively, the findings illustrate that racial bias can increase borrowing costs, especially where racial resentment is severe.

We focus on rated bonds offered directly by U.S. cities and counties from 1990 to 2019. Controlling for credit risk, our main finding is that a one-percentage point increase in the total proportion of Black residents in a municipality is associated with a 0.44 basis point increase in total annualized costs. For example, in 2019 the municipalities in our sample raised a total of $77 billion from rated municipal offers. When we take the product of our cost estimate (0.44 basis points), each municipality's percentage of Black residents, and each offer's issue amount and maturity, we find that the Black Tax costs these communities a total of $110 million. This is notable since the sample is national and therefore includes cities and counties with relatively little racial diversity as well as those with higher concentrations of Black residents. Regional analysis suggests that there are areas, such as the Western states, in which municipalities pay a penalty as high as two basis points. We also find some evidence that cities and counties with higher proportions of Hispanics pay higher borrowing costs.

Download the full paper.

The Brookings Institution

by Ashleigh Eldemire, Kimberly Luchtenberg, and Matthew Wynter

Wednesday, November 9, 2022

The 'Black Tax' Plagues Small Municipalities. Can Bond Banks Help?

An old idea is finding new life in the municipal bond market, where a stubborn complacency with conventional ways of doing things is being challenged by a fresh crop of market participants.

The status quo has long meant that smaller, poorer, public entities – often communities of color – face hurdles when they try to borrow in the muni market. What's sometimes called the "Black Tax" can add nearly half a percentage point to borrowing costs for municipalities with higher proportions of Black residents, recent research shows.

Bundling bond deals from multiple municipalities through state agencies known as bond banks is a time-tested way of achieving economies of scale, with benefits for both issuers and investors. Now, bond banks are getting a new look as a possible tool for not just mitigating inequities, but tackling them proactively.

Continue reading.

impactalpha.com

by Andrea Riquier

November 9, 2022

[Voters Approve Tens of Billions of Dollars in Muni Projects.]

The resulting bond sales are poised to fund roads, schools and other local projects while offering a new supply of debt for muni investors

U.S. voters said yes to tens of billions of dollars for road-paving, school-building and other local projects last Tuesday, promising a new wave of bonds for eager investors.

The voters approved $57 billion out of the $63 billion in ballot measures for which results are available, according to data from S&P Global Market Intelligence. If that 90% approval rate holds steady, the total amount of new municipal debt authorized Tuesday will come to about $90 billion, the most from any election day in the data, which goes back to 2012.

State and local governments have pulled back on borrowing this year, issuing $257 billion in tax-exempt debt through October, down 7.5% from the same period last year. Higher interest rates and inflation are driving up construction costs, leaving some public officials wary of new projects. Others still have pandemic aid and elevated tax revenue from last year's stimulus-fueled economy to draw on.

Continue reading.

The Wall Street Journal

By Heather Gillers

Nov. 13, 2022

[It's Been a Good Election Year for Transportation Funding.]

Nationwide, voters approved most of the proposals on the ballot to fund roads and transit, unlocking billions in new revenue for projects.

Transit advocates scored a big victory in suburban Detroit Tuesday, when Oakland County, Michigan voters approved a plan to raise property taxes and institute countywide bus service for the first time.

It was one of many victories that transportation groups hailed after this week's election, when the vast majority of ballot questions to fund roads and transit sailed to victory.

Across the country, 14 out of 19 measures to back public transit passed. More broadly, voters approved 88% of state and local proposals to boost or maintain spending on roads and other transportation infrastructure, according to the American Road & Transportation Builders Association. Those 380 approved ballot questions will generate $19.6 billion in revenue in 18 states, the group said.Transit advocates scored a big victory in suburban Detroit Tuesday, when Oakland County, Michigan voters approved a plan to raise property taxes and institute countywide bus service for the first time.

Continue reading.

Route Fifty

By Daniel C. Vock

NOV 10, 2022

Voters Approve at Least $37 Billion of US Muni-Bond Propositions.

- **Early results show most bond measures headed for passage**
- **Some $66 billion of debt was up for approval nationwide**

US voters look likely to pass at least $37 billion of the state and local-government debt sales that were up for consideration in Tuesday’s elections, led by measures that will finance work on schools and other infrastructure projects.

Officials asked for approval of at least $66 billion of bond measures in total, according to a Bloomberg analysis of data compiled by IHS Markit that excludes referendums by Texas’s utility and water districts. An early tally shows that the preponderance are heading for acceptance.

The largest measures that have passed include a $4.2 billion statewide climate measure in New York and a $2.3 billion school bond in Austin, Texas, according to a preliminary Bloomberg tally of unofficial results.

Continue reading.

Bloomberg Markets

By Nic Querolo and Danielle Moran

November 9, 2022 at 10:35 AM PST

How the Midterm Elections Impact Municipal Bonds.

Jennifer Johnston, Franklin Templeton’s director of municipal bond research, discusses the impact of the midterm elections on municipal bonds with Bloomberg’s Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

November 9th, 2022, 12:11 PM PST

ARPA Funds Help County Build, Track Broadband.

Washtenaw County, Mich. mapped its broadband capacity and illustrated its needs for expansion.

As it gears up to meet a goal of full broadband connectivity by 2025, Washtenaw County, Mich. has launched a digital map that tracks its progress, thanks to American Rescue Plan Act dollars and general county funds.

Lack of broadband is a huge detriment to any county and its residents, particularly in the sectors of education, healthcare, employment and business development, said Washtenaw County Commissioner Jason Maciejewski.

"This goes way beyond simply trying to stream movies and music online — these are really things that impact people's everyday lives, their ability to get broadband level internet service," Maciejewski said.

Continue reading.

NATIONAL ASSOCIATION OF COUNTIES

by MEREDITH MORAN

NOVEMBER 7, 2022

The Municipal Bond Ladder: A Timely Response to Rising Rates

Tax-free income and the opportunity to realize higher income as interest rates rise are among the potential benefits of a managed municipal bond ladder.

In a previous Market View, our experts detailed how today's higher yields have enhanced the appeal of municipal bonds for long-term investors seeking attractive tax-free income. But what might be a good approach for those who wish to take advantage of current yields while helping shield their portfolio from the effect of further interest-rate increases? One approach may allow investors to take advantage of higher income by extending maturity, while protecting from potential rising rates: a professionally managed muni-bond ladder.

How might this work? Let's look at Figure 1.

Continue reading.

Lord Abbett

By Stephen Hillebrecht, Nicholas Bragdon

November 8, 2022

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 October) $339.6 billion, -15.9% Y/Y
- Trading (as of October) $13.8 billion ADV, +56.3% Y/Y
- Outstanding (as of 2Q22) $4.0 trillion, +0.2% Y/Y

Download xls

November 2, 2022

Fitch: Federal Broadband Funds to Drive US Digital Infrastructure Projects

Fitch Ratings-New York/San Francisco-02 November 2022: Substantial, dedicated broadband funding included in the Infrastructure Investment and Jobs Act (IIJA) is expected to be a significant catalyst for U.S. digital infrastructure projects, with an increase in public-private partnerships (P3s), Fitch Ratings says.

The $65 billion federal investment in broadband under the IIJA is the largest ever earmarked for the sector and aims to increase accessibility, affordability, speed and quality of broadband nationally. IIJA funding, together with grants and loans provided through the US Department of Agriculture's ReConnect Program that benefits rural communities, underscores the federal government's commitment to extending digital infrastructure to underserved areas.

Most allocations under the IIJA will be made to states, although local governments may apply directly for competitive grants through the Middle Mile Broadband Infrastructure Grant Program. We anticipate an increase in P3s to achieve broadband buildout goals, as funds provide an incentive for private internet service providers (ISPs) to construct and deploy broadband networks. Potential funding structures include state-owned networks that are leased to ISPs, direct capital funding to ISPs and private activity bonds.

The Commerce Department's National Telecommunications and Information Administration will establish six broadband programs to distribute $48.2 billion of the IIJA broadband funds. The largest program, Broadband Equity, Access and Deployment (BEAD), will provide $42.45 billion to broadband projects focused on unserved and underserved areas.

Last August, all states and territories submitted applications for initial planning funds under the BEAD program, indicating strong interest. All eligible entities will receive a $100 million minimum initial allocation under BEAD, with additional allocations depending on the Federal Communication Commission's final broadband data maps, which indicate areas with no or lower quality broadband access that are targeted under the program.

There were 16 telecom P3 projects at YE 2021, according to HuschBlackwell, and this number is expected to significantly increase with the federal disbursements. However, inflation pressures from higher construction costs and semiconductor and other component shortages could increase project costs and/or potentially delay project timing.

Governments have typically turned to P3s for broadband network projects given the private sector's greater expertise. Broadband projects have high barriers to entry and employ established technology. Although construction costs may be high depending on the terrain, these projects are not complex and maintenance costs are low. There is a high level of cost predictability due to limited scope and relatively low project complexity, and technology is not expected to outpace the investment horizon. Projects with stronger credit attributes have revenues that are supported by fully indexed availability payments from a strong counterparty.

Fitch Ratings Releases State Revolving Fund and Municipal Finance Pool Program 2022 Peer Review.

Fitch Ratings-Austin-04 November 2022: All but one of the State Revolving Funds and Municipal Finance Pool Programs in the Fitch-rated portfolio are rated 'AAA', according to a new Fitch Ratings report. The high credit quality of the sector reflects the programs' robust financial structures and generally sound credit quality of the underlying pool participants.

The overall median Program Asset Strength Ratio (PASR), a measure of financial strength for the sector, was 1.9x in 2022, which is in line with the historical range of 1.9x-2.1x registered since 2015. The PASR, an asset-to-liability ratio, is calculated by dividing the amount of aggregate pledged assets, including scheduled obligor repayments, reserve funds and account earnings, by aggregate outstanding debt service. The median 'AAA' liability stress hurdle, a measure of aggregate portfolio credit quality as produced using Fitch's Portfolio Stress Model, was 31.0% in 2022, and also tracks within the historical range of 29.7-32.6% since 2015.

For more information, the full report 'State Revolving Fund and Municipal Finance Pool Program Peer Review: 2022' is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

S&P: Cyber Risk Management Is Credit Risk Management, Says Seminar

Key Takeaways

- Cyber risk is integral to wider risk management and a factor in credit risk assessment.
- There is a growing, though still small, list of issuers that have had a rating affected by cyber incidents.
- The cyber insurance market is still maturing to a position that can be considered beneficial for all stakeholders.

Continue reading.

1 Nov, 2022

Navigating the ESG Nine-Lane Highway: A Roadmap for Public Sector Entities

Environmental, social and governance (ESG) discussions have become more prevalent in recent years and the topic continues to be an evolving subject in the public sector. In the public sector space, a comprehensive approach to ESG may address a spectrum of topics, ranging from day-to-day operations to policy initiatives to capital borrowings. The ESG journey summarized below focuses on capital or other projects that may require long-term borrowing, which projects can relate to a typical annual capital improvement plan, ensured continuity of utility operations or specifically addressing ESG or sustainable initiatives.

With respect to capital borrowings and the municipal marketplace, it is important for all participants in the public finance arena (governments/issuers, municipal advisors, counsels and bankers) to recognize the numerous ESG-related interactions in a municipal financing transaction. Placing an over-emphasis on certain aspects of ESG could result in additional costs or lost opportunities from other ESG components.

To help organize and ensure every ESG aspect is addressed, consider looking at ESG as a "nine-lane highway," with the likelihood that an organization will spend time in multiple lanes while planning for and completing projects and financings in the municipal marketplace. Also keep in mind that, as with any voyage, an organization's ESG journey will involve crossing lanes at various times to ensure ongoing progress.

Lane 1
Review and define goals, objectives and requirements that involve ESG and your organization.
Is a thorough ESG-related assessment or plan needed to review ESG-related strategies, develop sustainability initiatives, identify and address any perceived risks or understand all the ways ESG affects your organization? Proactive organizations that complete and act upon the findings of this assessment can benefit from ESG-risk awareness, opportunities and strategies.

Lanes 2 and 3
Designation or labeling determinations on bond issues for ESG-related projects may both attract investors looking for certain investments that produce social or environmental benefits and display leadership of your organization with ESG-related initiatives.

Lane 2: Does the financed project address energy or environmental matters and are there any environmental-related designations (such as green, climate or sustainable) applicable to the bond issue? Are the overall costs (verification and any reports) and benefits (reduced borrowing rates from increased investor interest) of such designation understood by the issuer?

Lane 3: Does the financed project address social matters and are there any social-related designations (such as social, housing or sustainable) applicable to the bond issue? Are the overall costs and benefits of such designation understood by the issuer?

Lanes 4-6
Disclosure and rating agency considerations of an issuer will relate to all credits and all financings, even if no designation or label are added to a bond issue.

Lane 4: Are there any environmental risk factors for disclosure and rating agencies? Examples will vary with geographic location but may include extreme weather events, significant impacts of climate change (wildfires, hurricanes, flooding) and the cost and reliability issues associated with energy transition, such as power generation sources and diversity/transition plans. Are there environmental considerations or initiatives of the issuer or related to the project that may be of interest to investors?

Lane 5: Are there any social risk factors for disclosure and rating agencies? Examples include a lack of housing for vulnerable populations, significant demographic and population trends/changes affecting services and the tax base, increased income disparities, labor-related issues, availability and access of health services, public education and infrastructure. Are there social-related considerations or initiatives of the issuer or related to the project that may be of interest to investors?

Lane 6: Are there any governmental risk factors for disclosure and rating agencies? Examples include organizational structure, debt and reserve policies, management oversight, internal controls and financial reporting, risk mitigation (such as cybersecurity), federal and state funding streams, pension and other post-employment benefits (OPEB) liabilities, internet availability and affordability and deferred maintenance. Are there governance-related considerations or initiatives of the issuer or related to the project that may be of interest to investors?

Lanes 7-9: Identify cross-over topics and considerations that relate to ESG, with some specific to determination of adding a designation or label to a bond issue.

Lane 7: Are there additional verifications or reports/assessments needed to support the designation/label assigned to bond issue? One option for consideration is self-designation versus verification or second-party opinion. In addition, does the issuer understand what standards must be adhered to related to any designation/label and how these standards relate to the financed project?

Lane 8: How does primary market disclosure need to change to address information required at time of issuance to support the designation/label? Examples include use and management of proceeds, project selection and evaluation criteria, and any project performance measures. Is there a requirement to verify actual use of bond proceeds? It is important to clearly identify if the issuer is committing to any ongoing project performance monitoring and reporting.

Lane 9: How do post-issuance compliance and secondary market continuing disclosure need to change for any covenants made to support the designation/label or generally addressing ESG-related disclosures? Who is responsible for preparation and what are the deadlines?

Public sector entities need to consider all lanes on the ESG highway, but they don't need to navigate it alone. Municipal advisors/consultants can assist with managing all ESG interactions and offer ESG-related services with rating preparation and disclosure strategy; assessments, reports and investor outreach; designated/labeled bonds and post-issuance compliance.

American City & County

Written by David Erdman

1st November 2022

David Erdman, managing director of Baker Tilly Municipal Advisors LLC, has more than 30 years of public finance experience at a major state-level issuer and is an active advocate and leader for municipalities in the municipal bond market. Erdman is a part of the national large issuer team supporting the Midwest.

City Imposed Penalty of One-Year Building Moratorium Does Not Constitute a Taking: Nossaman

Local government agencies sometimes enact short-term building moratoriums for certain areas to further assess changes in land use patterns or slow growth. Those moratoriums imposed across a large area usually do not constitute a taking. But what if a moratorium is imposed solely and specifically as to a singled-out property? Does that moratorium give rise to a taking? According to a recent court of appeal opinion, the answer is no, at least when that moratorium is imposed as a penalty against the property owner for violating local building codes.

Background

In *Lemons v. City of Los Angeles*, 2022 Cal. App. Unpub. LEXIS 6541, the plaintiffs owned a single family residence located in a Historic Preservation Overlay Zone (HPOZ), and their property was designated as a "contributing element", meaning the residence contributed to the historic significance of the area. The owners sought and secured permits to undertake rehabilitation and repair of the property from the Historic Preservation Board and Cultural Heritage Commission, but they vastly exceeded what was allowed under their permit and mostly demolished the residence, leaving only a small portion of the first story wood flood and foundation. Under the City's municipal code, one of the penalties for engaging in work without a permit is the imposition of a moratorium on the issuance of any permits for new development on the property. The City ordered a one-year moratorium on plaintiffs' property.

Lawsuit for Violation of Eighth Amendment (Excessive Fine) and Inverse Condemnation

The property owners filed a lawsuit against the City, claiming that the moratorium was an excessive fine in violation of the Eighth Amendment, and also constituted a taking resulting in inverse condemnation liability. The trial court denied the excessive fine claim, concluding that a moratorium did not constitute a fine. The court also denied the takings claim, finding that the moratorium was not a taking, but instead a government action imposing a penalty under the municipal code. The owners appealed.

Appellate Decision – Moratorium is Not a Fine and Does Not Constitute a Taking

On appeal, the Court explained that the Eighth Amendment only limits the government's power to "extract payments" as punishment for an offense; a one-year moratorium on new development permits did not require the owners to pay the City a fine. The Court likewise explained that the government "need not provide compensation when it diminishes or destroys the value of property by stopping illegal activity or abating a public nuisance." The one-year moratorium on new development permits did not constitute a taking because it was a punitive measure imposed for violating the municipal code. Moreover, the concept of inverse condemnation is that the costs of a public improvement benefitting the community should be spread among those benefited rather than allocated to a single member of the community. In contrast, the purpose of a penalty such as the moratorium at issue here is to impose particular burdens on the violators — there is no benefit transferred to the public at large. The court also rejected the owners' argument that they were constitutionally entitled to a jury trial on the inverse condemnation claim, explaining that there is no right to a jury trial on the issue of whether there has been a taking in the first instance; the right is limited to the question of damages.

Take-Aways

The case serves as an important reminder that a property owner's failure to comply with local municipal codes can result in significant penalties, including the potential forfeiture of the right to secure new permits for a significant period of time. The case also demonstrates that the imposition of penalties, even if they result in a diminution of value of the property, do not give rise to a claim for inverse condemnation, as there is no "taking" as a matter of law. Finally, the right to a jury trial in an inverse condemnation action only applies to the issue of just compensation or damages – it does not apply to the determination of whether there was a taking.

Nossaman LLP – Bradford B. Kuhn

October 31 2022

[Voters Will Weigh $66 Billion of Bond Measures in Midterm Elections.]

- **New York state, school districts lead bond ballot measures**
- **This year's tally is above what US voters considered in 2021**

Voters on Tuesday will weigh at least $66 billion of bond measures put forth by states and municipalities across the US that seek to finance projects like new schools and climate resiliency efforts.

The proposed borrowing is more than double the $27 billion on ballots at this time last year and among the highest volume of bonds up for a vote since at least 2009, according to a Bloomberg analysis of a preliminary tally of bond measures compiled by IHS Markit. The total excludes referendums by Texas's utility and water districts.

The increase comes as states and cities have been collecting better than expected revenue in the last fiscal year, shoring up the budgets after a period of financial uncertainty at the onset of the coronavirus pandemic. New York, for example, was supposed to ask voters to approve $3 billion of environmental bonds in 2020 but took the measure off the ballot after the pandemic clouded the state's fiscal picture. That referendum was subsequently upsized and placed on this year's ballot.

Continue reading.

Bloomberg Markets

Nic Querolo

November 7, 2022

Why Buy Municipal Bonds if the World Is Ending?

States and cities seem much less sure about climate change in their disclosures than in their lawsuits against energy companies.

From electric vehicle initial public offerings to environmental, social and governance funds, opportunities in climate-related investments appear endless. Yet a troubling trend is emerging involving state and local governments' general-obligation bonds and their judicial climate activism. The same jurisdictions that are suing energy companies for alleged climate-change damages are also stating in their own bond disclosures that they can't attest to the effects of climate change.

New Jersey became the latest plaintiff with a new lawsuit on Oct. 18. But New Jersey's most recent GO bond offering indicates the state can't account for climate risk having a material effect. According to its bond disclosure, the state warrants that it "cannot predict the impact that these climate events may have on its financial condition."

New Jersey reverses its position with specific language in its legal complaint. Among many allegations, the state claims that "oceans are acidifying at an alarming rate because of fossil-fuel burning, endangering New Jersey's coastal ecosystems and economy." An especially shrill line reads, "As a result of the fossil fuel industry's lies and deceit, the State has paid billions of dollars to clean up climate change-induced disasters like Superstorm Sandy."

The disclosure for the city and county of Honolulu GO Bond Series 2022A states: "No assurances can be given as to the frequency or severity of any future natural disasters, nor what impact, individually or in the aggregate, such disasters may have on the State, the City and County, their residents or their overall financial condition." But Honolulu and its Board of Water Supply filed a state court case in 2020 with allegations that specifically contradict this uncertainty. According to the lawsuit, the "defendants' individual and collective conduct is a substantial factor in causing global warming and consequent sea level rise and attendant flooding, erosion, and beach loss in the City."

San Francisco, one of the earliest plaintiffs to file suit, asserted on issuing its GO Refunding Bonds Series 2022-R1: "The scientific understanding of climate change and its effects continues to evolve. Accordingly, the City is unable to forecast when . . . adverse effects of climate change . . . will occur. In particular, the City cannot predict the timing or precise magnitude of adverse economic effects . . . during the term of the Bonds," which mature after 12 years.

That's contrary to what San Francisco stated in court in 2017. The case asks the court to order energy companies to pay for sea walls and other infrastructure because the city faced "imminent risk of catastrophic storm surge flooding." In addition, the city claimed, the defendants' "production will intensify future warming and San Francisco's injuries from sea level rise."

Baltimore's GO bond disclosure asserts that the city adopted a Disaster Preparedness and Planning Project. The city admits that "due to the uncertainty of climate conditions, and thus of relative sea level rise projections, it can be difficult to assign quantitative probabilities to projections of sea level increases.” If it is difficult to assign probabilities to such sea level increases, then on what grounds did the city file a 2018 lawsuit against 26 energy companies with differing claims? Baltimore’s complaint specifically alleges “the City has already incurred, and will foreseeably continue to incur, injuries, and damages due to anthropogenic global warming, including sea level rise.”

In neighboring Annapolis, the city’s disclosure doesn’t highlight any dire reports of past climate-related injuries or threats. The bond offering’s only reference to climate notes “city management is also developing a plan to make Annapolis resilient against the effects of climate change and other factors by joining Anne Arundel County’s efforts to establish a Resiliency Authority.” So why sue 26 energy companies in February 2021 for the costs and consequence of past climate damages? The lawsuit alleges that “as actual and proximate results of Defendants’ conduct, which caused . . . environmental changes”—tidal flooding in Annapolis—“the City has suffered and will continue to suffer severe harms and losses.”

Even a novice investor can see that the information contained in these bond disclosures directly contradicts the premise of the issuers’ legal claims. In light of the above contradictions, these lawsuits are unfounded. At the same time, officials issuing these bonds should be transparent in acknowledging such discrepancies. They’d be well served by not only distancing themselves from the cases, but also urging their withdrawal. This flawed legal strategy doesn’t help the climate. It’s a disservice to muni investors and the residents of these states and cities.

The Wall Street Journal

By R.A. Moss

Nov. 2, 2022

Mr. Moss is founder and former president of RAM Management Group Ltd.

Why Are U.S. Transit Projects So Costly? This Group Is on the Case.

The U.S. is one of the most expensive countries in the world for building transit, according to the Transit Costs Project. A research group at the NYU Marron Institute of Urban Management is working to understand why.

For the last two years, a group of researchers at the New York University Marron Institute of Urban Management has been building a big database of public transit projects around the world. Their goal: To understand what drives the costs of transit projects, what makes some places more expensive than others, and how costs can be brought down.

The Transit Costs Project is led by Eric Goldwyn, an assistant professor and program director in the Transportation and Land Use Program at the NYU Marron Institute, along with research scholars Alon Levy, Elif Ensari, Marco Chitti and a group of international contributors. To date, the group has built a database with details on hundreds of projects, sourced from popular media, trade publications and official plans. And they’ve begun publishing in-depth case studies on a handful of individual cities, including projects in Boston and New York in the high-cost category, and Stockholm, Italy and Istanbul in the low-cost category, based on additional data gathering and hundreds of interviews.

This month, the Transit Costs Project is planning to publish an overview of its findings. Among them:

The United States is the sixth most expensive country in the world when it comes to building rapid rail projects. The reasons why range from the politicization of project management to the expanding role of consultants, the costs of labor, and efforts to limit disruption to normal traffic flow during construction. In this Q&A, Goldwyn speaks with Governing about what makes transit building so expensive in the U.S., and what might be done to improve costs. The conversation has been edited.

Continue reading.

governing.com

by Jared Brey

Nov. 1, 2022

The Scary Big Picture of Having Less Water.

The Future of Water in the West is Both Complex, and a Hard Issue to Face

s a society we constantly hear the "drought warning." Then we endure some water conservation efforts and a couple of years later everything seems to go back to normal. As a result, we have become numb to the word "drought." Wildfires are brutal and get our immediate attention, but we expect they will also burn out.

Sounding alarms can get immediate attention, maybe some awareness and even short duration actions. But most of the time, real fundamental changes, policy reversals or epic infrastructure planning shifts that are focused on long-term objectives are never achieved. As a society, we seem to only want to pay up once the damage occurs, a quick and easy monetary policy fix as we continue to put ourselves on a course of catastrophic failure.

So, what is the bigger picture? What is the holistic viewpoint of having less water?

Continue reading.

WATER FINANCE & MANAGEMENT

BY GREG BAIRD

NOVEMBER 7, 2022

Hilltop Securities: Anticipating Municipal Issuance Will Remain Challenged Again in 2023: Our Forecast

Read the HilltopSecurities forecast.

by Tom Kozlik, HilltopSecurities

November 2, 2022

Municipal Market Performance Update.

In October, munis faced further headwinds from volatility in the rates markets. Tax-equivalent yields (TEYs) on AA munis with longer term maturity dates have climbed to now exceed 8%. And, for investors that reside in states that impose high personal income taxes, TEYs move even higher (CA, NY, and NJ, as some examples). The UBS Chief Investment Office (CIO) explains.

Continue reading.

by UBS Editorial Team

04 Nov 2022

MBNE Might Be Marvelous Muni Bond Option.

Municipal bonds have been dragged lower with the broader fixed income market this year thanks to the Federal Reserve's scorched earth campaign of raising interest rates. However, some market observers believe munis are offering value and tempting levels of income, indicating the segment could figure prominently in a bond market rebound. Investors can get into the game while embracing environmental, social, and governance (ESG) principles with the SPDR Nuveen Municipal Bond ESG ETF (MBNE).

MBNE currently sports a 30-day SEC yield of 3.25%, which is an impressive level of income considering the fund's high credit quality. That's also within the 3% to 5% range that investors can find on a slew of municipal bond funds today, but there's even more to the MBNE story.

"The benefits after taxes are even greater. A 5% muni offers a tax-equivalent yield of almost 8% for individuals in the top 37% federal tax bracket—5% divided by 0.63—roughly equal to the rate on junk bonds. The tax edge can be greater for affluent residents of high-tax states like California and New York, because in-state bonds are exempt from state and local taxes," reported Andrew Bary for Barron's.

In a normal fixed income environment, MBNE sporting a yield of 3.25% might seem too good to be true or signal cause for concern. However, 2022 is anything but normal for bonds, and MBNE's yield is delivered with about 86% of its holdings rated AAA, AA, or A.

"High yields often signal credit risk, but that's not the case now. The selloff in munis was exacerbated by historically low yields at the start of the year, before the Federal Reserve began raising interest rates. A 5% muni still yields less than the trailing 12-month 8.2% inflation rate, but the markets are discounting sub-3% inflation over the next five and 10 years," added Barron's.

History is also on MBNE's side. While the fund itself isn't old — it's actually new, having debuted in April — history indicates that when municipals tumble, impressive rebounds often follow. The exchange traded fund is actively managed, indicating it could position for a recovery more rapidly than passive rivals.

"Even better, the high yields aren't a sign of financial stress. State and local governments are flush with tax revenue, while credit-rating upgrades have exceeded downgrades by a 3 to 1 margin this year. A recession could dampen the outlook, but, historically, less than 1% of munis have defaulted each year," according to Barron's.

etfdb.com

by Tom Lydon

Nov 03, 2022

Bonds Most Attractive in Over a Decade: Vanguard's Davis

"High-quality munis and Treasuries are actually starting to look very compelling here," Joe Davis, Vanguard's global chief economist and head of investment strategy, says during an interview on "Bloomberg Markets."

Watch video.

Bloomberg Markets: The Close

November 4th, 2022

State Budget Processes Spotlight: New NASBO Issue Brief on Spending Federal Funds

In an issue brief released today entitled State Budget Processes & Spending Federal Funds, NASBO describes the various nuances around states' and territories' legislative session and budget calendars, how they appropriate and spend federal funds, how they handle unanticipated funding – especially outside of legislative session, and recent changes to these processes in some states in response to the pandemic. States are better positioned to meet goals for federally-funded programs when federal granting agencies consider these aspects of their budget processes as they issue program guidance and set deadlines. While there is variation across the states, the following general statements summarize certain key relevant aspects, further detailed in the issue brief:

The Calendar

- Most state legislatures meet in session annually for a limited period (typically convening in early to mid-January and adjourning sometime between March and June).
- A number of states budget on a biennial (two-year) basis, and a few of these states only meet in regular session once every two years.
- The most common month for governors to submit their budget proposals is January, and most legislatures adopt budgets for the next fiscal year or two-year budget cycle (biennium) sometime between April and June.
- If federal funds for some programs are in question or if funding levels are uncertain at the time the governor's budget is prepared for release or by the time the legislature passes appropriation bills, this can complicate state budgeting and planning processes.

Authorizing the Use of Federal Funds

- Some or all federal funds are subject to appropriation by the legislature in 43 states.
- In most states, the executive branch has some power to spend unanticipated federal funds without requiring full legislative approval, but this authority is typically restricted.
- Depending on the state and type of funding, state legislatures may need to sign off before accepting, allocating or spending federal funds – and this is often not possible outside of a state's legislative session. This is especially the case for federal grant programs with state matching or maintenance of effort requirements.
- In response to states' experiences with federal COVID-19 assistance, some state legislatures have taken steps to curtail executive authority to spend federal funds without legislative approval.

For more state-by-state comparative information and details on budget processes, see NASBO's [Budget Processes in the States] report.

By Kathryn White

National Association of State Budget Officers

[Private Lending Takes Root in Muni Market.]

Private sales of debt from state and local governments spiked during pandemic's market stress and have grown over past decade

A pandemic surge in privately sold municipal bonds is highlighting how private deals have become a mainstay of the $4 trillion market for state and local debt—and a go-to in times of stress.

During the three months ended in May 2020, the amount of municipal debt sold privately spiked to 13.4%, the highest share in 13 years on record, according to a report this week by the Municipal Securities Rulemaking Board. It has since retreated to about 8%, or around $36 billion—up from 4% in 2012 but in line with its average for the past decade, according to data from the board and Refinitiv.

"We're fielding more and more calls from nonprofit traditional public-markets issuers who are looking into borrowing in the private markets," said Jonathan Mondillo, head of North American fixed income at Edinburgh-based Abrdn, with $1.5 billion in muni debt under management.

Mr. Mondillo said his firm has considered or bid on privately placed deals with a combined total value of more than $1 billion, often for utilities or healthcare- or higher-education-related projects. He said Abrdn typically purchases investment-grade debt issuances ranging from $50 million to $400 million for clients such as insurance companies and pension funds.

In so-called private placements, borrowers bypass public markets where individuals, mutual funds, insurers and others compete for bonds. Instead, they sell debt straight to banks or money managers.

In rocky markets, towns, universities and other small borrowers like not having to worry about how retail buyers will behave on the day of a public bond sale. At the same time, broker-dealers may want to avoid holding bonds they have purchased from borrowers in case investors don't feel like buying. Privately placed debt goes straight to the buyer, without an intermediary putting capital at risk.

One possible explanation for the increase in private placements early in the pandemic could be that "underwriters didn't want to take a principal position during the market volatility," said Municipal Securities Rulemaking Board chief economist Simon Wu, the lead author of the board's report.

Before the Covid-19 pandemic, the biggest uptick in private placements occurred in 2013, when bond prices tanked following Detroit's bankruptcy and amid fears that the Federal Reserve would start dialing back easy-money policies.

Some investors and analysts worry that private placements put investors at a disadvantage by keeping them in the dark about the full scope of a borrower's debt. Though a 2019 rule generally requires issuers to disclose private placements, a January study by two scholars from the Federal Reserve and one from the University of Cologne concluded that compliance is poor and "private debt disclosure remains largely voluntary."

Private placements generally fall into two categories, according to borrowers and their attorneys and advisers. Banks typically buy tax- or fee-backed debt from small school districts or towns in quantities that can be as little as a few million dollars. In contrast, money managers often purchase more risky higher-yielding debt from nonprofits or one-off economic-development projects.

"They want 7% to 8%, so they're not buying [the debt of a large city]; they're buying this weird private placement that's been designed for them," said Amanda Stephens, a public-finance partner at Orrick, Herrington & Sutcliffe LLP.

Competition can be fierce for muni debt, which pays interest that is typically exempt from federal taxes, and often state taxes too. For a household or company in the top tax bracket, a 7% tax-exempt yield is equivalent to a taxable yield of 11.8%, according to data from Nuveen LLC.

One draw for both banks and asset managers is the ability to purchase a large chunk of debt wholesale, without competing with other buyers. Another perk: They don't have to negotiate with other creditors if the deal goes sour.

Borrowers, for their part, avoid the labor and cost typically involved in bringing a deal to market, including seeking an opinion from a credit-rating firm. They also may have reduced disclosure requirements over the life of the bond.

The repayment period for private debt also tends to be much shorter than the 30-year period standard in public markets, typically around five to 10 years, reducing the amount of time borrowers are locked into current interest rates, according to attorneys and advisers.

Contra Costa County, Calif., built an emergency-services center and an administrative building and refinanced old debt with about $200 million in muni debt sold privately to a bank in 2017.

"We were seeing rate proposals very close to what we thought we would get in the public market, and the cost of issuance is substantially less," said chief assistant county administrator Timothy Ewell.

Still, guidance on direct sales to banks from the Government Finance Officers Association trade group notes that borrowers may lose the opportunity to find out whether they could get lower interest rates in the open market. The group hasn't taken a position on placements with asset managers.

The Wall Street Journal

By Heather Gillers

Updated Oct. 26, 2022

Write to Heather Gillers at heather.gillers@wsj.com

[S&P Cyber Risk In A New Era: U.S. Transportation Infrastructure Providers Remain Vigilant On The Road To Cyber Preparedness]

Key Takeaways

- We expect U.S. transportation infrastructure enterprises will be targeted more frequently for cyberattacks given their role as providers of critical infrastructure for the movement of people and goods. Overall, we view risks as moderate, although there are lower-probability, high-impact risks within the sector.
- Across the transportation subsectors, particularly for ports, mass transit operators, and airports that have federal cyber oversight and regulation, management teams have implemented cyber security policies and procedures to mitigate long-term credit risk, supported by ample liquidity to buffer a disruption in operations.
- S&P Global Ratings evaluates cyber risks for transportation providers within our management and governance assessment and they are viewed as a component of governance within our environmental, social, and governance credit factors.
- To date, cyberattacks affecting transportation infrastructure providers have typically been short in duration with minimal lasting effects on operations and key financial metrics; consequently, we have not seen any longer-term effect on entity creditworthiness within the sector yet.

Continue reading. [Free registration required.]

26 Oct, 2022

Fitch: Labor Strife to Continue for U.S. NFP Hospitals Despite Reprieve

Fitch Ratings-Austin-25 October 2022: Despite some relief of late, U.S. not-for-profit hospitals are in for several challenging months with healthcare and social assistance job vacancies still high against a backdrop of low unemployment, according to Fitch Ratings in its labor dashboard for the sector.

Job openings for health care and social assistance have fallen for two straight months to 7.7% as of August 2022. While this news is positive, the number of openings remains above the highest level recorded prior to the pandemic.

Another encouraging sign is the slowly declining number of quits at 2.3 (486,000 quits) in August 2022 compared to a peak of 3.1 (626,000 quits) in November 2021. That said, current quit rates are still high and on pace to exceed last year. “NFP hospital quits will need to normalize to well below pre-pandemic levels in order to reduce staffing shortages and a reliance on contract/temporary labor,” said Director Richard Park.

The labor shortage has led to a spike in average weekly earnings for hospital employees to 21.1% since February 2020, well above the 13.6% earnings growth of overall private sector employees. However, ambulatory health care services employees’ earnings grew by only 12.6% over the same period. “Wage increases and employee recruitment challenges may amplify the role of ambulatory care in the overall healthcare sector and continue the acceleration of inpatient care to outpatient settings,” said Park.

Fitch’s ‘Hospitals and Healthcare Systems Labor Dashboard: October 2022’ is available at ‘www.fitchratings.com’.

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Additional information is available on www.fitchratings.com

Fitch: U.S. Life Plan Communities Experiencing Significant Labor Shortages and Wage Growth

Fitch Ratings-Austin/New York-25 October 2022: Healthcare and social assistance job vacancies remain high against a backdrop of a tight labor market; however, U.S. life plan communities have more flexibility relative to hospitals in responding to labor pressures, according to Fitch Ratings.

Fitch’s analysis shows that roughly 8% of nursing facilities are reporting a reduction in beds as of Oct. 2, 2022 compared to May 24, 2020. More glaring are staff shortages, with 18.6% of nursing homes seeing a shortage of nurses and 19.6% reporting a shortage of aides. However, “LPCs have some flexibility in responding to these labor pressures as they are able to redesign the delivery of dining services and other amenities, and are able to adjust the number of skilled nursing beds in service to match its current staffing levels,’ said Richard Park, Director at Fitch Ratings.

The continuing labor shortage has resulted in significant wage growth ranging from 18%-21% for LPCs, assisted living facilities and nursing facilities through August 2022 since the eve of the pandemic. These levels are well above the 13%-15% wage growth of the overall private and health care sectors during the same period. “LPCs and nursing facilities will need to continue to raise wages, revaluate service delivery and grow the workforce pipeline to alleviate current staffing challenges,” said Park.

Nonetheless, with the U.S. economy headed towards a mild recession early next year (per Fitch’s broader economic outlook), life plan communities may respond by rightsizing skilled nursing beds to accommodate better available staff and internal residents and investing more money in renovations to alleviate profitability and staffing issues and take advantage of national demographic shifts.

Fitch's "Life Plan Communities Labor Dashboard: October 2022" is available at www.fitchratings.com.

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A New Federal Ruling Outlines Limits to Short Term Rental Regulation.

A new ruling out of the Fifth Circuit is likely to have significant impacts on the ways that municipalities may regulate short term rental properties ("STR's"). In *Hignell-Stark v. City of New Orleans*, 46 F.4th 317 (5th Cir. 2022), the court reviewed a New Orleans ordinance which limited the right to use a residence as an STR to only people whose primary residence was in New Orleans.

In its holding, the court made two noteworthy determinations. First, it ruled that the City of New Orleans's regulation of STR's was not a "Taking", and therefore New Orleans was not required to provide compensation to people who alleged their property value was decreased by the ordinance. Second, the court determined that the ordinance violated the Commerce Clause because it discriminated against people who were not residents of the state of Louisiana.

This is one of the first substantial federal holdings related to STR ordinances, and while its application is technically limited to the Fifth Circuit, it still provides insight into what other rulings on this issue are likely to look like.

On the one hand, in determining that the ordinance was not a "Taking", the court gave the green light to some level of STR regulation by municipalities. In its ruling, the court determined that, at least based on the New Orleans licensing scheme, the ability to use a residence as an STR was a privilege, not a right. Further, the court was sympathetic to the impact that STR's can have on the full-time residents of a neighborhood and a city's cost of living, and generally agreed that keeping these negative aspects of STR's in check was a reasonable goal of a municipality's government. On the other hand, a municipality cannot restrict interstate commerce unless no more reasonable means of regulation are available. In this case, there were other means to address STR's that were not as sweeping as a blanket ban on non-resident ownership. In other words, while municipalities may regulate STR's, such regulations must be carefully considered and not overreach the municipality's authority.

To understand the potential impact of this ruling, it is useful to look at the effect it has already had on a town in Colorado. Frisco, a town of just under 3,000 people in the mountains of Summit County, is wrestling with an issue that is becoming increasingly common in many areas of the state, how to effectively and equitably regulate STR's. In June of 2022, Frisco's Housing Program Manager reported that of the city's roughly 3,600 residential units, 20% were being used as STR's and 45% were largely vacant second homes. This has contributed to a relative lack of affordable housing options, making it difficult for people working lower paying service jobs to live in the town where they are employed.

In order to combat this issue, Frisco's town councilors had been considering a new plan where they would (i) cap the number of STR licenses granted in the town based on the number of total residential units available and (ii) implement a two tier STR licensing system. One tier of STR license would be available for people whose primary residence was in Frisco, and another tier of license would be available to people whose primary residence was elsewhere. The STR cap would only be applied to those holding the non-residential tier of STR license.

However, in light of the Fifth Circuit's ruling in *Hignell-Stark v. City of New Orleans* Frisco has decided to change course. Frisco will proceed with the proportional cap on STR licenses, but will forgo the two-tier licensing scheme which would have exempted residents from the STR cap. In this manner, Frisco hopes to shoot the gap between acceptable regulation and municipal overreach. It is likely that other cities will use the *Hignell-Stark* ruling as a touchstone to determine how much they can regulate STR's going forward. We will be following this development with interest to see how it plays out.

Otten Johnson Robinson Neff + Ragonetti PC – Mike Davidson

Rocky Mountain Real Estate Law

October 27 2022

Social Impact Bonds for Affordable Housing Gain Popularity Among Cities.

New York City, Philadelphia and San Francisco are among the cities getting in on the trend.

For decades, local governments have financed affordable housing construction with municipal bonds to address the nationwide shortage of affordable housing. Now communities are turning to environmental, social and governance bonds — meant to finance socially- or environmentally-responsible projects such as renewable energy — to fund affordable housing.

Some recent city experiences suggest their predictability can attract investors. The fastest growing segment of ESG bonds is those funding affordable housing. In 2021, these bond issuances rose 288%, or $14.5 billion, accounting for more than three-quarters of the growth of the entire sustainable debt market, according to S&P Global Ratings.

Last year, Philadelphia sold $100 million in social bonds, a type of ESG bond, to fund an affordable housing initiative. San Francisco has sold millions in social bonds for affordable housing projects since at least 2019.

Continue reading.

smartcitiesdive.com

Oct. 26, 2022

By Kalena Thomhave

[Fresh Ideas for Borrowers in an Unstable, Two-Faced Muni Bond Market.]

Tax-exempt issuers' costs have shifted upward dramatically this year as the Federal Reserve has pushed interest rates higher to fight inflation. It's time to re-strategize debt management programs.

Bond and stock market pundits just can't stop talking about this past year's rapid escalation of interest rates from the artificially low levels that prevailed through most of the COVID-19 pandemic. It seems most traders have amnesia and cannot remember a time when prevailing interest rates were anything close to previous, historically higher inflation rates. The talking heads keep reacting as if the trough in interest rates during the 2020-2021 pandemic period was timeless. That's called "recency bias."

Although the Federal Reserve's "tightening" actions have pushed money market rates higher, short-term municipal bond and note yields — returns to investors — still remain far below prevailing inflation rates. Yet tax-exempt munis with maturities over five years continue to yield more than taxable Treasury bonds and the market's expected rates of future inflation, making their after-tax returns to investors — and their inflation-adjusted costs to borrowers — higher than public-finance textbooks would predict. It's a two-faced market in muni-land.

Clearly, the muni market faces an unstable period for the next 12 to 24 months, first as Fed tightening continues, then while inflation rates hopefully subside, and then as the U.S. economy teeters between a soft landing and a recession scenario that could compel another round of lower interest rates. Once again, debt managers and financial advisers face novel market and economic uncertainty as they map out their plans for capital projects, cash-flow borrowing and long-term debt management.

Continue reading.

governing.com

by Girard Miller

Oct. 25, 2022

Environmental Insurance Litigation A State By State Case Law Survey - Morrison Mahoney

View the survey.

Morrison Mahoney LLP

October 25 2022

[How to Boost Climate Resilience: Fill in Infrastructure Law Funding Gaps.]

When President Biden signed the Inflation Reduction Act (IRA) into law in August, advocates for climate action cheered its unprecedented support for measures to reduce greenhouse gas emissions. With more than $369 billion in climate-friendly incentives for electric vehicles and more, the IRA is a historic legislative achievement on its own. But the legislation also pairs with the earlier Infrastructure Investment and Jobs Act (IIJA) to turbocharge climate adaptation and resilience.

Since the IIJA became law last November, the Biden administration and congressional leaders have said the act contains $50 billion for climate resilience. But, as Georgetown Climate Center has previously noted, every dollar of the IIJA's $1.2 trillion represents an opportunity to improve climate resilience across the United States. Given the clear and present danger posed by the impacts of a changing climate, every investment funded by the bill can — and should — be designed to make our communities better prepared to withstand the increasingly severe weather and other impacts climate change is already fueling.

IIJA has created numerous opportunities for states, tribes and local governments to invest in equitable, climate-smart infrastructure. And now, IRA provides still more funding for climate change adaptation efforts that can further leverage IIJA's reach — particularly in disadvantaged communities.

Continue reading.

THE HILL

BY MARK W. RUPP, OPINION CONTRIBUTOR – 10/27/22

Muni-Bond Sales to See Slowdown After November's Midterms.

- **Total GO bond sales fall 51% in 1Q when state has new governor**
- **About $320 billion of new long-term munis issued this year**

The results of the Nov. 8 midterm elections will make waves in the $4 trillion municipal bond market, one of the most politically exposed asset classes.

With 36 governor seats up for re-election, states and localities will likely issue less debt through early 2023, which is already a typically quiet time for the market, according to Vikram Rai, the head of Citigroup Inc.'s municipal-bond strategy group.

"Issuance gets delayed slightly, issuance doesn't go away it just gets pushed out a bit," Rai said in an interview. "When the new administration takes over it takes them some time to get used to the office and get their act together."

Continue reading.

Bloomberg Markets

By Skylar Woodhouse

October 28, 2022

[Trends in Muni Bonds (Bloomberg Audio)]

Joe Mysak, editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Katie Greifeld.

Listen to audio.

Bloomberg

Oct 28, 2022

Munis Are on 'Very Solid Footing': BlackRock's Carney

Sean Carney, BlackRock's head of municipal strategy, says he sees signs of optimism in the municipal bond market. He speaks with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

October 26th, 2022

BlackRock Is Getting Used to Being in the ESG Crossfire.

Republicans have been ramping up their attacks on the money manager—but so have progressives.

Since the beginning of the year, Republican politicians in the US have been ramping up their anti-ESG messaging.

The strategy started gaining real attention in May after former Vice President Mike Pence criticized investor-activist campaigns aimed at forcing fossil-fuel giant Exxon Mobil Corp. to follow socially conscious investing principles. The potential 2024 presidential candidate said they elevate "left-wing" goals over the interests of businesses.

Pence's position has received support from numerous other Republicans, including far-right governors of two of the biggest states—Greg Abbott of Texas and Ron DeSantis of Florida—who have threatened to take state business away from corporations that support initiatives or regulations aimed at fighting things like global warming.

Continue reading.

Bloomberg Green

By Tim Quinson

October 25, 2022

Municipal Bond Fundamentals Show They Can Withstand a Recession.

The current market environment fraught with unknowns emphasizes the need to weatherproof a portfolio, especially with the threat of a potential recession circulating the capital market news. One way is via municipal bonds, which show strong fundamentals in the wake of a battered bond market.

It's no secret the bond market has been trending downward with stocks, but their status as a safe haven asset could come to the forefront. This is certainly the case should a recession hit the U.S. economy.

"With signs, we may be heading towards a recession, munis–particularly those in the high-quality space–appear ready to weather the storm," a Fortune article explained. "A recession will inevitably lead to some revenue drop-offs, but many municipalities will face those headwinds from a strong fundamental position."

The magic combination appears to lack debt servicing and ample cash. Currently, municipal bonds have this combo in spades.

"The combination of low debt and sufficient cash can act as a buttress against a downturn," the article added.

The severity of a forthcoming recession has many market experts wondering whether it will be comparable to the financial crisis in 2008. Whether it matches that level of severity is anybody's guess, but municipal bonds appear primed and ready.

"In fact, munis are in much better shape than they were in 2008 before the global financial crisis," the article noted. "Back then, many U.S. states faced budget shortfalls, some of them quite severe."

Getting Low-Cost Access to Municipal Bonds
For easy access to the vast municipal bond space, consider the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

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

The fund also features a 30-day SEC yield of 3.69% with an average debt duration of six years, giving fixed income investors the median between yield and minimizing rate risk. Ideally, the fund is for:

- investors with a medium-term investment horizons (4 to 10 years),
- those seeking an investment that emphasizes income rather than growth,
- investors who have a low tolerance for the risk of short-term price fluctuations.

For more news, information, and strategy, visit the Fixed Income Channel.

ETF TRENDS

by BEN HERNANDEZ

OCTOBER 25, 2022

It’s Time to Scoop Up Muni Bonds. They Offer Yields You Won’t Want to Miss.

A historic rout in the bond market this year has resulted in the highest yields on municipal bonds in 15 years—and what looks like an excellent buying opportunity.

At midweek, the muni market, as measured by the Bloomberg Municipal Bond Index, was down 13%, its worst showing in at least 40 years, as the yield has jumped to 4.2% from 1.1%. Long-term bond mutual funds have done even worse, off about 15%.

Falling prices, however, mean higher yields, and munis’ are now in the 3% to 5% range, up from 1% to 2% at the start of the year. That’s similar—or even higher—than yields on U.S. Treasuries, particularly for long-term issues maturing in about 30 years.

Continue reading.

Barron’s

By Andrew Bary

Oct. 29, 2022

Fitch: Recession Expected 2Q23, Strength of U.S. Consumer Will Mitigate Severity

Fitch Ratings-New York-18 October 2022: Robust U.S. consumer finances will help cushion the impact of a likely recession starting in second-quarter 2023 (2Q23), according to Fitch Ratings.

“Fitch expects the U.S. economy to enter genuine recession territory — albeit relatively mild by historical standards — in 2Q23. The projected recession is quite similar to that of 1990–1991, which followed similarly rapid Fed tightening in 1989–1990. Nevertheless, downside risks stem from nonfinancial debt-to-GDP ratios, which are much higher now than in the 1990s,” said Olu Sonola, head of U.S. regional economics.

Household debt service and leverage continue to be relatively low compared with historical standards. Delinquencies across all household liabilities have also remained muted, in contrast to the elevated risks associated with consumer liabilities entering the Great Recession.

Excluding government transfers, real household income is 1% higher as of August 2022 yoy, with the growth underpinned by 1% growth in real labor income.

The aggregate household balance sheet is resilient despite the recent equity market correction, with real estate wealth offsetting some losses in equity holdings.

Estimated excess savings remain high at $1.5 trillion in July 2022, down from the $2.2 trillion peak in August 2021.

Any weakness in consumer sentiment appears to be more tied to gasoline prices than consumer spending.

The latest U.S. unemployment rate of 3.5 percent is the same as pre-pandemic levels — a 50-year low.
The demand and supply imbalance is very significant, equal to approximately 2.4 percent of the labor force.

For more information, a special report titled “U.S. Consumer Health Monitor — 4Q22” is available at www.fitchratings.com.

S&P Health Care Credit Beat: Highlights From Our 2022 Conference

Key Takeaways

- As the health care industry continues recovering from the COVID-19 pandemic, organizations aim to move past short-term reactionary adjustments in strategy to evolve the industry itself through foundational, sustainable innovations in care delivery models.
- As headwinds force the industry to manage more efficiently while still providing high-quality care, investors and payors are looking to new metrics to measure growth as employers and insurance companies offer different avenues of what a successful model of care can look like in “the new normal.”
- Lack of affordability and labor shortages, particularly in direct care staffing, are limiting access to health care. However, the industry is working to increase access by expanding care networks, creating partnerships, integrating new technologies like telehealth, and collaborating across the industry to promote innovation.

Continue reading.

18 Oct, 2022

S&P U.S. Not-For-Profit Health Care Outstanding Ratings And Outlooks As Of Sept. 30, 2022

View the Ratings and Outlooks.

18 Oct, 2022

[S&P: U.S. Not-For-Profit Health Care Rating Actions, September 2022 And Third-Quarter 2022]

S&P Global Ratings' not-for-profit health care rating actions for the third quarter of 2022 skewed negative with 11 downgrades and four upgrades. In comparison, upgrades and downgrades in the third quarter of 2021 and the first two quarters of 2022 were essentially even. The heightened level of downgrades stems from relentless operating pressures affecting financial performance, that along with investment market volatility, has caused balance sheet deterioration. These pressures remain sector wide with operating headwinds concentrated around staffing and supply challenges. For further sector insight see "U.S. Not-For-Profit Acute Health Care Midyear 2022 Update: Providers Face Mounting Pressures From Inflation And Labor Costs," published June 27, 2022, on RatingsDirect.

As a percent of rating actions, upgrades and downgrades were higher during the third quarter of 2022 compared with the second quarter of 2022 resulting in fewer affirmations. That said, affirmations still make up most of our rating actions with 81% of our rated acute-care providers carrying stable outlooks as of Sept. 30, 2022.

Unfavorable outlook revisions in the third quarter outnumbered favorable outlook revisions by a ratio of 10 to one, which is accelerated compared with the trends in the second quarter where the ratio was three to one. This trend largely reflects materially higher staffing expense including elevated agency nursing costs as well as inflationary pressures that we believe could lead to future downgrades for certain providers. That said, balance sheet flexibility remains important and for many providers, offers a near-term cushion to volatile operations (see "U.S. Not-For-Profit Acute Health Care Medians: Peak Performance Highlights Cushion As Sector Encounters A Challenging Period" published Aug. 24, 2022, on RatingsDirect.)

Continue reading.

19 Oct, 2022

[Fitch: U.S. Airport Traffic Spikes in 2Q22; Toll Roads Now Near Pre-COVID Levels]

Fitch Ratings-New York-17 October 2022: Traffic at U.S. airports and on toll roads continued its gradual recovery over the second quarter of 2022 (2Q22), according to Fitch Ratings in its latest U.S. Airports & Toll Roads Traffic Monitor.

U.S. airports ended 2Q22 at 92% of 2Q19 levels, a significant increase from the 83% levels in 1Q22. Airports such as Miami and Las Vegas are now exceeding pre-pandemic traffic levels, benefiting from an increase in leisure travel. Large hub airports, including New York, D.C., and Boston, showed an increased recovery in 2Q22 compared to 1Q22 levels. However, many large hub airports reliant on domestic O&D business travel and international travel, such as Los Angeles, fell short of pre-pandemic levels due to persisting effects of the pandemic.

The toll road sector remains effectively fully recovered through the first six months of 2022 relative to 2019 levels. Average toll road traffic recovery for 2Q22 was 99% of 2Q19 levels, an increase from 1Q22 levels. Some regional variations in performance persist. Traffic on most facilities located in Florida, Texas and Oklahoma along with the California managed lanes along the SR-91 corridor, have exceeded pre-pandemic levels since last year. In contrast, ongoing travel restrictions at the U.S./Canada border resulted in lower traffic at the Buffalo Peace Bridge facility.

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.

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S&P: U.S. Housing Finance Agency Programs Have The Resilience To Navigate The Uncertain Economic Landscape

Key Takeaways

- The median rating for U.S. housing finance authority single and multifamily programs remains 'AA+' with a stable outlook, reflecting the strength and resilience of these programs
- Single-family program current median opening parity levels rose slightly year over year to 118.0% from 117.8%, and for multifamily programs they fell to 133.3% from 143.1%
- As prepayments slow, single-family programs are likely to see slightly improving parity and profitability ratios
- While rental demand remains high, escalating costs of materials, labor, and interest rates could slow multifamily production in the near term

Continue reading.

20 Oct, 2022

Fitch: U.S. State Housing Finance Agencies To Hold Firm Against Recessionary Tide

Fitch Ratings-San Francisco/New York/Chicago-24 October 2022: State housing finance agencies (HFAs) throughout the country will head into a likely broader recession in 2023 on firm fiscal footing, according to Fitch Ratings in its peer review for the sector.

HFA equity growth is still strong, though it leveled off in the last year. Aggregated equity rose 6% in fiscal 2021 and is up 31% since fiscal 2017. Driving the consistent rate of growth has been a favorable operating environment driven by strategic investment and prudent management to offset low interest rates and higher delinquencies. With Fitch economists calling for a broader recession in early-2023, this judicious approach will serve the sector well according to Karen Fitzgerald, Senior Director and Fitch's Sector Head for Community Development & Social Lending.

"That housing finance agencies were able to maintain modest profitability and stable equity despite the pandemic hangover, rising mortgage rates and elevated home prices speaks to the strength of the sector,' said Fitzgerald. 'While challenges in responding to growing affordable housing needs lie ahead, HFAs remain well positioned to respond while maintaining solid financial profiles.'

Though it rose slightly over the last year, leverage remains stable as the median adjusted DTE ratio was 2.6x in fiscal 2021. This is below the five-year average median of 2.9x, and now solidifies a trend where the ratio is equal to or below the median DTE ratio experienced for the last five fiscals.

Fitch's 'State Housing Finance Agencies Peer Review' is available at 'www.fitchratings.com'.

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S&P: U.S. Privatized Student Housing Occupancy Rebounds; Ratings Will Take Longer To Recover As Projects Recoup Losses

Key Takeaways

- The return of students to university campuses in fall 2021 resulted in some stabilization for privatized student housing projects, with further occupancy improvements, on average, in fall 2022.
- Three rated projects defaulted on their debt service payments since March 2020, all of which were

rated in the ‘B’ category or below prior to the pandemic.
- Three rated projects drew from their debt service reserve funds, all of which are currently in the ‘B’ category.
- More than 75% of currently rated projects received some form of university support or used reserves to meet their debt service requirements during the pandemic.

Continue reading.

17 Oct, 2022

S&P U.S. Charter School Rating Actions, Third-Quarter 2022.

View the Rating Actions.

18 Oct, 2022

S&P U.S. Higher Education Rating Actions, Third-Quarter 2022.

View the Rating Actions.

20 Oct, 2022

Arizona Sports Park Defaults in New Sign of Muni Stress.

A 320-acre sports park in Mesa, Ariz., has defaulted on its bonds eight months after opening, a fresh sign of stress in the often-sleepy world of municipal finance.

A notice of default filed late Tuesday by trustee UMB Bank said the sports park project has failed to make payments to the trustee on its debt, which are due monthly. The notice said the borrower also failed to file audited financial statements, and that a lien or other encumbrances has been filed against the park, a violation of the loan agreement.

The borrower, a nonprofit called Legacy Cares that had no experience owning a sports park, sold $280 million in muni debt to Vanguard Group and other mutual funds in 2020 and 2021 amid a frenzied hunt for tax-exempt yield. Legacy Cares President Douglas Moss could not immediately be reached for comment.

Another speculative muni-financed project, the Rutherford, N.J., American Dream mall and theme park, defaulted in August.

The Wall Street Journal

By Heather Gillers

Oct 18, 2022

Munis May Be Cheap Enough to Lure Crossover Buyers, Vanguard Says.

- **Yield of 30-year muni index hits 3.8%, near eight-year high**
- **Credit strength adds to munis' allure, says Vanguard's Malloy**

The battering of bonds this year from inflation and higher rates has made long-term municipal securities so cheap that investors who usually shun them may be buyers.

The yield on tax-exempt municipal debt maturing in 30 years reached 3.8% on Thursday, near its highest since March 2014, according to data compiled by Bloomberg.

That's almost 92% of the rate on 30-year US Treasuries, higher than the usual ratio for tax-exempt to taxable debt, meaning the municipal bonds are relatively cheap. And the creditworthiness of state and city securities has benefited from robust tax receipts and federal pandemic relief, making them more compelling to a wider range of investors, said Paul Malloy, head of municipal investment at Vanguard Group Inc.

"Together it really does make municipals look to be one of the most attractive parts of the fixed-income market currently, particularly at the long end," Malloy said.

Yields on both new and old muni bonds have risen as the Federal Reserve raised interest rates to slow the fastest inflation in decades. Prices in the secondary market dropped, generating a loss of 11.5% so far this year for the broader municipal-bond market, according to Bloomberg Barclays Indexes.

Tax-exempt securities maturing in 22 years or longer are the worst-performing part of the muni curve, losing 18.9% through Oct. 19, according to the indexes.

But Vanguard's Malloy anticipates a bounce back, with demand from so-called crossover buyers who focus on corporate and US Treasury securities helping to raise muni bond prices, which move inversely from yields.

"One of the main characteristics of the muni market is it will snap back and it will snap back hard when it does," Malloy said.

Some municipal market participants also see support coming from the Fed down the road, when the central bank inevitably slows its rate-rise regime. Investors in longer-dated securities should extend their portfolio duration, but in a disciplined fashion, according to a Bank of America Corp. municipal research report dated Oct. 14.

"We see that the strongest returns tend to come on long maturity indexes between the second-to-last and last rate hike," according to the Bank of America report.

Bloomberg Markets

By Michelle Kaske

October 21, 2022

Munis Are a Safe Haven, Valley Bank's Brigati Says.

Chris Brigati, Valley Bank managing director of municipal investments, says municipal bonds are providing an opportunity for investors. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets.

Watch video.

Bloomberg Markets: The Close

October 20th, 2022, 12:02 PM PDT

Munis Offer 'Oasis' as Debt Beats Bond Peers in Volatile Stretch.

- **BofA attributes outperformance in part to light muni issuance**
- **October muni gain of 0.9% comes as Treasuries post decline**

The debt of US states and cities is proving to be a haven from the turbulence roiling fixed income lately, say analysts at the municipal-bond market's largest underwriter.

"While macro market liquidity is growing more acute, it doesn't appear to be for munis," Bank of America Corp. strategists led by Yingchen Li and Ian Rogow wrote in a research note published Friday. "Light issuance and growing retail interest make munis an oasis."

Munis have gained about 0.9% this month, while US Treasuries have lost 1.2% and investment-grade corporate bonds are down 1.5%, according to Bloomberg Index data through Friday. That outperformance holds for all of 2022, amid a brutal year for the bond market as the Federal Reserve hikes interest rates to tame inflation.

Continue reading.

Bloomberg

By Danielle Moran

October 17, 2022

The Municipal Bond Market's Strong Fundamentals Could Prevent a Repeat of 2008.

Investors have found few safe havens amid 2022's rocky economic ride. The flow of COVID-era stimulus programs–which buoyed economic growth for the better part of the last two years–are now being withdrawn.

In the wake of that ebb, most asset class returns have eroded. And yet, many state and local governments used the growing tax revenues and fiscal stimulus from the past few years to shore up fiscal positions. The result? A municipal bond market whose strong fundamentals appear to have left it prepared for the uncertain market to come.

The yin to the muni market's yang

There's no doubt that 2021 was an exceptional year for muni investors. Interest rates were low, credit spreads were tight, and bonds rallied. Nevertheless, that result was far from the expectation at the start of the cycle. Back at the outset of 2021, many municipalities expected major revenue declines. In preparation, they battened down the hatches and slashed expenses.

The revenue declines never materialized.

Instead, federal government-funded relief–in the form of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the American Rescue Plan Act (ARPA)–helped fill local coffers. At the same time, home prices and wages continued to rise, lifting revenues from property taxes and wages.

Then 2022 swept in, bringing with it a flurry of financial turbulence that brought financial markets back from their extreme valuations. Munis faltered, along with most asset classes. Still, markets move in cycles. This year's turnaround, when viewed through a wide-angle lens, reflects that cyclical nature. COVID-era monetary policy and fiscal stimulus programs are reversing. Subsequently, interest rates are rising toward historical norms. In short, the economic snapback of 2022 is carrying muni bonds into a period of normalization.

Still, municipalities are fiscally fit

Many state and local governments deployed COVID-era stimulus to fortify themselves against future downturns by building rainy day funds and funding pension obligations. Going forward, tax revenues are likely to remain stable, as real estate assessment values won't fall at the same rate or extent as a slowing housing market.

The combination of those previous and future revenue sources isn't just good for municipalities—they're also positive for their investors. As autumn gets underway, average municipal yields are at their highest levels in 10 years. It's a high-quality asset class (more than 85% of the market is rated A or higher, according to our analysis of market data) with a strong fundamental risk profile, particularly compared with corporate bonds.

Current valuations, particularly among longer-term issues, are close to those of Treasuries, which are generally subject to federal income taxes. Muni bond interest, by contrast, isn't taxed at the federal level. And states don't tax the interest on bonds they issue to their residents. That means that today's munis are paying investors a more elevated tax-exempt income than taxable equivalents.

Note that although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

Despite talk of a downturn, the muni market future's is still bright

With signs we may be heading towards a recession, munis–particularly those in the high-quality space–appear ready to weather the storm. A recession will inevitably lead to some revenue drop-offs, but many municipalities will face those headwinds from a strong fundamental position. The combination of low debt and sufficient cash can act as a buttress against a downturn.

In fact, munis are in much better shape than they were in 2008 before the global financial crisis. Back then, many U.S. states were facing budget shortfalls, some of them quite severe.

That’s far from the case for many of today’s local governments, which is great for investors. At Vanguard, for example, we’re actively upgrading the quality of our muni portfolios while repositioning for the higher interest rate regime we appear to have entered.

Despite widespread financial turbulence, muni observers are witnessing a market that’s as attractive as it’s been for decades. Rates are up and high-quality credit is readily available. At the same time, municipal bonds are relatively inexpensive on the basis of both fundamentals and historical norms. It could be a great time to get in on this attractive asset class—but only if you intend to stay for the long haul.

FORTUNE

BY PAUL MALLOY

October 12, 2022

Paul Malloy is the head of municipal investment and credit research at Vanguard.

Fitch: Inflation To Pressure U.S. Public Finance Before Long

Fitch Ratings-New York-10 October 2022: Positive rating momentum continued for U.S. public finance last quarter; however, it is only a matter of time before rising inflation makes its presence more resoundingly felt, according to Fitch Ratings’ latest quarterly report.

Against high inflation, higher energy costs and persistent supply chain headwinds, Fitch upgraded 47 public finance ratings and downgraded 15 in 3Q22 (compared to 36 and 13, respectively, in 2Q22).

State governments, in particular, had a strong quarter as seen by upgrades to Michigan, Ohio and New Jersey. However, “Rapid Federal Reserve monetary policy tightening could lead to state revenue growth weakening and possibly swinging negative in time,” said Arlene Bohner, Fitch’s head of U.S. public finance. “Sustained inflation also could add to states’ fiscal risks by dampening consumer demand and business activity while raising costs for capital spending.”

U.S. not-for-profit (NPF) hospitals held steady last quarter with six upgrades and four downgrades in 3Q22 (compared to five hospital upgrades and four downgrades for 1H22). That said, “high costs and inability to retain medical staff are pointing to tighter operating margins, which in turn will lead to higher downgrades and negative outlooks in the coming months,” said Bohner. Conversely, finances of life plan communities (LPC) appear to be on more stable footing heading into 2023 despite a stumbling block last quarter (four LPC downgrades in 3Q22 against no upgrades).

Another sector taking a hit from higher inflation is higher education (three downgrades and no upgrades in 3Q22) with stagnant enrollment the chief reason for last quarter’s downgrades. “There are some signs of improvement, including modest prospects for enrollment stabilization from incoming students, though controlling expenses will be challenging in an inflationary cost environment,” said Bohner.

Fitch’s “U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2022” is available at www.fitchratings.com.

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City Finances Are Stronger, but Uncertainty Lies Ahead.

In its annual survey of the fiscal condition of U.S. cities, the National League of Cities finds cause for both hope and concern. Federal funds have improved municipal fiscal health, but inflation and recession fears are on the horizon.

After suffering historic blows to their fiscal stability from the COVID-19 pandemic, municipal governments appear to be on the path to recovery for fiscal year 2022, according to a City Fiscal Conditions report just released by the National League of Cities (NLC).

Though it's not the only factor, this is largely attributable to the funds available to them through the American Rescue Plan Act (ARPA) and the Bipartisan Infrastructure Law (BIL). While these will continue to be available for several years, other forces currently in play could bring financial turbulence in coming years.

The 2022 report from NLC is the latest in a series that began 37 years ago. "The overarching theme for this year's report was cautious optimism," says lead author Farhad Omeyr, program director, research and data, at NLC's Center for City Solutions.

Continue reading.

governing.com

by Carl Smith

Oct. 17, 2022

US Cities Are Preparing for an Impending Recession, Survey Shows.

- **Governments are grappling wtih supply-chain issues, inflation**
- **Cities anticipate a decline in their sales and income tax**

Optimism among US city finance officers is waning as they expect to contend with a drop in tax revenue and a looming recession, according to a new survey by the National League of Cities.

Nearly a third of the city officials from 395 cities surveyed for the 2022 City Fiscal Conditions report said they are less able to meet their financial needs in fiscal year 2023 as the economy slows. Just 11% felt that way about fiscal year 2022, as federal funds set aside for pandemic relief helped buoy their finances.

Concerns about an impending recession have forced many municipalities to budget conservatively, the report said. Cities have already been grappling with supply-chain issues, which have impacted their cost of operations and made infrastructure projects challenging. These disruptions pushed prices higher, threatening to eat into tax revenues that local governments gained as the economy rebounded in 2021.

Cities expect a 2.5% year-over-year decline in sales-tax receipts for the fiscal year 2022, with nearly no income tax revenue growth over the period, the report said. They're also budgeting a more than 4% year-over-year drop in property taxes in 2022, as the Federal Reserve's aggressive policy-tightening regime lead to a housing-market slowdown.

"While the fiscal impacts of abnormally high inflation rates remain to be seen, America's cities are bracing for stagflation and possible economic downturn," Clarence Anthony, the league's chief executive officer, said in the report.

Bloomberg CityLab

By Marvis Gutierrez

October 12, 2022

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

View the Current List.

[Free registration required.]

13 Oct, 2022

S&P Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs.

OVERVIEW AND SCOPE

1. U.S. mortgage revenue bond (MRB) programs are backed by pools of mortgage loans on residential property. They are typically established and overseen by a state or local housing finance agency (HFA) for the purpose of improving housing affordability by financing mortgage lending to low- and moderate-income households or borrowers developing or preserving affordable rental housing.

2. MRBs are typically backed by pools of:

- Single-family first and second mortgage whole loans;
- Mortgage loans secured by rental housing that meet the qualifications of residential rental property as set forth in IRS Code Section 142(d);
- Single-family and multifamily mortgage loans or MBS where the loans or MBS benefit from full credit enhancement via a guarantee, insurance, or credit enhancement instrument from U.S. federal agencies; and
- Hybrid programs composed of a mix of the above.

3. We refer throughout this article to MRB programs issued by HFAs, but the criteria could be applied to MRB programs issued by other U.S. financing organizations, if the public policy mission, the legal structure, the degree of program management, and the underlying asset types are similar.

4. The criteria apply only to managed MRB programs where the issuing HFA (or other financing organization) has an active role in the general oversight of the program, as well as in the ongoing management of specific risks, such as asset-liability matching, debt profile and investment management, or liquidity and counterparty risks (see the Program Management And Operational Risk Analysis section for more details). The degree of such management (including both support and risks brought about by such involvement) is addressed directly in these criteria. MRB programs in scope of these criteria are generally active issuance vehicles used by the issuing HFA to fund its ongoing lending (although an MRB program would remain in scope if the HFA decides to amortize it down, for example, and fund its lending under a different program).

5. Conversely, the criteria don't apply to transactions that don't possess such program risk management characteristics (although the issuing organization may be involved in the servicing of securitized assets and the administrative operation of the transaction). In particular, non-managed transactions backed by static mortgage pools are generally rated under "U.S. Federally Enhanced Housing Bonds Rating Methodology," or "Methodology For Rating U.S. Public Finance Rental Housing Bonds," as applicable.

6. We also apply the "Credit Quality Of The Asset Pool" section of these criteria to determine loss assumptions used in our capital adequacy analysis under our criteria for rating HFAs ("Methodology And Assumptions: Housing Finance Agencies And Social Enterprise Lending Organizations").

Continue reading. [Free Registration Required.]

10 Oct, 2022

S&P RFC Process Summary: Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs

On Dec. 1, 2021, S&P Global Ratings published a request for comment (RFC) on its proposed criteria, "Request For Comment: Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs." Following feedback from market participants, we finalized and published our criteria on Oct. 10, 2022 (see "Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs").

We'd like to thank market participants who provided feedback. This RFC Process Summary provides an overview of the external written comments and certain other feedback we received from the market on the proposed criteria, the significant analytical changes, if any, we made following the

RFC period, and the rationale for those changes.

Continue reading.

10 Oct, 2022

S&P: Certain U.S. Public Finance Mortgage Revenue Bond Program Ratings Placed Under Criteria Observation

SAN FRANCISCO (S&P Global Ratings) Oct. 10, 2022–S&P Global Ratings said today that it placed some of its ratings on U.S. public finance mortgage revenue bond programs under criteria observation (UCO). The UCO placement follows the publication of our criteria “Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs,” on Oct. 10, 2022, on RatingsDirect.

Following changes in rating methodology, credit rating agencies regulated under Regulation (EC) No. 1060/2009, as amended, are required to immediately place credit ratings potentially affected by such changes under criteria observation. (See “Standard & Poor’s Announces ‘Under Criteria Observation’ Identifier For Ratings Potentially Affected By Criteria Changes,” published May 7, 2013.)

As a result of the updated criteria, we placed our various credit ratings on these programs under criteria observation. See the table for a list of the affected programs. Ratings under these programs have the “UCO” label in the Regulatory Identifier column on the individual transaction pages of S&P Global Ratings’ online credit rating products. The UCO identifier does not modify any credit rating definition, and is not equivalent to a CreditWatch placement. The UCO identifier does not indicate the likelihood of a credit rating change or the timeline for which any change might occur. The UCO identifier will remain in place on these ratings until the conclusion of the review under the changed criteria, at which time the ratings may be affirmed, changed, or placed on CreditWatch.

We expect to review the ratings identified as UCO no later than six months from the effective date of the new criteria. Any rating changes prompted by the new criteria will be published in compliance with the regulation.

Continue reading.

[Free registration required.]

S&P: U.S. Housing Finance Agencies Build Strength Ahead Of New Challenges, Report Says

DENVER (S&P Global Ratings) Oct. 12, 2022–U.S. state housing finance agency (HFA) credit quality remained strong and stable with nearly all of our issuer credit ratings on the 23 rated state HFAs ‘AA-‘ or higher. HFAs are well-positioned for the rising interest rate environment and potential recession of 2023 and beyond, according to the report “U.S. Housing Finance Agency Issuer Credit Ratings Build Strength Ahead Of New Challenges,” published Oct. 12, 2022, on RatingsDirect.

“Ratios in fiscal 2021 show new strengths, improving on the mixed performance in 2020, with equity and assets at again-record highs and profitability and asset quality bouncing back," said S&P Global Ratings credit analyst Joan Monaghan. "Sizable funding from federal stimulus programs aided the return to pre-pandemic trends, but new challenges lie ahead," Ms. Monaghan added.

This report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

Fitch: US Life Plan Community Fees Buffered from Home Price Declines, Sales May Slow

Fitch Ratings-New York-11 October 2022: Fitch-rated life plan communities' (LPCs) pricing will hold up to home price declines in local real estate markets, as entrance fees have grown by just a fraction of home price appreciation over the last few years, Fitch Ratings says. Home sales are typically the main source of revenue that allow residents to pay the LPC entrance fee. However, slowing home sales could also weigh on independent living (IL) sales, delaying the sector's robust revenue recovery.

A slowdown in IL sales and net entrance fee receipts could constrain LPC's near-term financial flexibility in addressing near-term inflation. Stellar net entrance fee receipts for many Fitch-rated LPCs have allowed them to rebuild IL occupancies from pandemic-related lows. Strong entrance fee receipts blunt some negative inflation effects on operations and support stable debt service coverage.

LPCs should not need to make material adjustments to current entrance fee pricing, as fees have only increased by 2%-4% per year even as home values grew roughly 40% since March 2020. As a result, entrance fee pricing has some cushion and need not decline along with housing prices.

Fitch's latest U.S. RMBS Sustainable Home Price Report notes that national home prices grew by 15.8% yoy and are overvalued by 12.2%. While we anticipate home price corrections, a housing market crash, as was seen during 2008-2009, is highly unlikely. Home prices are expected to moderate further with elevated mortgage rates. Even if home prices decline beyond our overvaluation estimates, we believe LPC entrance fee pricing can remain stable. Fitch-rated LPCs are generally located in more affluent areas, with residents who generally have greater economic resiliency and may be better able to cover LPC entrance fees without relying on the proceeds from the sale of their homes.

However, a decline in housing prices may slow the current strong pace of independent living (IL) sales. A prospective resident's decision to move into an LPC can be sensitive to recessionary pressures, including declines in home values, inflation concerns and weaker investment performance. A slowdown in IL sales would lengthen the time for an LPC to refill turned-over IL units, thus reducing IL occupancy.

Inflation remains the main variable that could negatively affect margins. LPCs continue to boost revenue and alleviate costs, namely by delaying capex (including expansion plans), keeping skilled nursing beds offline, raising monthly service fees and reconfiguring services, such as dining.

Our rated LPCs experienced stress on both IL occupancy and net entrance fee receipts during 2008-2009 as prospective residents delayed decisions to move as a result of the economic uncertainty. This was the case even as their net worth, including home values, qualified them for entry into LPCs.

Judicious use of marketing and sales strategies can sustain sales and ease the move into an LPC, as happened in 2008-2009. These include real estate sale and moving services, promissory note programs and other incentives, such as apartment upgrades or service fees waivers for the first month or two of residency. Additionally, the IL lifestyle is a significant draw of the LPC product, and there is a practical time constraint on decisions to move into an LPC before health issues may disqualify prospective residents from IL.

Fitch: Improved Medians Prep U.S. NFP Children's Hospitals for Inflationary Pain

Fitch Ratings-Austin-11 October 2022: U.S. NFP children's hospitals staged a remarkable comeback following a challenging pandemic environment and are now bracing for a different kind of pain in the coming months, according to Fitch Ratings in its latest annual medians report for the sector.

2022 medians (using audited 2021 data) showed a 31% increase in cash to adjusted debt to 325% for the 23 children's hospitals reviewed for Fitch's report. That said, balance sheet metrics will be under pressure over the next year and possibly beyond, according to Director Richard Park. Like the broader NFP hospital sector, the biggest impediment will be labor.

"Children's hospitals have not been immune to the staffing shortages pressuring the overall healthcare industry," said Park. "That said, children's hospitals generally experience lower turnover levels and have more balance sheet and margin flexibility to recruit and retain staff."

The higher median rating for children's hospitals, compared to adult providers, demonstrates the subsector's robust liquidity, solid operating profitability, unique market positions, strong philanthropic support and highly specialized clinical services. Nonetheless, Fitch expects labor shortages to continue well into 2023 and likely longer in some markets, with high growth markets being better able to mitigate labor issues.

"The pandemic has exposed the sector's need for additional investment and better care models for behavioral health," said Park. "The potential end of the COVID-19 public health emergency declaration will likely lead to significant Medicaid disenrollments, which along with an increasing likelihood of recession further muddies what is already an unpredictable post-pandemic future."

Fitch's "2022 Median Ratios for Not-for-Profit Children's Hospitals" is available at www.fitchratings.com.

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Municipal CUSIP Request Volumes Fall for Third Straight Month in September.

NORWALK, Conn., Oct. 13, 2022 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for September 2022. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly decrease in request volume for new municipal identifiers, while corporate request volume increased.

North American corporate requests totaled 5,174 in September 2022, which is up 2.1% on a monthly basis. September volumes were driven by a 31.9% increase in requests for medium-term notes and a 13.1% increase in requests for short-term certificates of deposit (CDs) identifiers. On a year-ove--year basis CUSIP request volume for short-term CDs is up 215.0%, extending a nine-month growth streak. U.S. corporate equity requests fell 15.1% and U.S. corporate debt requests declined 17.8% this month.

Municipal request volume declined for the third straight month in September. The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 7.7% versus August totals. On a year-over-year basis, overall municipal volumes were down 19.6%. Texas led state-level municipal request volume with a total of 132 new CUSIP requests in September, followed by New York with 114 and California with 65.

“Despite a fair amount of volatility, overall corporate request volumes have increased this year, with year-over-year volume currently up 8% as we head into the fourth quarter,” said Gerard Faulkner, Director of Operations for CGS. “The same cannot be said for the muni market, where we’re seeing a third straight monthly decline in requests for new CUSIP identifiers and a year-over-year decline of 19.6%. It will be interesting to see how these trends are influenced as interest rates continue to rise.”

Requests for international equity CUSIPs fell 0.6% in September while international debt CUSIP requests rose 51.9%. On an annualized basis, international equity CUSIP requests were down 36.9% and international debt CUSIP requests were down 35.9%.

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

Fitch: US Public Pensions Unlikely to Face UK Pension-Style Crisis

Fitch Ratings-New York-14 October 2022: U.S. state and local pensions are unlikely to face the sudden liquidity crisis that U.K. corporate pensions are confronting given their different approaches to valuing liabilities and the resulting differences in investment strategies, Fitch Ratings says. However, U.S. public pension funds' investment return assumptions incentivize higher yielding asset investments, posing the risk of deeper losses in a market downturn.

State and local government pensions discount their liabilities using the same fixed long-term investment return rate that they assume for their assets, whereas U.K. corporate pensions discount their liabilities using variable, market-based rates. To avoid having market rate variability affect U.K. pension liabilities, and thus their parent corporations' balance sheets, U.K. pensions engage in liability-driven investing (LDI) strategies that use leverage, an approach not commonly used by U.S. plans. LDI strategies typically rely on interest rate derivatives that involve long-dated U.K. bonds to match their long-term obligations.

The rapid spike in gilt yields following the U.K.'s 'mini-budget' on Sept. 23 led to sharp declines in the notional value of these interest rate derivatives, requiring collateral calls on U.K. pensions. The scale of the collateral requirements triggered a rapid liquidation of assets as pension funds scrambled to find the necessary cash, creating fears that pension assets intended to support benefits could be at risk or that plans would need liquidity injections from their parent corporations.

The investment return assumption used by U.S. state and local government pensions is a fixed rate, but this presents its own set of risks, most notably incentivizing the search for higher yield, exposing assets to higher volatility. Fitch views this as a central concern for state and local pensions, particularly as investment return assumptions remained unrealistically high, despite incremental decreases during a decade of low inflation and variable returns.

U.S. state and local pensions will see weaker asset performance as higher inflation, geopolitical uncertainty, and higher interest rates are priced into asset values. Fitch's latest Global Economic Outlook anticipates a mild U.S. recession next year, with deeper recessions in some parts of the globe.

U.S. public pension assets are dominated by public equities and alternatives, which constituted 47% and 19% of holdings in 2021, respectively, according to the Public Plan Database, leaving plans vulnerable to sharper swings in value. Fixed income holdings, which have historically produced more stable returns, stood at 21.4% of pension holdings in 2021.

As asset weakness weighs on funded ratios and gets smoothed into funded ratios, it will ultimately put upward pressure on pension contributions. The period since the pandemic began illustrates the asset volatility that plans face. Milliman, the actuarial firm, reports in its Public Pension Funding Index that the ratio of public pension assets to liabilities rose to 85% as of June 2021 from 70.7% a year earlier and fell back to 74% as of June 2022.

While they do not appear to employ derivatives on the scale seen in UK pensions, U.S. state and local plan assets often have direct derivatives exposure, typically used for hedging foreign currency and interest rate risks and reported at fair value. While plans disclosure of asset allocations, derivatives exposure and related risks has improved in recent years, details on allocations vary widely.

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

The US Cities Rebounding the Fastest Are Benefiting From Tourism, Not Business Travel.

- **Revenue per available room lags in commercial metro markets**
- **Leisure travel continues to outperform business travel**

Tourist havens like Orlando and Oahu are seeing more revenue from taxes levied on overnight hotel stays than their counterparts who rely on business-focused travel.

Cities that depend heavily on commercial travel have seen a larger decline in their revenue per available room since the onset of the pandemic, University of Chicago Harris School of Public Policy professor Justin Marlowe and HVS Consultant Tom Hazinski co-wrote in a draft research paper the duo provided to Bloomberg.

For example, Boston, which is considered a commercial city, saw a 70% drop in revenue per available room, compared to leisure-focused Phoenix, which saw a 39% decline. The metric the researchers use is an industry standard to measure the strength of revenues across the lodging market.

Continue reading.

Bloomberg CityLab

By Hadriana Lowenkron and Marvis Gutierrez

October 14, 2022

Between Cornell and Colgate, a Hard Lesson in College Economics.

- **NY's Cazenovia College defaulted on $25 million bond payment**
- **School's struggles are emblematic of strains across higher-ed**

Since 1824, it's sat at a quiet crossroads of American higher education, surrounded by richer, more prestigious institutions like Cornell University and Colgate University.

Now, tiny Cazenovia College, in rural upstate New York, is fast becoming a case study for the financial pressures driving scores of small, not-so-famous colleges to the brink. At a time when even some big, well-known universities are feeling pinched — and the cost and value of a college degree are in question — the long-feared shakeout in American higher-ed finally appears at hand.

Cazenovia, home to ZAC the Wildcat and a 240-acre equine facility, is smack in the middle of it. Three years ago, when it was already struggling with declining enrollment, the college borrowed $25 million in the municipal-bond market, in part to update its campus.

Continue reading.

Bloomberg Markets

By Amanda Albright

October 14, 2022

Bill To Help Expedite Airport Projects Clears Congress.

The U.S. Senate approved a measure to permit the use of Airport Improvement Program (AIP) funds to provide incentives for the early completion of airport projects. Passed by unanimous consent on September 28, the Expedited Delivery of Airport Infrastructure Act of 2021, H.R.468, now heads to the White House for President Joe Biden's signature. Introduced by the House Transportation and Infrastructure Committee and aviation subcommittee Republican leaders Reps. Sam Graves (Missouri) and Garret Graves (Louisiana), respectively, the Airport Infrastructure Act was approved by the House in June 2021.

Under the bill, AIP grants can be awarded to public agencies and other entities to plan, develop, and execute infrastructure projects at public-use airports, such as runways and taxiways, in a timely manner.

"This proven, smart reform is already in use for road and bridge construction, and it's just common sense to make this same incentivization tool available for the construction of aviation infrastructure projects," said Sam Graves. "Delivering airport projects ahead of schedule will save money and essentially provide a similar impact as increasing investment without requiring any additional federal resources."

Garret Graves agreed: "This bill will help change the way we facilitate airport construction. Every day an airport project isn't completed, project costs go up and opportunities for economic activity via tourism and business development are missed."

National Air Transportation Association (NATA) president and CEO Curt Castagna praised the bill saying it will support “critical upkeep and modernization of our airport infrastructure.”

The bill is among a “flurry of legislative activity” that Congress undertook before the break for the midterm elections, NATA noted, including the passage of a continuing resolution to continue funding of the federal government through December 16, as well as House passage of the National Center for the Advancement of Aviation Act of 2022, H.R. 3482, to establish a federally chartered, private center to support the aviation workforce.

ainonline.com

by Kerry Lynch

October 3, 2022

The Infrastructure Law: ‘Hitting Timelines Without Cutting Corners’

Biden administration officials are pushing for projects to move quickly, while also meeting goals like benefiting disadvantaged neighborhoods and strengthening the nation’s workforce.

State and local officials can build ambitious projects paid for with the federal government’s $1.2 trillion infrastructure law while containing costs, keeping on schedule and delivering other benefits to the public, Biden administration officials assured industry experts Thursday.

Transportation Secretary Pete Buttigieg and several other administration officials hosted the White House event, sharing ways to keep projects “on time, on task and on budget.”

But federal officials, along with state and city leaders, also stressed that they could accomplish those tasks while training new workers, empowering people in disadvantaged neighborhoods, improving safety and consulting with the public about the design of projects before moving any dirt.

Continue reading.

Route Fifty

By Daniel C. Vock

OCTOBER 13, 2022

As Warehouses Multiply, Some Cities Say: Enough

Several municipalities in California’s Inland Empire have halted new projects to study their impact on pollution and congestion, but labor and business groups have warned that moratoriums could cost the region tax revenue and jobs.

From the front yard of her ranch-style home, Pam Lemos peered out on the vast valley of her childhood.

She can still picture the way it looked back in the 1980s — citrus groves blanketing hillsides, dairy farms stretching for acres and horses grazing under a bright blue sky. These days, when she looks toward the horizon, she mainly sees the metal roofs of hulking warehouses.

“Now it’s all industrial,” said Ms. Lemos, 55, who has lived in Colton, 60 miles east of Los Angeles, her entire life. “We are working to change that and starting with these warehouses.”

Continue reading.

The New York Times

By Kurtis Lee

Oct. 10, 2022

Muni Market Is Worrying About Credit Again.

The number of ratings sought by state and local government borrowers is creeping upward after falling steadily since the financial crisis, a sign that credit concerns are creeping back into the $4 trillion municipal market.

The percentage of debt issued without an opinion from a credit ratings firm fell to 6.8% in 2022 from 9.7% last year, according to Municipal Market Analytics data. Meanwhile, there were increases of about two percentage points in the shares of debt issued with two and three ratings.

Borrowers typically shell out for additional ratings when they believe the extra reassurance will enable them to raise money as they plan.

Credit concerns had abated over the past two years as cash from tax collections and stimulus payments filled state and local government coffers. Investors fretted instead about how rising yields were driving down the market value of their bonds.

Rates are still rising, with benchmark 10-year triple-A munis yielding 3.15% Thursday afternoon, up from 3.11% Wednesday, according to Refinitiv MMD, after Labor Department data showed one measure of inflation has reached a four-decade high. Now investors are worried about repayment trouble too.

The Wall Street Journal

By Heather Gillers

Oct 14, 2022

How Rate Volatility Is Impacting the Muni Market.

Appleton Partners Senior Vice President Whitney Fitts discusses how inflation is impacting the municipal bond market. She spoke with Taylor Riggs on the Oct. 12 episode of “Bloomberg Markets: The Close.”

[Watch video.]

Bloomberg Markets: The Close

October 13th, 2022, 11:14 AM PDT

[Public-Private Partnerships: A Muni Bond Investor's Guide]

Also known as P3s, these entities are used to finance projects such as bridge construction, airport expansion, and toll roads.

A public-private partnership (P3) is generally an arrangement between a government agency and a private corporation that finances a large infrastructure project. P3 projects have come in many shapes and sizes, and in a wide array of sectors such as student housing, toll roads, airport terminals, water & sewer, and city street lighting.

Although P3s are less common in the United States than in the rest of the world, the recent passage of the Infrastructure Investment and Jobs Act provides some incentives for local governments to pursue P3s.1 There may be increasing issuance of P3 bonds that would offer an opportunity for tax-exempt bond investors to finance infrastructure projects and be compensated for the construction and operating risk.

P3 bond deals are typically structured in two categories: revenue risk or availability risk. With revenue-risk projects, after construction, an investor would be paid from the net revenues of the project after operating expenses. So, for example, if the project is a toll road, investors would be taking on the operating risk of that toll road. Revenues would not only need to cover operating and maintenance costs, but also the debt service owed to investors. The P3 operator would then be paid from excess revenue. The I-95 Express Lanes in Virginia are an example of this type of project.

Availability-risk projects are different in that bondholders do not take on the risk of the project generating revenue but instead take on the risk of the assets being utilized properly. A good example of this would be Denver Transit Partners, a joint venture that built three commuter rail lines in the Denver area. The P3 is paid by the authorizer, Regional Transportation District, a Colorado state entity, based on the performance metrics of the rail lines and rail cars. These projects incentivize the private operator to keep the lines and railcars in good condition to maximize compensation.

In all cases, construction risk is passed on to the private entity. This is done typically via a fixed-price, design-build contract that keeps the construction costs to a minimum. Given their lack of expertise with certain types of infrastructure projects, municipalities are incentivized to use P3s to create public savings overall on projects, as well as better consumer experiences. Having an experienced builder and operator is an important investment factor to consider for the success of P3 projects.

Major P3 Projects

Large urban areas have typically favored P3 projects. The New York City area has multiple such projects, with the Port Authority of New York and New Jersey being an early adopter of P3 structures in the United States.

One example is the Goethals Bridge. The Port Authority of New York and New Jersey made an agreement with the developer, a joint venture between Macquarie and Kiewit Developments called NYNJ Link that built a replacement bridge for the Goethals Bridge, which was first opened in 1928. The project was successfully built in 2018, and although it was completed behind schedule, bondholder payments continued to flow during construction, and now, in the operating phase of the concession agreement. Goethals is considered an availability-payment P3 as the Port Authority takes on revenue risk, while NYNJ Link is required to maintain the availability of the bridge.

Other Port Authority P3s include airport terminal projects at LaGuardia and JFK. LaGuardia Airport issued bonds in 2016 to construct a new Terminal B and demolish the old terminal. Construction was completed in July 2022. Revenue for the bonds will be paid from lease payments from airlines including American Airlines, Southwest Airlines, and United Airlines. JFK Terminal 4 issued bonds earlier this year to add gates, construct new lounges, and upgrade self-check-in and flight-info display systems. Delta Air Lines, which is responsible for most of the construction, plans to consolidate all its gates at Terminal 4. Delta lease payments would provide cash flow for debt service payments. For airports in New York, there is strong demand for a finite number of gates. The gates could be easily leased to other parties if any airline is unable to pay its lease.

A Final Word

P3 bond projects typically carry more risk than a standard municipality since they aren't backed by a tax base or a wide array of projects. Instead, they have project-specific risk, and it is quite typical for rating agencies to give low investment-grade ratings to the projects initially. This could make P3 bond investments more attractive for investors seeking elevated tax-free income. For example, Goethals was originally issued at BBB- by both Fitch and S&P but has been upgraded to A- and BBB+ over time as construction risk subsided. Municipal bond investment teams with advanced credit research capabilities may be best positioned to identify those P3 credits with the potential to strengthen their credit profiles.

1https://bipartisanpolicy.org/blog/five-reasons-public-private-partnerships-could-see-bi--growth-under-the-bipartisan-infrastructure-bill/

By Derek A. Gabrish, Wells Chen

October 10, 2022

lordabbet.com

[The Time Is Now For Muni CEFs.]

A bargain hunter's dream. That could be the best way to describe the current fixed income market. Yes, the Fed has been raising rates and that has sent many varieties of bonds and securities lower as yields readjust to the current rate environment. But in that readjustment, some fixed income securities have now been reset to more historical norms when it comes to yields and pricing. A few, perhaps, have even moved into bargain territory when considering their other benefits.

In this case, we are talking about municipal bond closed-end funds (CEFs).

By combining the tax-free nature of munis with the power of already buying at discount/higher yields of a CEF, investors are looking at a very interesting package. And it could see serious benefits down the road.

CEFs & Munis: A Match Made in Heaven

With exchange traded funds (ETFs) taking the world by storm, a variety of other investment vehicles have been placed on the backburner. One of them continues to be the humble closed-end fund (CEF). CEFs are a throwback to the early days of investing, with the fund type being older than mutual funds. Some of the earliest days of the CEF date back to the beginning of the 1900s.

These quirky investment vehicles blend mutual funds and ETFs into one asset class. CEFs trade on major exchanges just like ETFs and can be bought/sold throughout the day. However, the kicker is that, unlike an ETF, their value is dictated by supply/demand. They have a fixed number of issued shares, so it is the whims of investors that determine how much people pay for a share of the CEF. That means they can and often trade at discounts to their underlying net asset values. For example, investors can buy one dollar worth of assets for 80 cents or so.

Because they trade on an exchange, managers of the funds do not have to worry about redemptions or money flowing out of the fund. Therefore, they can buy long-term or more illiquid asset classes. This fact has made them a haven for certain kinds of fixed income securities—in this case, municipal bonds.

Muni bonds generally have long-term timelines until maturity. By placing it in a CEF, managers can hold the bond until it comes due without having to worry about selling bonds—potentially at a loss—to meet investor redemptions. The added bonus is that CEFs are allowed to use some leverage to boost their returns. This provides higher yields than a mutual fund or ETF. Because of muni's tax-free nature, when placed in a CEF, this can provide tax-advantage yield north of 5 to 7%.

An Interesting Time to Buy

Currently, this match made in heaven has a lot of appeal for investors. Thanks to the Fed's monetary policy of raising rates, many fixed income securities have begun to drop. Bonds have an inverse relationship with rates. The longer the maturity of the bond, the bigger the drop. And munis have been hit hard.

For the first half of the year, muni bonds posted one of the worst drawdowns in history. According to Bloomberg data, the sector is on track to post a loss of 9.5%, the worst year since 1981. However, in recent months, the pain has begun to stabilize. So-called yield tourists are now gone and more serious long-term investors—like insurance companies, pension funds, and high,net,worth investors—have begun buying.

The reason for buying?

Munis currently offer tax-evident yields north of 5%. That's currently higher than any other bond category, even Treasuries. That tax-equivalent yield is particularly attractive considering the stability and financial backing of these bonds. Why buy a junk bond issued by a tech startup and get a lower yield, when you could buy a muni issued by a state with the ability to raise taxes to keep interest payments going.

Moreover, the long-term tax-benefits could be greatly underestimated by the markets. The Biden Administration has made higher taxes for high-income earners a cornerstone of his fiscal policy. While it remains to be seen if those tax hikes come true, the potential is there. And that could make munis very much in demand for the long haul.

Considering all of this, CEFs holding munis may be the best bet for investors. Thanks to the sell-off, muni bonds have already been discounted by the market as evident by their sky-high yields. The win is that the average muni CEF is now trading at discounts to NAV not seen since the Great Recession. For example, the Nuveen Municipal Value Fund (NUV) —which is one of the largest CEFs in the sector—can be had for a 5% discount to its NAV. Meanwhile, the $1.16 billion BlackRock MuniHoldings California Quality Fund (MUC) can be had for a nearly 9% discount to NAV. And they are not alone in their big discounts to their underlying values.

Buying Some Muni CEFs

Given the high yields, major tax benefits, and the huge discounts available on their shares, investors may want to consider adding muni closed-end funds to their income portfolios. Just like ETFs and mutual funds, there are a variety of CEFs to choose from. Investors in high tax states like New York or California may want to choose state-specific funds to save even more on taxes. Others focus on 'values' within the sector. The key may be to buy a few different funds to meet income objectives.

The thing to focus on is buying at a discount and making sure the fund has decent volume/using limit orders for purchases. This will ensure you're actually getting the best price and that the fund won't merge away, something that happens to many CEFs when assets/volume are low.

The Bottom Line

Munis are offering a huge opportunity right now and closed-end funds remain the best way to access that prospect.

dividend.com

by Aaron Levitt

Oct 12, 2022

Bond Expert Warns Cities of Potential Financial Decline.

As costs rise, the economy slows and federal grants decline, Tom Kozlik warns that cities, including Philadelphia, may have to adjust the way they manage their finances to prepare for tough times ahead.

(TNS) — With low interest rates, a growing U.S. economy, and all the federal money Washington sent local governments during the late pandemic, the past few years have marked a "Golden Age of public finance" for Philadelphia and other big cities, says Tom Kozlik, who's been raising money for cities since he started as a financial analyst for city agencies under Mayor Ed Rendell.

But conditions are changing in a hurry. Costs are rising fast, the economy is slowing, federal grants are down. Cities will have to adjust the way they tax, borrow, and spend quickly, or brace for tough times in the near future, he warned city officials and investors who buy the bonds communities use to fund buildings and other long-term projects, on a recent trip home.

After leaving City Hall at the end of the 1990s, Kozlik worked in municipal finance on Wall Street until Bear Stearns blew up. He moved back here as municipal-bond managing director at Janney Capital Markets and PNC, then to Texas in 2019 as head of municipal research and analytics at HilltopSecurities, which competes with Philadelphia-based PFM as an adviser to local governments raising cash.

He’s often quoted in national media — and has lately had to throw much of his past advice out the window, as interest rates rise faster than most municipal-finance pros have ever seen, he told members of the Philadelphia Area Municipal Analyst Society (PhAMAS) recently.

The years of cheap borrowing are over: Higher rates have forced cities, like other bond issuers, to promise investors far higher bond yields to get them to buy municipal bonds. The more money spent on debt service, the less is available to pay staff and other daily bills.

It’s not just that money is getting more expensive. The pandemic chased office workers out of downtown towers, and fewer commuters are spending money or paying taxes. The federal money that eased the pandemic during mass shutdowns is drying up, and it’s not clear that a recession will convince a divided Congress to spend a lot more.

“Things aren’t going back. This is normal,” and cities should plan to cut costs or find new revenues fast, Kozlik concluded.

Here are Kozlik’s observations on threats to city finance, many of which fell on his audience like a door slamming shut:

Scared borrowers. As recently as last spring, Kozlik and other analysts were predicting municipalities would borrow a record $500 billion this year by selling bonds to pension funds and other investors. But as interest rates have spiked, cities have been delaying commitments to long-term funding, and bond sales are unlikely to reach $400 billion, this year, or next, either. That translates into fewer jobs and business contracts, and a slower economy.

Rising interest rates. Pension funding, which has cost Philadelphia more than law enforcement in recent years, is no longer Wall Street’s main worry about local governments. Even though public pensions have been drained by the financial markets’ fall and many are badly underfunded, a recent survey shows analysts are even more concerned about rising interest rates and prices, the shrinking U.S. labor force, and divisive politics that prevents decisive policy, as causes for concern that cities will go broke.

Empty offices. Workers aren’t returning to office centers, including Philadelphia’s Center City. Nationally, restaurants, air travel, and apartment rentals have recovered, post-pandemic, but only half of workers have returned to office locations; in Philadelphia and San Francisco, it’s more like 40 percent.

Lower revenue. With offices shutting, property valuations and taxes are heading down, too.

Crime. Polls show Americans are more worried about crime, and less confident police will protect them.

Construction challenges. Labor and material shortages and cost increases have crimped construction to the point where, even if the federal government resumes billions in funding to cities, city managers have told Kozlik they would have a hard time spending it on projects in the near future.

Politics. Politicization of public policy, which has stalled Congress on immigration and other key issues since the 1980s, has been spreading among state and local governments. States like Texas are banning East Coast investment banks that have adopted anti-oil and anti-gun policies; in California, activists are pressing to punish banks that finance fossil fuels and weapons makers. What that means, in practical terms, is fewer banks available to sell public debt in those restrictive states, and, therefore, higher borrowing costs for taxpayers.

“The speed and magnitude of change, and the number of variables that are evolving is not being recognized by most people,” Kozlik said later in summary. “Most people across various industries are reacting to one or two changes in the landscape. Very few recognize the major transformation going on across the board with labor, technology, education, demographics, and politics.”

The Philadelphia Inquirer

by Joseph N. DiStefano

Oct. 6, 2022

Muni Borrowing Stays Strong as Local Governments Build More, Refinance Less.

Municipal borrowing for new projects has reached a 10-year high so far in 2022 while refinancing has fallen to a 10-year low.

State and local governments sold a total of $292 billion in muni bonds through Sept. 30, above the ten-year average of $281 billion, according to data from Refinitiv. About $234 billion of the debt this year was tax-exempt, exactly the ten-year average.

Flush with cash from last year’s tax revenues and Covid-19 stimulus payments, cities and school districts are digging sewers and building high schools despite higher borrowing costs. Municipal bond issuance for new projects rose to $238 billion in the first nine months of the year up from $227 billion for the same period in 2021.

Refinancing deals have fallen by roughly half from last year to $55 billion, however, as rising rates make the math unappealing. A benchmark ten-year triple-A bond carries a yield of 3.24% as of Oct. 3, compared to 1.14% a year earlier, according to Refinitiv MMD.

The Wall Street Journal

By Heather Gillers

Oct 4, 2022

S&P: U.S. Pension Obligation Bond Issuance Recedes In 2022 As Interest Rates Rise

Key Takeaways

- We project 2022 pension obligation bond issuances will decrease 60% year over year.
- Persistently higher interest rates are a driving factor as perceived profit opportunities fade. Continued pension obligation bond issuance is primarily due to issuers’ desire to control contribution volatility and escalation.
- Recent issuances face a steep climb to recover because fiscal 2022 market returns fell far short of

expectations, and this could lead to pension contribution increases and pressured budgets.

Continue reading.

10 Oct, 2022

Hurricane Ian: What Comes Next For Government And Related Credits In The Storm's Broad Path?

Key Takeaways

- It is too soon to determine how Hurricane Ian will affect the credit quality of issuers that suffered storm damage, but we will continue to monitor impacts as cleanup and rebuilding progress.
- Issuers with cash on hand to cover initial cleanup costs and advanced planning practices for emergency events tend to fare best in the aftermath of major storms. FEMA reimbursements are also an important part of rebuilding.
- Historically, many communities hit by storms see a temporary bump in sales taxes during rebuilding. While this provides revenue enhancement during a challenging time, rebuilding generally replaces what was lost rather than creating net growth in the economy.
- Florida's vast coastline makes it is especially susceptible to weather disasters. Over time, the impact of these major storms could influence the growth and stability of local governments and other issuers.

Continue reading.

3 Oct, 2022

Fitch: US Public Finance Credits Largely Able to Withstand Hurricane Ian Effects

Fitch Ratings-New York-03 October 2022: The ratings of US public finance issuers affected by Hurricane Ian will largely remain stable, although the credit quality of some issuers with lesser resources and financial flexibility could weaken, says Fitch Ratings. While the full extent of property damage in Florida, Georgia and the Carolinas will not be known for weeks, Fitch is monitoring a range of US public finance credits in the wake of Hurricane Ian, one of the largest storms to hit the US.

Private insurance and federal and state relief funds will support rebuilding and drive post-disaster economic activity. However, we expect a slower pace of recovery compared with previous hurricanes due to the greater numbers of uninsured homeowners and businesses as a result of the higher cost of insurance coverage/policy non-renewals, tight labor market conditions, inflationary pressures and supply chain issues.

We expect local government ratings in Florida affected by Hurricane Ian to remain stable as most of Fitch's rated municipalities have a high degree of fiscal resilience and robust reserves to manage storm expenses as they await reimbursement from federal and state disaster aid programs. Certain issuers in southwest Florida will be more challenged as recovery costs could weaken reserves, and extensive property damage could lead to higher property tax delinquencies, ultimately lowering tax base values. Fitch expects rebuilding to occur due to the historical desirability of the region, but building code compliance and increased insurance costs could slow the recovery.

Homeowner insurance coverage, or lack thereof, may play a greater role in community recovery than in prior hurricanes. Blanket homeowner policies do not cover flood damage, and many homeowners do not carry flood insurance. With increasing hurricane risk, property insurers have left the Florida market, and remaining insurers have raised premiums or are not renewing policies as they expire.

Tax base growth in high-risk areas could be tempered if hurricane damage leads to permanent relocations or if homeowners and businesses decide not rebuild with exorbitant insurance costs or insurance unavailability. Homeowners and businesses may obtain insurance from Florida's state-owned Citizens Property Insurance Corporation (AA/Stable) as an insurer of last resort.

Both Citizens and the Florida Hurricane Catastrophe Fund (AA/Stable), the state-sponsored reinsurer, have ample liquidity to address initial claims or reimbursements. They can also issue debt and levy emergency assessments on nearly every property and casualty insurance policy in the state for as long as debt is outstanding to cover what is expected to be significant claims volume. However, the potential for significant leverage on the assessed base could weigh on residents and businesses.

While we are still assessing our rated not-for-profit hospital and life plan community (LPC) exposure, it appears that facilities in the hurricane zone have generally avoided significant damage. Nevertheless, we expect some business disruption with any necessary clean up or repair efforts. Hospitals and LPCs will benefit from Federal Emergency Management Agency aid and business interruption insurance, although receipt of these funds could take time.

Hospitals and LPCs in hurricane-prone areas are generally built to withstand storms and most are located back from the shoreline to mitigate flood risk. Affected hospitals or LPCs may need to temporarily evacuate all or a subset of residents until damage from the storm can be addressed. Fitch has observed that in prior storms, independent living residents continued to pay their LPC fees and LPCs were eventually able to resume normal operations, even in communities that sustained significant flood damage.

Of the over 50 Fitch-rated water and sewer utilities in Florida, most should be able to absorb initial storm costs due to generally well-maintained systems, comprehensive emergency planning and robust liquidity. Florida credits in particular often have additional emergency reserves. However, storm surges and flooding can often overwhelm systems resulting in sewer overflows, which could result in water quality issues, and the full impact on utilities is still being assessed.

Fitch: US Transportation Infrastructure Resilient Following Hurricane Ian

Fitch Ratings-New York/Austin-06 October 2022: Damage from Hurricane Ian on Fitch-rated toll roads, ports and airports is expected to be minimal and short-lived, Fitch Ratings says. None of the Fitch-rated transportation credits sustained long-term damage to facilities and nearly all opened shortly after the storm left. Projects have strong cash reserves to manage any short-term cost spikes and revenues will see little disruption, with key financial metrics unaffected. Fitch will monitor operations and traffic volume for any indications of hurricane disruptions affecting usage.

None of the toll roads we rate suffered material damage, although in some cases, such as the Florida Turnpike, sections of road remain closed due to flooding. Tolls remain temporarily suspended on Alligator Alley, the Central Florida Expressway, Florida's Turnpike in the Orlando and Tampa regions, the Osceola Parkway and the Sunshine Skyway. Mid-Bay Bridge tolls have been reinstated. Toll suspensions due to hurricanes is typical for Florida, potentially occurring a few days a year, but historically this has had a negligible effect on toll road revenues. The Miami-Dade Expressway and Rickenbacker Causeway were not in the path of the storm.

Fitch-rated Florida airports have reopened, with the exception of the Lee County/Southwest Florida International Airport (RSW), which is awaiting the restoration of potable water but does not appear to have structural damage. RSW opened with limited service on Oct. 5, but the resumption of full operations may take more time given potential staffing or materials/stock shortages. Tampa International Airport was closed for almost three days but did not sustain any serious damage during the storm. Myrtle Beach International Airport remained open, but the majority of flights on Friday were cancelled. Similarly, other rated airports in Georgia, Virginia and the Carolinas did not suffer any material disruptions or closures.

The three Fitch-rated ports nearest to Hurricane Ian's path, Port Tampa Bay, Port Canaveral and Jacksonville Port, reopened to maritime traffic and resumed cruise operations on Oct. 1. These ports did not report any significant structural damage and operations have resumed or will resume later this week. With the reopenings, several cruise ships that had been at sea have returned to port and disembarked passengers. Schedule changes related to the hurricane may delay the return to normal operations.

The potential for additional severe storms in the remaining months of the hurricane season means that transportation facilities are still vulnerable, though these assets are built to largely withstand weather-related risks. Transportation assets in Florida have historically demonstrated quick recoveries following hurricanes as they have cash reserves to apply toward repairs while they await insurance reimbursement and Federal Emergency Management Agency assistance. Previously, the return to normal volumes has occurred within weeks. However, large-scale damage would be more disruptive and could negatively affect credit profiles.

U.S. DOT Expands Financing Program to Move Infrastructure Projects Forward.

The U.S. Department of Transportation's (DOT) Build America Bureau will offer low-cost, flexible financing for transit and Transit-oriented Development (TOD) projects at the maximum level allowable, U.S. Transportation Secretary Pete Buttigieg said Tuesday.

The new initiative "TIFIA 49" – part of the DOT's Transportation Infrastructure Finance and Innovation Act (TIFIA) program – would authorize the borrowing of up to 49 percent of eligible project costs for projects that meet certain eligibility requirements. Previously, TIFIA loans have been capped at 33 percent of eligible project costs.

"There are countless promising transportation projects with the potential to better connect people to housing, jobs, schools, and more, but that never get off the ground because of a lack of financing," U.S. Transportation Secretary Pete Buttigieg said. "The Department of Transportation has long offered flexible, low-cost financing to help bring some of those ideas to life, and now, with TIFIA 49, we'll be able to support more of them than ever, and lower costs for taxpayers."

Projects eligible to apply for the TIFIA 49 loans include transit projects that construct or improve public transportation systems; and transit-oriented development that involves coordinating the improvement of transit infrastructure and non-transit facilities.

Until now, the only projects eligible for financing up to 49 percent of the project costs were rural projects, as well as INFRA, Mega and Rural Grant "Extra" projects – highly-rated projects not granted discretionary funds due to limited resources.

"With its significant lending capacity, USDOT can play an integral role in supporting projects that make our transportation system more accessible, resilient and sustainable," Build America Bureau Executive Director Morteza Farajian said. "The Bureau team is ready to partner with project sponsors on effective and efficient concepts, provide technical assistance on innovative approaches, and support them through the loan approval process."

BY LIZ CAREY | OCTOBER 6, 2022

What Can the World Learn From 100 Resilient Cities?

The splashy initiative was meant to help urban areas cope with climate change. When it went under in 2019, its members got an unexpected lesson in resilience.

Before it was abruptly shuttered in August 2019, the nonprofit 100 Resilient Cities (or 100RC) had helped turn "urban resilience" — broadly defined as a city's ability to survive, adapt and grow in the face of stresses — into a global movement. Launched just six years earlier with funding from the Rockefeller Foundation, it was one of the largest initiatives to help cities cope with intensifying climate disasters and other emergencies, and to tackle the chronic challenges that stand in their way.

The nonprofit supported municipal efforts to hire chief resilience officers, provided grants and technical assistance, and — crucially — offered a forum in which its 100 member cities could share ideas and best practices.

By several measures, the program was making progress. So when Rockefeller's president pulled its funding — which had amounted to $164 million by April 2019 — citing a "a shift in the foundation's focus to delivering measurable results for vulnerable people," cities were left wondering how they would continue and what would become of the movement.

Continue reading.

Bloomberg CityLab

By Linda Poon

October 6, 2022 at 7:34 AM PDT

How Cryptocurrency Could Help to 'Crowdfund' Public Projects.

The idea of leaning on the emerging technology to issue municipal bonds in small

denominations has the potential to benefit governments and investors alike. But can the muni market adapt?

Welcome back to *Route Fifty's* Public Finance Update! I'm Liz Farmer and this week I'm writing about the use of blockchain technology in the municipal bond market. Ever since the mid-2010s when blockchain and cryptocurrency really started catching on, people have been talking about the implications for government debt issuance. These include the possibility of local governments "crowdfunding" smaller and medium projects, like parks upgrades, by giving people a chance to buy municipal debt in amounts under $100, rather than the $5,000 floor that is the current standard.

The idea of "democratizing" the municipal market—i.e., making it more accessible to regular folks—has pretty wide appeal. In fact, in late 2021, the city of Berkeley announced it was set to become one of the first cities in the nation to incorporate blockchain technology in its bond offerings. Very exciting, except for one small thing: for years now, headlines have been saying the city is poised to issue "microbonds." I even wrote a feature article in 2018, saying that later that year, Berkeley expected to pilot its microbonds idea by issuing them to buy a firetruck.

But, it turns out, fundamentally changing muni bond issuance takes a while. It begs the question, is drastically altering access to the municipal market—which has historically been pretty resistant to change—even possible?

Continue reading.

Route Fifty

By Liz Farmer

OCTOBER 4, 2022

Green Bonds Defy September Sales Slowdown to Hit Four-Month High.

- **BofA's Andrew Karp says issuers capitalizing on strong demand**
- **Global sales of social and sustainability-linked debt fell**

Global sales of green bonds, the largest category of sustainable debt by amount issued, rose for a second straight month in September to the highest since May, even as heightened volatility roiled the broader market.

Companies and governments around the world raised more than $54 billion in green bonds last month, compared with more than $35 billion raised in August, data compiled by Bloomberg show. That's despite overall bond issuance in the US and Europe dropping significantly in September as central banks across the globe stepped up their battle against inflation.

Concerns that an overtightening by the Federal Reserve could tip the economy into a recession sent risk assets in a tailspin last month, making it harder to sell new bonds. The number of postponed deals jumped to at least 10 last month — the highest since June — from just one in August, according to data compiled by Bloomberg. In the US investment-grade market, sales missed estimates by 47% and top underwriters for the debt expect $75 billion in new bond sales in October.

Continue reading.

Bloomberg Green

By David Caleb Mutua

October 4, 2022

The Muni Market Enters Q4 (Bloomberg Audio)

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

Listen to audio.

Bloomberg

Oct 07, 2022

Short-Term Munis Are Paying Highest Yields Since December 2007.

- **One-year muni yields topped 3% last week, highest since 2007**
- **Flat curve reduces benefit to investors of investing longer**

The last time one-year municipal bond yields were this high, Alicia Keys was at the top of the Billboard charts, the New England Patriots were on their way to a perfect regular season and George W. Bush was president.

The Federal Reserve's campaign to stamp out inflation has driven yields on top-rated one-year munis to around 3%, close to the highest since December 2007, and investors should take notice, according to Western Asset Management Co.

Not only are absolute yields close to 15-year highs, the muni yield curve is relatively flat, meaning investors on the short-end can reap the benefits of higher-yields without taking much duration risk. Investors buying longer-maturity debt have to deal with bigger price swings if the central bank keeps raising rates and the yield curve moves higher.

Continue reading.

Bloomberg

By Martin Z Braun

October 7, 2022

Muni Bonds Rally for Three Straight Days in Rare 2022 Reprieve.

- **Yields on muni bonds slip for third day amid risk-on mood**

- **Goldman Sachs sees 'pleasant interruption' in painful year**

After months of anguish, municipal bond investors are finally seeing a moment of reprieve.

State- and local-government debt extended a rally Tuesday, with 30-year maturities heading for their biggest one-day gain since June as traders weighed the odds the Federal Reserve will moderate the pace of its policy tightening. Yields on the municipal bonds tumbled as much as 7 basis points Tuesday, according to data compiled by Bloomberg, with a key index fresh off its biggest jump in three months.

"The market feels firm," said Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management LP, though she warned that the rally "feels more like a pleasant interruption" than a trend.

While she said demand for bonds has picked up and new issue supply is unusually light for October, there are still signs that Fed officials will overlook economic softness in their fight against inflation.

It's a question being asked across global markets, which have rallied this week amid speculation that central banks could moderate their hawkish stance to prevent a hard landing. The S&P 500 Index is on course for its best two-day surge since April 2020, while yields on 10-year Treasuries edged lower after falling nearly 20 basis points on Monday.

For municipals, though, it's a "fake rally" driven by a lack of new bond sales, said Vikram Rai, the head of Citigroup Inc.'s municipal-bond strategy group. "We will only see a legitimate rally when the rate market stabilizes and when mutual funds have cash to put to work."

Municipal bonds have lost nearly 12% in 2022, on track for the worst yearly performance since at least the 1980s, driven by the Fed's aggressive rate hikes. Yields on benchmark 10-year municipal bonds had jumped as high as 3.24% in late September, the highest since early 2011 — and more than 200 basis points from where they started the year.

'Attractive Levels'

"Municipal bond yields have reached attractive levels with strong credit fundamentals right now," said Dan Solender, head of municipals at Lord Abbett & Co. "A lot of investors have interest but just want to see stability in rates, which might be finally happening."

Dennis Derby, a portfolio manager at Allspring Global Investments LLC, said the rally would need to be sustained to reverse the mutual-fund outflows that have persisted for much of 2022. Investors yanked about $3.6 billion from municipal-bond mutual funds during the week ended Sept. 28, the eighth straight week of withdrawals, according to Refinitiv Lipper data.

"While there is still apprehension in the space, we are certainly seeing more client interest in moving into the asset class," he said.

Bloomberg

By Danielle Moran

October 4, 2022

— With assistance by Mackenzie Hawkins

Buy Short-Term Quality Bonds as Stocks Fall, Pimco's Browne Says.

- **Prepare for the S&P 500 to drop 10% more by the end of 2022**
- **Treasuries, investment-grade and muni bonds are safe havens**

Investors can make money owning short-term high-quality bonds as a refuge from stocks, which are likely to keep falling, according Erin Browne, a portfolio manager at Pacific Investment Management Co.

Two-year Treasuries, investment-grade corporate bonds and tax-advantaged municipal bonds offer higher returns than cash while avoiding the downside that stocks likely still face, Browne, who oversees multi-asset strategies at Pimco, said on Bloomberg Television's Wall Street Week on Friday.

"What we're looking at is fixed-income investments that we think are going to be able to stand the test of time," Browne told host David Westin. "It's a challenging time for investors where you have to skew more toward fixed-income in order to have stability of returns."

Stock and bond prices fell Friday after the Labor Department reported US non-farm payrolls increased 263,000 in September, reinforcing expectations that the Federal Reserve will continue aggressively raising interest rates to cool inflation. For the week, the S&P 500 Index eked out a 1.5% gain. Yields on 2-year Treasuries closed Friday above 4.3% while 10-year bonds ended the week at 3.88%.

Other potentially appealing investments include government-backed mortgage securities and stocks of companies with high cash flow and dividend growth, Browne said. She predicted the S&P 500 — already down 24% so far in 2022 — will drop a further 10% to about 3,250 by year-end.

A better option than bonds for qualified investors is putting money into private equity, real estate and other less liquid markets, Chris Ailman, chief investment officer of the California State Teachers' Retirement System, told Westin.

"It's going to have write-downs but its value is more stable than what we see in the public markets," said Ailman, whose pension funds held $304.9 billion as of Aug. 31.

For average investors, the best advice is to cautiously keep putting money into the market, because it's impossible to call the bottom, according to Ailman.

"You want return of your money rather than return on your money," he said.

Bloomberg Markets

By John Gittelsohn

October 7, 2022

Municipal Markets Continue To Feel The Pressure This Year, Yet Fundamentals Remain Stable.

The municipal bond market has not been immune to bouts of volatility hitting the markets this year, *but there are still pockets of opportunity, according to Franklin Templeton Fixed Income's Director of Municipal Bonds, Ben Barber. He points to improving technical conditions, stable fundamentals and inexpensive valuations that make the asset class look compelling.*

Historic levels of volatility in the municipal (muni) bond market so far this year has caused investor concerns over market conditions. A more hawkish sentiment from the US Federal Reserve has led to higher yields across fixed income sectors, causing many retail investors to reduce their muni holdings in search of shelter from anticipated higher volatility.

As in previous updates, we wanted to provide an outlook and review on three major components of the muni markets that continue to create opportunities for active managers within the muni market, despite the challenging environment.

Technical conditions in the market have improved for tax-exempt investors as the year has progressed, yet outflows of funds from the sector persist. Primary issuance has slowed through the summer. Reinvestment of dividends and refundings have caused increased demand for new bond issuance. The market typically witnesses additional new supply in September and October, which can provide investors with new opportunities to put cash balances to work.

Total net flows of funds were negative in the month of August, driven by a selloff from exchange traded funds (ETFs) toward the end of the period.1 Additionally, mutual funds saw outflows during the month, although to a lesser extent.

- Outflows have been concentrated in longer-duration, investment-grade products. In contrast, there have been positive monthly net flows into intermediate investment-grade products.2

As of the end of August 2022, year-to-date (YTD) total issuance was down 14% relative to 2021. This is primarily due to a 42% decline in taxable muni issuance, as higher interest rates have made taxable refundings uneconomical for most issuers.3 In contrast, tax-exempt issuance is only lower by 5% YTD.4

Fundamentals across the muni market are generally stable. However, there are some sectors, such as certain segments of transportation and health care, that have been affected by operating cost pressures including from labor challenges. We continue to monitor the impact of rising interest rates, inflation, the end of federal COVID-related aid, as well as labor market and wage concerns on muni issuers' financial conditions.

Taking a deeper dive into the market, multifamily housing has traditionally performed well in a rising rate environment. As purchasing single-family homes become less affordable, more households are forced to rent with increasing rental payments. From mid-2006 to mid-2009, the average single-family home price nationwide plummeted nearly 24%.5 Over the same period, the median national rental rates increased 5.6% annually on average.6 However, vacancy rates did not materially increase helping to support property values of multifamily housing units.

Meanwhile, high levels of Inflation and higher wage demands continue to increase labor costs for hospitals and Continued Care Retirement Communities (CCRCs), pressuring operating margins to levels not seen since the height of the pandemic. However, elective surgeries are rebounding, which is providing support to hospital bottom lines.

- Fees from airports, ports, and toll roads are steadily increasing, while public transit systems are still experiencing lulls in ridership. Increased traffic and higher fares due to inflation have benefitted toll roads, airports and ports, which have been performing well.

- Underwhelming farebox revenues from public transit continues to pressure operating margins. Fortunately, many public transit systems have alternative funding streams such as receiving revenue from a portion of state sales taxes.

Security selection will remain critical to relative performance in the current market environment. Historically, our muni bond team has been very active in periods of volatility, and this period is no different. As shifting credit fundamentals begin to cause stress in certain areas of the market, we believe our research and portfolio management teams are well positioned to identify potential winners and losers.

Valuations on the long end of the muni-bond maturity curve remain reasonable to us, while the short end has become relatively expensive compared to earlier in the year.

- The 10-year muni-to-Treasury yield ratio was relatively flat over the month, ending August at 82%, while the 30-year ratio increased to 102%.7
- Muni taxable-equivalent yields remain attractive compared to other options available to retail investors. Considering the lower default characteristics and higher after-tax income, we believe the municipal sector remains a compelling choice for clients seeking risk-adjusted returns.

Given the combination of strong fundamentals, cheaper valuations, and the potential of improved technicals, the Franklin Templeton Municipal Bond team feels that the sector can provide strong risk-adjusted returns moving forward. Our team remains active in the market, finding pockets of opportunity that we think will allow our portfolios to be positioned for a strong recovery.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Because municipal bonds are sensitive to interest rate movements, a municipal bond portfolio’s yield and value will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in an investment portfolio adjust to a rise in interest rates, the portfolio’s value may decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond’s issuer, insurer or guarantor, may affect the bond’s value.

by Ben Barber of Franklin Templeton, 9/27/22

Intensifying Storms Are Fueling a Record $17 Billion Bond Barrage.

- **BlackRock, Citadel Advisors, Pimco have been among buyers**
- **Appeal seen in top ratings, strong backing, attractive yields**

Bonds sold to help US utilities recoup losses from natural disasters are seeing an unprecedented boom, with the latest burst of issuance generated by the deadly February 2021 storm that paralyzed Texas as it struck a large swath of the country.

A record $17 billion of the debt, known as recovery bonds, has been sold this year, with the total likely to soon surpass $20 billion, data compiled by Bloomberg show.

Buy-and-hold investors such as insurers have been key purchasers, and the deals have also drawn money managers including BlackRock Inc., Citadel Advisors LLC and Pimco, according to bond documents seen by Bloomberg.

The deals are landing in a slumping bond market that has left some of the debt sold this year underwater. But investors with a long horizon like the securities for their attractive yields, sterling credit and robust backing: fees that are approved by state legislation and added to customers' bills. For utilities grappling with financial strains triggered by extreme weather, it's a way to reduce the monthly hit they'd need to pass on to ratepayers, by spreading repayment out over decades.

"The state would have to break contract law to make the bonds stop paying out," said Dave Goodson, head of securitized credit at Voya Investment Management, which has bought recovery bonds. "That's a risk we're comfortable taking."

Texas Plan

The next big chunk of issuance is expected from a Texas agency — the Texas Natural Gas Securitization Finance Corp. — which plans to sell about $3.4 billion of taxable municipal debt, in the largest muni offering ever for the state. The proceeds will help bail out utilities that incurred enormous losses from Winter Storm Uri in 2021, when bitter cold crippled Texas's energy infrastructure and power firms faced soaring charges.

Kansas and Missouri are also lining up bonds for that storm, and Oklahoma as soon as next month will wrap up sales totaling more than $2.8 billion for the same event.

The bonds are luring investors with their top ratings and long duration, which suits buyers with liabilities that stretch out for decades.

They also give an appealing amount of extra yield over Treasuries. Take the Oklahoma bonds. Securities offered in August by the Oklahoma Development Finance Authority included debt due in 2052 that yielded about 4.7%, or 135 basis points above Treasuries, data compiled by Bloomberg show. In trades this month, the yield had risen to about 5%.

The spread was fatter than on other debt with top credit. For example, a Microsoft Corp. bond maturing in 2052 traded in late August at around 80 basis points above Treasuries, according to Trace pricing data. Some analysts compare recovery bonds to securitizations. American Express Co. credit-card debt sold in August offered 57 basis points above Treasuries on a top-rated three-year tranche.

'Rock Solid'

"If you want something that's rock solid, where you don't have too much to worry about over long periods, there's really nothing else," said Weili Chen, head of commercial asset-backed securities at Standard Chartered, who formerly analyzed recovery debt at S&P Global Ratings.

"There's the credit protection, there's the absence of political interference, there's the obligation of all ratepayers, and finally there's this superior return over long time periods," he said.

In addition to BlackRock, Citadel Advisors and Pimco, State Farm Insurance Co. and Travelers bought the Oklahoma debt, according to deal documents given to Bloomberg by Bob Anthony, a member of the Oklahoma Corporation Commission, which approved the financing order for the bonds.

BlackRock, Pimco and Citadel declined to comment, as did State Farm and Travelers.

The securities do carry some risk. Moody's Investors Service cited the possibility of a severe drop in the ratepayer base, although it called that a "low probability" threat.

And while the lack of a deep market may help explain the relatively wide spreads, this year's issuance surge may alleviate some of that risk, by expanding secondary trading.

"Greater volume gives investors comfort that this is an asset class that's going to be active for the foreseeable future," said Isaac Sine, a managing director on the public-finance team at JPMorgan Chase & Co., which managed one of the Oklahoma sales.

This year's issuance jolt is about more than Uri. In May, utility PG&E sold a $3.6 billion bond to recover losses caused by the wildfires that devastated California in 2017. Other issuers are planning recovery bonds unrelated to natural disasters. A CenterPoint Energy unit in Indiana, for example, has been seeking a securitization to recoup the costs of retiring a coal plant and invest in renewables.

In a world confronting the threat of climate change, it's a corner of the bond market that may keep expanding.

Bloomberg Markets

By Scott Carpenter

September 28, 2022 at 8:19 AM PDT

— With assistance by Carmen Arroyo, and Charles E Williams

S&P Hurricane Ian: Most Municipal Utility Ratings, Bolstered By Significant Liquidity, Are Expected To Be Unaffected

Initial Assessment Is That No Material Rating Impact Is Likely

S&P Global Ratings rates approximately 70 utility credits in Florida, 31 of which have been affected by Hurricane Ian with main breaks, power outages, and system reliability issues including lack of water and boil notices. As the deadly storm progresses, we will continue to monitor potential impacts in Georgia and the Carolinas.

Since the rebuild and recovery in the hardest hit areas could take months, and some communities may be displaced, substantial liquidity will be necessary to cushion reduced collections and to bridge the period until Federal Emergency Management Agency (FEMA) loans are available. Given the robust liquidity available and sophisticated emergency response, which is assessed in our Operational Management Assessment (OMA), we do not believe near-term rating impact is likely. Our OMA assessment considers the breadth of each credit's resiliency planning, particularly those in coastal or low-lying areas, including whether the utility has prioritized its assets under a range of climate scenarios, and identified or completed potential adaptive measures, such as sea wall construction, pump station hardening, manhole rehabilitation, energy redundancy, and other flood mitigation decisions.

Based on the most recent data available (see table), most of the utilities within the affected portfolio have significant liquidity and prudent OMAs, which includes emergency preparation and response.

None of the credits within the affected area have vulnerable OMA scores or cash positions below five months of operations. The average water/sewer credit in Florida maintains more than 700 days of cash on hand, driven by a recognition that the region has heightened exposure to storm-related risks.

Continue reading.

30 Sep, 2022

Fitch: FACT Shows U.S. NFP LPCs in Recovery, But Challenges Lie Ahead

Fitch Ratings-New York-27 September 2022: Fitch Ratings' medians for U.S. not-for-profit (NFP) life plan communities (LPCs) show a sector that broadly recovered from pandemic-related pressures in 2021, but facing a number of headwinds, according to the latest Fitch Analytical Comparative Tool (FACT) for the sector.

"Fiscal 2021 was a recovery year for LPCs," says Margaret Johnson, Fitch Senior Director and Sector Lead for LPCs. "Performance during the year featured across-the-board improvement in all ratio categories. Liquidity, operating and capital-related metrics all reflected recovery within the LPC sector from the pressures of the coronavirus pandemic, which included higher expenses, lower revenues and pressured cash flows."

"But challenges lie ahead for the sector," says Johnson. "Pandemic-related pressures have evolved from healthcare and demand risk to risks involving expense inflation and staffing shortages." Should these inflationary pressures persist beyond 2022, LPCs may encounter resistance to the substantial rate increases that may be required to offset the added cost pressure, which could pressure operating performance and future demand.

Fitch is also keeping a close eye on potential financial market slowdowns, in particular slowing real estate price growth.

The FACT contains financial data for 158 LPCs that can be benchmarked against peers, medians and self-defined peer groups along with historical statistics and metrics going back to 2017. The report is a follow up to Fitch's 2022 Median Ratios for Not-for-Profit Life Plan Communities that was published Sept. 6.

"Not-for-Profit Life Plan Communities 2022 FACT" is available at 'www.fitchratings.com'.

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[S&P Cyber Risk In A New Era: U.S. Colleges And Universities Go Back To School On Cyber Security Preparedness]

Key Takeaways

- Higher education is among the higher-risk industries for cyber crime due to the vast amounts of personal information used for enrollment, philanthropic support, and medical research.
- Although strong credit quality does not make an institution immune to a cyber intrusion, it can mitigate the credit risk related to a potential cyberattack due to stronger management and governance that employ multiple levels of cyber protection and have greater liquidity to buffer a disruption in operations.
- S&P Global Ratings' views cybersecurity as an aspect of U.S. public finance issuers' comprehensive risk-mitigation strategies. We consider risk management and mitigation a governance factor under environmental, social, and governance (ESG).
- Assessing cyber risk in higher education is part of our ongoing surveillance of all of our private and public college and university ratings.

Continue reading.

29 Sep, 2022

[S&P: Recent Pension Funding Gains For Largest U.S. Cities Are Expected To Be Short-Lived]

Key Takeaways

- Outsized fiscal 2021 investment returns increased funded ratios for the 20 largest U.S. cities, to a median of 78.5% from a median of 71.5%, though much of these funding gains will likely be negated in fiscal 2022.
- Increasing inflation pressures in the near term could lead to less budgetary flexibility for these cities to address rising contributions.
- Available reserve levels might indicate an ability to absorb increasing current and future pension and other postemployment benefits (OPEB) costs.
- Fourteen of the 20 cities met our minimum funding progress (MFP) metric for at least one of their two largest pensions in fiscal 2021, indicating they made meaningful contributions toward achieving full funding for those plans. Fifteen cities achieved at least static funding.

Continue reading.

26 Sep, 2022

[A 'Black Tax' Costs US Cities Millions They Can't Afford.]

Places like Memphis, where schools are crumbling, pay more when they borrow on Wall Street.

Althea Greene walks under exposed pipes and into an auditorium, where the chairs are broken and splintering. Treadwell Middle School, built in 1943, looked pretty shabby when Greene was a student here in Memphis 50 years ago. On this August morning, Greene laments that little, if anything, has changed. “We’re lucky it’s still standing,” she says.

No doubt. That same month, a library’s ceiling collapsed in another Memphis school. It had been built 90 years ago. Greene is touring Treadwell because she’s vice chair of the school board, responsible for the 110,000 Memphis children in Tennessee’s largest school system. At another building she visits later that day, water leaks through the ceiling, seeping under the tiles of a classroom and rendering it unfit for students. Not far away, a burst water pipe overflowed into a high school football field, leaving the team to practice in the mud.

There’s a familiar reason the Memphis-Shelby County schools are in sorry shape: Lacking basics such as air conditioning, locks, intercoms, and outdoor lighting, they face $400 million in deferred maintenance. The system relies partly on local property taxes, and its students tend to come from poor families.

Continue reading.

Bloomberg Markets

By Nic Querolo

September 29, 2022

State and Local Public Finance Offices Face Talent Shortage.

The report, *Meeting Demand for State and Local Public Finance Jobs*, from GFOA and Lightcast, studied the worker shortage for public finance workers at state and local governments. The analysis revealed that demand for state and local public finance workers is far outstripping the incumbent supply and straining familiar talent pipelines.

LEARN MORE

The Crazy Junk-Muni Market Makes More Sense Than Ever.

There will always be risky projects looking for money, but today’s investors are better equipped to handle losses.

When I hear complaints about some of the riskier municipal bond deals in the market today, I think back to my “map talk” in 1999.

I was the lunchtime speaker at the National Federation of Municipal Analysts advanced seminar on high-yield bonds in Santa Monica, Calif. Without any props or projections, I took the roomful of bankers, analysts, and investors on a virtual tour of many of the interesting—even fabulous—transactions I’d written about in *Grant’s Municipal Bond Observer* over the previous few years.

We visited a de-inker (which recycles old newspaper into new rolls of paper) in Massachusetts and a 1938 vintage aquarium in Florida. We stopped in Alabama to see VisionLand, a water theme park showcasing the history of Birmingham's steel-smelting business, then took a side trip to a nearby recycler of dead poultry (the backers used the term "broiler mortality") into chicken feed. Then we went to a museum, the Great Platte River Road Memorial Archway, which the backers expected "virtually every Nebraska resident [to] eventually visit in his or her lifetime." We saw a series of golf course housing developments in the California desert. And much more.

Continue reading.

Bloomberg Markets

by Joe Mysak

September 30, 2022

Muni-Bond Sales Collapse 40% in September as Issuance Slumps.

- **State and local debt sales set to fall about 40% in September**
- **Bank of America cuts 2022 issuance forecast to $420 billion**

Municipal-bond investors aren't the only ones getting hurt by the bear market. Cities and Wall Street bankers alike are also feeling the pinch as the volume of deals in the $4 trillion market tumbles.

State and local debt sales are poised for a monthly decline of roughly 40% to about $24 billion in September, according to data compiled by Bloomberg. It would be the lowest monthly volume of debt sales since November 2020, the data show, even though September is typically a busy month for debt sales.

Rising interest rates are making it less attractive for municipalities to borrow for new projects or refinance existing debt. Plus, a volatile Treasury market, which the muni market tends to follow, also has cities sitting on the sidelines.

Continue reading.

Bloomberg Markets

By Amanda Albright and Marvis Gutierrez

September 29, 2022

Matriculate to MBNE for Muni, ESG Pairing.

As advisors and investors demand more environmental, social and governance (ESG) fixed income strategies, some issuers of exchange traded funds are meeting that demand with municipal bonds proving to be fertile territory for ESG bond ETF innovation.

An example of that trend is the SPDR Nuveen Municipal Bond ESG ETF (MBNE), which debuted in April. The rookie ETF is actively managed and sub-advised by Nuveen – a firm with deep roots in actively managed municipal bond strategies. Nuveen's DNA makes it an ideal partner in the still emerging ESG/municipal bond space.

That's an important consideration because municipal bonds – ESG and otherwise – are offering an attractive credit quality today.

"The fundamentals of the muni market are very strong. Strong economic growth over the past couple of years has produced solid revenue growth. While inflation is undesirable, inflation has translated into even higher nominal growth in tax revenues. Many states and local municipalities have successfully managed expenditure growth and have increased their rainy day funds and reserves," said David Blaire, portfolio manager for Nuveen's municipal fixed income team, in a Q&A with Anqi Dong of State Street Global Advisors (SSGA).

Over 86% of MBNE's 96 holdings are rated AAA, AA, or A. That's a testament to the value of active management when it comes to municipal bonds. Adding to the allure of MBNE in the current environment is the point that municipal debt upgrades are far outpacing downgrades this year.

"Active managers can add value in several ways. The first would be staying ahead of the credit cycle and anticipating difficulties that some credits may experience, resulting in downgrades and a cheapening of their bonds. We believe that credit research is essential as part of the municipal investment process. Nuveen has a large, seasoned credit research and investment team, and we're constantly reviewing what we own to ensure that those credits are positioned well going forward," added Blaire.

Another point in MBNE's favor as an actively managed ETF is a growing concern among asset allocators that bonds – municipal and otherwise – with credible ESG traits are hard to locate on an individual basis. That hurdle highlights the benefits of MBNE's active basket approach.

"Most municipal issuers are public purpose entities that support critical infrastructure and services to promote the health, safety, and general well-being of their communities — and that provides a good opportunity set for ESG focused investing," concluded Nuveen's Blaire.

ETF TRENDS

by TOM LYDON

SEPTEMBER 28, 2022

[There's Value to Be Had in Municipal Bonds.]

Municipal bonds are participating in the 2022 fixed income market tale of woe, but broad-based municipal muni bond benchmarks are outperforming aggregate bond counterparts and some experts see opportunity in municipal debt.

Much of the current case for exchange traded funds such as the IQ MacKay Municipal Intermediate ETF (MMIT) revolves around value and robust fundamentals. MMIT, which turns five years old next month, is actively managed and looks to outperform the Bloomberg Municipal Bond Index 1-15 Year Blend Index.

MMIT's status as an actively managed ETF is particularly relevant at a time when munis are dealing with interest rate pressure and while the credit outlook in this asset class is sturdy.

"The muni market has taken a beating this year, with net weekly inflows into muni mutual and exchange-traded funds negative for most of 2022, according to Refinitiv Lipper data. Yet their yields and tax benefits can make them an attractive investment," reports Michelle Fox for CNBC.

The $300.2 million MMIT holds 411 municipal bonds with local general obligation bonds accounting for 27.1% of the fund's portfolio. Education and water/sewer debt combine for 19.6% of the roster.

Amid faltering bond prices of nearly all stripes this year, advisors and experts recently stirred talk of considering municipal bonds and ETFs like MMIT as buy ideas after tax-loss harvesting. Speaking of taxes, that's one of the primary benefits of muni debt.

"The tax benefits make munis particularly attractive to high-earners in high-income tax states. Those tax savings are even more critical in a time when stock returns are scarce. The market took a nosedive Friday, with the Dow setting a new low for the year," according to CNBC.

As noted above, MMIT is an active fund, so there's bound to be turnover. Its annual turnover rate is 43%, according to issuer data. Still, the ETF's annual fee of 0.30% (after waivers) compares favorably with active mutual fund rivals.

"You can also get muni bond exposure through a mutual fund or ETF. Those who want a wide range of bond exposure, such as maturities, sectors, and credit, and have limited funds could look at investing in a mutual fund or ETF, according to the Municipal Securities Rulemaking Board," noted CNBC.

As for credit concerns, those are minimal with MMIT because the fund devotes 88.2% of its weight to muni bonds rated A, AA, or AAA.

ETF TRENDS

SEP 27, 2022

This Muni Fund Holds Overlooked Winners for Long-Term Success.

Karl Zeile planned to work for a nonprofit after getting a master's degree in public policy from Harvard University.

He changed his mind after meeting municipal-bond analysts during an internship. "It was very clear to me that that's exactly what I wanted to do, because to me, it was the perfect combination of investment analysis, research, and public policy," says the 55-year-old Zeile.

He is now the principal investment officer at Capital Group's $22.9 billion American Funds Tax-Exempt Bond Fund of America (ticker: AFTEX). The fund finds value in under-trafficked parts of the muni market, such as single-family housing bonds in Illinois, affordable-housing bonds in California, and medical-center bonds in Wisconsin.

Continue reading.

Barron's

By Debbie Carlson

Sept. 28, 2022

Schwab Undercuts Vanguard With Launch of Muni ETF Offering 0.03% Fee.

- **Schwab Asset Management announces launch of new muni ETF**
- **Fund's expense ratio is just 0.03%, lower than large rivals**

Charles Schwab Corp.'s asset management arm is launching a new municipal-bond exchange-traded fund with an ultra-low fee that will compete with giants in the space.

The new fund, the Schwab Municipal Bond ETF, will be the cheapest in the municipal-bond market with an expense ratio of just 0.03%, according to a statement by Schwab Asset Management on Wednesday. That's lower than even The Vanguard Group's $17 billion muni ETF, which charges 0.05%.

Muni ETFs, which offer a cheap way for investors to access the market, have been able to lure investor cash this year despite a steep selloff. The funds have seen more than $13 billion in inflows year-to-date, while mutual funds have recorded steep outflows, according to Bloomberg Intelligence data.

"Schwab woke up this morning and chose expense ratio violence as they undercut the current market leader, Vanguard," said Eric Kazatsky, muni strategist for Bloomberg Intelligence. "With cheap beta leading all asset growth in the passive municipal ETF space, the aggressive move is sure to garner a response by other firms."

Schwab's statement notes that the ETF will be cheaper than comparable funds. The median fee charged by muni ETFs is 0.25%, according to data compiled by Bloomberg.

"Schwab Asset Management's pricing objective in broad market ETFs has been and continues to be among the lowest cost providers," said John Sturiale, head of product management and innovation at Schwab Asset Management, in an emailed response. "Our scale as the fifth largest ETF provider enables us to price our new municipal bond ETF at 3 bps and take a leadership position in bringing down costs for investors."

Schwab's announcement also points to the rise in yields this year. The yield on the 30-year muni benchmark is inching closer to 4%, a level last breached in 2014, according to Bloomberg BVAL.

"As bond yields have risen, fixed income investing is more attractive than it has been in years, making this an opportune moment to introduce a new choice for investors seeking a low-cost, straightforward approach to income, diversification and risk management in their portfolios," Sturiale said in the announcement.

The fund, which is expected to begin trading Oct. 12, will invest only in investment-grade rated securities, the statement reads.

Bloomberg Business

By Amanda Albright

September 28, 2022

Sky-High Yields and Stellar Credit Make Muni Bonds a Buy, Investors Say.

- **Ten-year benchmark munis yield 3.23%, highest since 2011**
- **Government credit supported by federal aid and tax receipts**

In the midst of a historically rough year in the $4 trillion municipal bond market, investment managers see ample opportunity as surging yields provide a compelling entry point.

Ten-year benchmark municipal bond yields are hovering around 3.23%, the highest since 2011, while 30-year munis are yielding more than comparable US Treasury debt. Those prices open the door for investors looking for income in a market where many state and local governments are flush with cash, said Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management and Brian Barney, managing director for institutional portfolio management and trading at Parametric Portfolio Associates, at a Bloomberg muni market panel discussion on Tuesday.

Conversations with clients now are "almost entirely opportunistic," Barney said. "During times of volatility and attractive rates would be a good time to enter."

Continue reading.

Bloomberg

By Hadriana Lowenkron

September 28, 2022

Vanguard's Malloy Says Crossover Buyers Are Key to Muni Recovery.

- **Muni market on track for worst performance in decades**
- **Banks, insurance companies helped drive rally in spring 2022**

Paul Malloy, who oversees roughly $211 billion of municipals at the Vanguard Group Inc., says conditions are ripe for a recovery from this year's steep muni selloff.

Buyers known as "crossover investors" that usually acquire taxable securities could jump in to take advantage of cheap valuations, once again aiding in the securities' recovery, Malloy said. The muni market has tumbled 12% year-to-date, and if that drop holds it would be the worst performance since at least the 1980s, according to Bloomberg indexes.

Crossover investors, including banks and insurers, drove a short-lived municipal-bond market rally in late May and early June, and another similar recovery is possible. "They haven't come back in force yet, but they are interested," Malloy said in an interview Tuesday. "All the preconditions are there for a snapback."

Despite the rout, the financial health of municipal-bond issuers remains strong after tax revenue beat expectations and the federal government stepped in with aid after the pandemic.

The ratio of muni yields compared to Treasuries for long-dated securities is above 100%, which Malloy says is “pretty attractive” for investors. The yield on the 30-year AAA benchmark offers about 102% of the yield on similar-dated Treasuries, according to Bloomberg data.

A less volatile Treasury market would embolden crossover buyers to start wading back into the muni market, he said.

Crossover buyers’ participation is key as they’re often first movers, driving recovery from selloffs while retail investors — the major buying force in the state and local debt market — often follow, according to Malloy, who is based in Malvern, Pennsylvania.

“They’ll put a bid to the market, and retail will come in on top of that,” he said.

Bloomberg Markets

By Amanda Albright

September 28, 2022

— With assistance by Marvis Gutierrez, and Jennah Haque

Munis a Great Spot to Invest Now, Vanguard's Malloy Says.

Paul Malloy, Vanguard’s head of municipals, says municipal bonds are in the best fundamental shape they’ve been in decades. He speaks with Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

September 27th, 2022

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 August) $279.5 billion, -11.9% Y/Y
- Trading (as of August) $13.6 billion ADV, +54.1% Y/Y
- Outstanding (as of 2Q22) $4.0 trillion, +0.2% Y/Y

Download xls

September 12, 2022

NEW - NASBO National Overview & Summaries of FY2023 Enacted Budgets

View the NASBO budgets.

Fitch: Corrective Action Taken on 2021 Transition & Default Studies

Fitch Ratings-New York-23 September 2022: Fitch Ratings has revised the average cumulative default rates for sovereigns in its 2021 Transition & Default Studies (the Studies) that were initially published on March 31, 2022.

A system error in reporting software resulted in average cumulative default rates that were too low being calculated for sovereigns in 'BB' and below categories and included on the "Sovereign Default Rates" tab of the initial version of the Studies. To correct for the understated default rates, Fitch has published a revised version of the Studies. No other figures in the Studies were affected.

The revised version of the Studies can be found at https://www.fitchratings.com/research/corporate-finance/2021-transition-default-studies-31-03-2022

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Fitch: FACT Shows U.S. NFP Hospitals in a Calm Before the Storm

Fitch Ratings-New York-22 September 2022: Fitch Ratings' medians for U.S. not-for-profit (NFP) hospitals show a sector currently at a highpoint with notable declines on the horizon, according to the latest Fitch Analytical Comparative Tool (FACT) for the sector.

'2022 medians show deceptively strong numerical improvements that are pointing to a cautionary calm before the storm,' according to Fitch Senior Director Kevin Holloran. Hospital medians are likely to reverse course this time next year due to inflation, a very challenged operational start to calendar 2022, and, most notably, staffing shortages to persist well into 2023 and likely longer in some markets.

The FACT contains financial data for 218 hospitals and health systems that can be benchmarked against peers, medians and self-defined peer groups along with historical statistics and metrics going back to 2011. This report is the third in a recent series of reports Fitch has published in recent weeks, the most recent one being Fitch's sector outlook revision for U.S. NFP hospitals to Deteriorating.

The FACT includes a dashboard feature to graphically plot annual issuer metrics and median performance, a peer analysis tool that allows users to review and compare metrics of two issuers, and a charting tool that generates a comparison of issuer metrics against rating category medians.

'Not-for-Profit Hospitals and Healthcare Systems 2022 FACT' is available at 'www.fitchratings.com'.

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