
United States ESG & the Muni Market 2023: A New Frontier in ESG Politics

DUBLIN, Jan. 10, 2024 /PRNewswire/ — The "U.S ESG & the Muni Market 2023" report has been added to ResearchAndMarkets.com's offering.

Environmental, social and governance (ESG) factors in the municipal market have garnered significant attention, both positive and negative, in the past five years. Some market participants see it as an opportunity for industry growth in the U.S. and abroad. Indeed, ESG bond issuance has grown even as overall municipal issuance has dropped precipitously. Others see ESG as a costly and unnecessary additional issuer disclosure burden with little pricing benefit for state and local governments that say the debt they issue is inherently ESG.

Several politicians and other government officials assert ESG is part of a "woke" agenda in the financial markets. Some states have written legislation and enacted laws prohibiting the use of ESG in the public finance markets, while others have barred financial institutions from participating in the municipal market due to their stance on the firearm and/or fossil fuel industries.

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Wed, January 10, 2024

NASBO FY25 Budget Proposals.

Overview

Over the course of the coming months, governors in 33 states, the territories, and the District of Columbia will release a budget proposal for fiscal 2025 (governors in Kentucky, Virginia, and Wyoming will propose a biennial budget for both fiscal 2025 and fiscal 2026). Last year, 17 states enacted biennial budgets covering both fiscal 2024 and fiscal 2025; in some of those states, the governor will release a supplemental or revised budget recommendation for fiscal 2025. Forty-six states begin their fiscal year on July 1 (New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1). Puerto Rico begins its fiscal year on July 1, while the District of Columbia, Guam, and the U.S. Virgin Islands begin their fiscal year on October 1.

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[Muni Bond Defaults Most Likely to Occur in Senior Living, Skilled Nursing, Survey Finds.]

Yields may have peaked in 2023 for municipal bonds, with defaults this year most likely to happen in senior living and skilled nursing, according to the results of a recent survey published by Hilltop Securities.

Long-term care-related defaults had been decreasing as of May.

Hilltop surveyed 125 market participants. Half of the respondents to the Hilltop Securities High Yield Impact Survey were investors; bankers and advisers accounted for 16%; sell side intermediaries accounted for 9%; and bond counsel, insurers and rating analysts contributed 16% of the responses. Other market participants (including bond evaluators and researchers) contributed the remaining 9%.

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McNight's Senior Living

by Kathleen Steele Gaivin

JANUARY 9, 2024

Hospitals Are Back to the Muni Market With Labor Costs Easing.

- **Borrowing this month far outpaces all of last January**
- **Pent-up need for upgrades drives issuance as finances improve**

Hospitals are returning to the municipal-bond market as they aim to pivot from survival to revival. So far this year, hospitals are tapping the market with more than $1.7 billion to expand and upgrade facilities, according to data compiled by Bloomberg as of Jan. 12. That figure outpaces $390.7 million of issuance by hospitals last January.

It's cheaper to tap the muni market at the moment, with the yield on the 10-year AAA benchmark down 127 basis points since Nov. 1. Financial pressures on hospitals have also started to ease. Staffing costs — by far their heftiest expense — have steadied and operating margins have been improving.

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Bloomberg Markets

By Lauren Coleman-Lochner

January 12, 2024

S&P General Obligation Medians For Municipalities: December 2023

S&P Global Ratings derives the general obligation (GO) municipal medians from rating reviews completed under its GO criteria, "Local Government GO Ratings Methodology And Assumptions", published Sept. 12, 2013. The medians include the 3,952 municipalities that we rated as of December 2023, presented by rating category.

These medians do not pertain to counties and special districts such as school districts. We are publishing separate GO county and school district median reports concurrently with this article.

We calculate the metrics, for which we provide the medians, based on raw data, or in some cases, data that we have adjusted (for more information, see "S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency," published Sept. 12, 2013), and they are only one component of the rating analysis. The metrics play a part in the quantitative analysis in five factors: economy, budgetary flexibility, budgetary performance, liquidity, and debt and contingent liabilities. Qualitative adjustments within each factor (which the medians do not reflect) also play an important part in the analysis.

Continue reading.

3 Jan, 2024

S&P General Obligation Medians For School Districts: December 2023

S&P Global Ratings derives the general obligation (GO) school district medians from rating reviews completed under its "GO Debt" criteria published Oct. 12, 2006. We derive the school district medians from the 5,148 school districts we rated as of December 2023.

We present the medians by rating category. These medians do not pertain to municipalities and counties. We are publishing separate GO county and municipality median reports concurrently with this article.

Continue reading.

3 Jan, 2024

S&P U.S. Local Governments 2024 Outlook: Stimulus Shelters Governments In 2024; Preventing Long-Term Leaks Requires Fiscal Focus Now

Sector view: Stable

U.S. local governments continue to enjoy financial stability that stems from federal stimulus distributed during the pandemic. Despite elevated inflation and rising interest rates, ongoing credit strength has led to increasing revenues and improved reserve levels. However, if local or macroeconomic conditions prevent revenues from keeping pace with expenditure growth, management teams could be pressured to balance budgets while still addressing persistent issues requiring longer-term solutions, such as demographic changes and extreme weather.

Continue reading.

9 Jan, 2024

[S&P Outlook For U.S. Not-For-Profit Transportation Infrastructure: Back To The Future For Most Operators, While Mass Transit Minds The Gap]

Sector View: Stable Except For Mass Transit, Which Is Negative

S&P Global Ratings' view of business conditions and credit quality across the U.S. not-for-profit transportation infrastructure sector for 2024 is stable, as most asset class operators fully return to historical activity levels and planning for the future. Our view applies to rated airports (and related special facilities), toll roads, maritime ports, parking operators, and all federal transportation grant-secured entities. Our negative sector view for mass transit is unchanged, reflecting financial pressures facing many transit providers with a historical reliance on fare revenues as they look to plug operating fund gaps as federal assistance runs out.

Continue reading.

10 Jan, 2024

[S&P Request for Comment: Request For Comment: Methodology For Rating U.S. Governments]

This article presents S&P Global Ratings' proposed criteria for rating U.S. governments. This proposal consolidates the criteria for U.S. states, counties, municipalities, school districts, and special government districts under a single framework for determining a stand-alone credit profile (SACP) (see "Related Publications" section for details of superseded criteria).

These proposed criteria would apply only to U.S. governments not in scope of other issuer credit rating (ICR) criteria.

Although the scope of activities may vary, governments share the following characteristics:

- Leadership is elected or is appointed by others who are elected;
- The entity provides public services and/or public infrastructure; and
- The entity is supported directly or indirectly by taxes and fees levied on residents or funds transferred from other levels of government.

Continue reading.

11 Jan, 2024

[S&P Credit FAQ: An Overview Of S&P Global Ratings' Proposed Methodology For Rating U.S. Governments]

On Jan. 11, 2024, S&P Global Ratings published a request for comment (RFC) on its proposed

Methodology For Rating U.S. Governments. The proposed criteria apply to U.S. states, counties, municipalities, school districts, and special government districts. S&P Global Ratings believes it will be useful to provide additional context about the proposed criteria and to address questions on it, including scope, expected rating impacts, and key differences between the proposed and existing criteria. For the full proposed framework, see "Request For Comment: Methodology For Rating U.S. Governments."

Key Takeaways

- The proposed criteria, when finalized, will fully supersede "U.S. State Ratings Methodology," "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions," "GO Debt," "Financial Management Assessment," "Debt Statement Analysis," and "Key General Obligation Ratio Credit Ranges."
- The proposal would consolidate criteria to analyze credit risks of U.S. governments using one comprehensive scored framework. We believe bringing government entities under the same analytic framework increases transparency of our methodology, improves consistency and alignment of ratings across these government types, and enhances global comparability.
- Across all ratings in scope of these proposed criteria, we expect approximately 95% will remain unchanged. For U.S. state and territories, we expect all ratings will remain unchanged.

Continue reading.

11 Jan, 2024

S&P U.S. Not-For-Profit Health Care Rating Actions, December 2023

S&P Global Ratings maintained 22 ratings without revising the outlooks, took one positive rating action, and six negative rating actions in December. In addition, we revised two outlooks favorably, revised two outlooks unfavorably, placed one issuer on CreditWatch with positive implications, and placed one issuer on CreditWatch with negative implications, all without changing the ratings in the U.S. not-for-profit health care sector.

There were six new debt issuances in the month, with four ratings maintained, one lowered (Scripps Health), and one rating initially assigned for Tampa General Hospital. In addition, SoutheastHEALTH was placed on CreditWatch with positive implications due to an upcoming merger with Mercy Health (subsequently upgraded upon consummation of the merger), while Hunt Memorial Hospital District was placed on CreditWatch with negative implications due to a recent debt issuance with the potential for additional borrowings with weakened performance and diminished reserves.

Continue reading.

11 Jan, 2024

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

View the Current List.

11 Jan, 2024

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

Fitch Ratings-New York/Chicago/San Francisco-12 January 2024: Fitch Ratings has updated its master criteria for rating public sector, revenue-supported entities. The criteria updates and replaces the prior report from April 2023.

The new criteria report sets out Fitch's methodology for assigning new ratings and monitoring existing ratings for U.S. public sector and not-for-profit entities that provide or support essential public or social services and activities and whose debt is intended to be repaid from the entity's own revenue and resources. Fitch has limited the criteria's scope, to U.S. entities only and has added an appendix that provides additional guidance for assessing the key rating drivers for U.S. not-for-profit Institutions. The methodology for assigning new ratings and monitoring ratings of public policy government-related entities and not-for-profit outside the U.S. is now set out separately in Fitch's Public Policy Revenue-Supported Entities Rating Criteria.

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

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

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Additional information is available on www.fitchratings.com

[Governors Propose Spending Billions on Overdue Infrastructure Projects.]

In State of the State addresses this week, several governors said they would prioritize ambitious and much needed infrastructure projects. Plus, more news to use from around the country in this week's State and Local Roundup.

It's Saturday, Jan. 13, and we'd like to welcome you to the weekly State and Local Roundup. There is plenty to keep tabs on with the high court agreeing to hear a case about homeless encampments that could have huge implications in the West, the first all-female city council gaveling into session in St. Paul, a Massachusetts court ruling that "emerging adults" cannot be sentenced to life without parole and the feds cracking down on funny messages on electronic highway signs.

But first we turn to state infrastructure plans, which governors are still pressing forward on even as the financial picture for states is darkening.

Perhaps the most audacious plan comes from Georgia, where Republican Gov. Brian Kemp is proposing to spend $1.5 billion on transportation projects. The vast majority of that would go to the state transportation department before the current fiscal year ends in June, in order to speed up progress on the agency's list of planned roadwork. The department will use part of that money to establish a freight infrastructure program and give cities and counties $200 million for their own projects.

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ROUTE FIFTY

by DANIEL C. VOCK

JANUARY 13, 2024

[Fast-Growing Force in Muni Market Is Upending Mutual Funds' Grip.](#)

- **Investors flocked to separately-managed accounts in 2023**
- **The products could deter interest in muni mutual funds**

A booming corner of the municipal-bond market is poised to topple the long-standing dominance of mutual funds.

Affluent investors wanting to get in on surging yields have been increasingly turning to so-called separately managed accounts instead of mutual fund portfolios posting losses.

Estimates of the hard-to-track products — which allow investors to build customized portfolios with the help of a professional — suggest accounts hold anywhere from $600 billion to nearly $1 trillion of US state and local government bonds.

Citigroup Inc. estimated the market has grown more than 40% over the past decade to about $750 billion of munis as of the third quarter. Mutual funds, meanwhile, have shed more than a quarter of muni assets from their 2021 peak, with Federal Reserve data showing the funds held about $727 billion of the securities in the third quarter.

With yields at multi-year highs, individual investors have opted to snap up muni bonds using separately managed accounts as well as exchanged-traded funds rather than the traditional mutual funds.

Allspring Global Investments, for one, has seen significant inflows into its offerings. SMAs own about 23% of muni bonds, while mutual funds now hold about 20%, according to Manju Boraiah, Allspring's head of custom SMA investments. Households account for another 19% while banks, insurance companies and others own the rest, he said.

"The SMA growth has been fairly persistent and growing double digits over the past few years," he said.

Buying Force

Separately managed accounts began to make inroads in the early 2000s as advances in technology improved the ability of firms to oversee more accounts.

The interest in the products has been a major bright spot for demand given that municipal-bond mutual funds — one of the major buying forces in the market — recorded another year of outflows in 2023.

Kara South, municipal portfolio manager for GW&K Investment Management, said her firm tends to favor the products for its clients because they are so customizable. “SMAs will continue to be a driver of demand,” she said.

Fee War

In addition to their individualized nature, competitive costs are a draw.

Fees on the products are often cheaper than mutual funds, and have been falling, according to Eric Kazatsky, municipal strategist for Bloomberg Intelligence. “Ten years ago, SMAs were basically 0% of the market, now they’re 25%,” he said.

Allspring’s Boraiah estimates passively-run SMA portfolios fees range from 10 to 18 basis points, while actively managed ones are north of 20 basis points — still much less than what mutual funds charge.

While it can be harder to withdraw money from these accounts, it also protects them from the “herd mentality” that can spur mutual fund outflows as investors dump assets during a market selloff, Cumberland Advisors, an investment firm, said in a report in November.

Unlike mutual funds, SMAs often have high investment minimums, usually around $250,000. Those minimums have been dropping over the years, which has made the products more accessible to a wider swath of investors.

Exchange-traded funds, meanwhile, have also made inroads, but still only have a market share of about 3%. The funds saw inflows of about $14.7 billion in 2023, data compiled by Bloomberg show. The overall muni ETF universe is over $120 billion.

Year Ahead

Of course, if interest rates fall mom and pop investors sitting on the sidelines in cash could return to municipal-bond mutual funds to goose returns.

Vikram Rai, head of municipal markets strategy at Wells Fargo & Co., said investment firms would benefit from including open-end funds, SMAs and ETFs in their product offerings. “In fact, most large complexes are doing so,” he said.

Allspring’s Boraiah doesn’t see mutual funds going away, but noted that the products are less popular among the financial advisory community. That will dampen growth.

“There is definitely a threat, but it’s kind of like a slow moving iceberg,” he said.

Bloomberg Markets

By Amanda Albright

January 12, 2024

— With assistance from Nic Querolo

[Advantages of Separately Managed Accounts for Municipal Bonds.]

Separately managed accounts (SMAs) have been utilized for decades to effectively manage client assets. Benefits include transparency, flexibility, control over costs, and choice. They can be optimized for various purposes including taxes, income, cash flow, etc. They also allow for more customization than ETFs or mutual funds.

They are particularly popular for fixed income purposes and have seen impressive growth in recent years. For instance, municipal fixed-income assets went from $100 billion in 2008 to $718 billion in July 2023. In part, this is due to SMAs becoming more accessible to a wider universe of investors as improved technology has led to lower costs and lower minimum amounts to invest.

ETF's presence in the municipal bond market is also growing fast. There are now 81 funds and $108 billion in assets, a 50% increase from 2021 but less than 3% of the total muni market. Many active mutual funds are being converted into active ETFs. One advantage is greater liquidity which allows investors to quickly gain exposure as a placeholder while they accumulate individual securities.

Mutual fund flows can be affected by market sentiment, leading to selling during periods of redemption, which is not an issue with SMAs. Due to the growth of SMAs and ETFs, muni mutual funds have seen net outflows over the last couple of years. Another factor is high rates making short-term securities or bank deposits more attractive relative to longer-duration assets.

Continue reading.

nasdaq.com

Written by dkorth@finsum.com

January 09, 2024

[Investing in Nature Is Gaining Traction. Will It Be Enough?]

Investing in nature to address climate change, support biodiversity, and protect ocean health—and more—is expected to reach record levels this year in response to more regulation and market demand, according to Cambridge Associates, a global investment firm.

Still, the amount of private capital invested to support natural systems will fall far short of what's needed, according to the annual "State of Finance for Nature" report published in December from the United Nations Environment Programme.

A big reason is that nearly US$7 trillion in public and private finance was directed to companies and economic activities in 2022 that caused direct harm to nature, while only US$200 billion was directed to so-called nature-based solutions, or NbS—investments that protect, conserve, restore, or engage in the sustainable management of land and water ecosystems, as defined by the United National Environment Assembly 5, or UNEA5, the report said.

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Barron’s

By Abby Schultz

Jan. 9, 2024

[Bloomberg Muni Outlook for 2024.](#)

Chris Brigati, Senior VP and Director of Strategic Planning at SWBC (new role), joins to discuss the muni bond market. Hosted by Paul Sweeney and Lisa Mateo.

[Listen to audio.](#)

Bloomberg Markets

Jan 05, 2024

[For Public Finance, a Year for Stability and Cautious Optimism.](#)

As inflation and interest rates ease, 2024 will be a perfect time for overdue multiyear strategic planning and keeping up with breakthrough information technologies.

For state and local government financiers, the good news for 2024 is that most financial functions will be more predictable. Budget projections will be easier and more reliable, at least for the calendar year, as the economy continues settling fairly smoothly to a slower pace with inflation easing and interest rates drifting down with it.

Of course, a slowing economy can be expected to be accompanied by softening tax revenues, and that has been reported in some states already. Nonetheless — and absent the usual unforeseeables like new wars, oil shocks and pandemics — public finance is returning to something resembling business as usual. With a few exceptions, the “New Normal” is becoming the “Old Normal,” at least for budgeting, collective bargaining, pension funding, tax rates and debt issuance.

Wall Street has come to a growing consensus that the economy is gliding to a “soft landing,” with the only question being how long this can last. Inflation likely won’t drop in 2024 to the Federal Reserve’s target of 2 percent, so while interest rates will likely drift somewhat lower, don’t look for anything near the unusually minuscule levels that prevailed before and during the COVID-19 pandemic. Borrowers will still pay and investors will still earn a positive real rate of return on debt instruments. Mirroring that overall economic glide path, upward pressures on salaries are likely to ease. But labor markets nationally will remain tight by historical standards, making it an ongoing public-sector challenge to hire personnel amid tight budgets.

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governing.com

Jan. 2, 2024 • Girard Miller

Fitch: Most North American Sector Outlooks Deteriorating on Slowing Economy

Fitch Ratings-New York-05 January 2024: Sharply slowing economic growth, higher unemployment and continued tight financing conditions are key factors underpinning Fitch Ratings' 'deteriorating' 2024 sector outlooks for the majority of North American credit, including sovereigns, U.S. banks, leveraged finance, retailing, REITs, most non-bank financial institutions and most structured finance asset classes. U.S. growth was better than expected in 2023 at 2.4%, but we forecast it to drop to 1.2% in 2024, with only a shallow recovery in 2025. Core inflation, while easing, remains above central banks' 2% targets.

Key risks include higher-for-longer interest rates beyond our base case and financial market volatility should monetary policy and growth meaningfully vary from current expectations. Tight funding conditions, decelerating economic growth and sector-specific pressures on key asset classes, such as real estate and structured finance, indicate risk bias to the downside.

Across multiple sectors, profits are declining and demand is expected to decelerate further as the economy slows in response to the lagged effect of higher interest rates and tightening credit conditions. Rising unemployment and higher cost of living pressures are key headwinds for consumer-based industries and asset classes, also pressuring U.S. banks' asset quality and operating profits.

Continue reading.

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 December) $380.5 billion, -2.6% Y/Y
- Trading (as of December) $13.1 billion ADV, -6.8% Y/Y
- Outstanding (as of 3Q23) $4.0 trillion, -0.3% Y/Y

View xls.

Jan 3, 2024

[Megadeals, Lower Rates Set the Stage for Brisk Muni Borrowing in January.]

- **Jefferson County, Washington put big bond sales on calendar**
- **Borrowing costs fall 130 basis points in November, December**

The municipal bond market is setting up for something it hasn't seen in a few years: a busy January for borrowing.

January is typically the slowest month in terms of new muni bond sales, averaging $25 billion over the past decade, according to Bloomberg LEAG data. But a lighter-than-average December sales calendar, coupled with an interest rate decline of more than a percentage point in recent months, sets the stage for an uptick in issuance this time around.

Long-term bond sales totaled $22.3 billion in December. That's above the $15.3 billion sold in December of 2022, but still well below the decade-average for the month of $29 billion. A slower December usually leads to a busier January.

Continue reading.

Bloomberg Markets

By Joseph Mysak Jr

January 2, 2024

[Wall Street Thrived, Small Towns Lost as Anti-ESG Campaign Raged in 2023.]

In 2023, a fervent anti-environmental, social and governance campaign swept state legislatures but failed to curtail the movement's main foe: Wall Street and its multitrillion-dollar asset management firms.

At the same time, the new state policies seeking to eliminate ESG considerations from public investments had some real-life consequences for cities and towns caught by the new mandates.

In Texas, the municipal bond market is in turmoil after the state's attorney general, Ken Paxton, issued an advisory in October to state and local government agencies asking them to be on the lookout for bond underwriters that may "boycott energy companies, discriminate against firearm entities or associations, or boycott Israel." Paxton's letter included a list of 22 companies he accused of violating Texas laws passed in 2021 to protect such interests.

Within days, the city of Del Rio on the Mexican border dropped RBC Capital Partners, its lead underwriter for a $12.5 million municipal bond deal, and replaced it with BOK Financial Corp., an Oklahoma-based firm that had escaped Paxton's scalpel. Paxton's public finance division had told the city of 34,000 it might not be able to close on schedule with RBC, prompting a last-minute scramble.

"It was very much a timing issue for the city," said Jay Juarez, Del Rio's bond counsel.

Around the same time, a Houston-area school district dropped Wells Fargo & Co. from a $310 million bond after Paxton indicated the company's practices were being reviewed. A Wells Fargo spokesperson declined to comment.

Neither RBC Capital nor Wells Fargo is on the Texas Comptroller's Office's most recent list of financial services companies, updated in December 2023, that boycott energy firms.

Similar situations have played out in other states.

Uproar in Oklahoma

In the spring of 2023, the city of Stillwater, Okla., an hour north of Oklahoma City, had lined up a low-interest $13.5 million loan from Bank of America Corp. to install energy-efficient lighting and replace two aging heating and cooling units in municipal buildings. The saved energy costs from the improvements would pay off the loan over 15 years, according to the city's deal with the bank.

That plan was halted when Oklahoma Treasurer Todd Russ in May published an initial list of 13 financial institutions, including Bank of America, barred from doing business in the state. Russ had determined that the companies violated the state's 2022 Energy Discrimination Elimination Act by boycotting energy companies.

Russ revised the list in August, naming six companies, including Bank of America.

"I appreciate that this is a fossil fuel state and the intention behind it, but the law passed here had not been vetted very well," Stillwater Mayor Will Joyce said in an interview. "I even had some folks at the legislature tell me they never intended for the bill to have an impact on local municipalities."

Like the Texas law, Oklahoma's measure was among 36 bills lawmakers in 18 states passed over the last two years to blacklist banks and asset management firms that consider ESG risks and opportunities in investment decisions, data from the law firm Ropes & Gray shows.

An early 2023 analysis by Econsult Solutions Inc. estimated that six states including Oklahoma could see up to $708 million in higher borrowing costs by barring some banks from underwriting municipal bonds. Undeterred, ESG critics are pushing forward.

Republicans in Congress and GOP-controlled state legislatures say large money managers wield too much influence over pensions, bonds and other public investments, accusing them of playing politics with money they do not own. As the 2023 state legislative sessions wound down in early summer, about half of the anti-ESG bills introduced had not passed. But more than 40 will be automatically reintroduced in 2024, and new bills are expected.

'A fiduciary responsibility'

By October, Oklahoma lawmakers were discussing how to amend their energy discrimination law to better protect cities like Stillwater. The state's second-largest public pension system had also resisted the restrictions in the law. The Oklahoma Public Employees Retirement System voted 9-1 in August to retain BlackRock Inc. and State Street Corp. as investment advisers even though those banks were on the treasurer's blacklist.

"We were talking about a potential $10 million hit to our pensioners," Oklahoma Insurance Commissioner Glen Mulready, a member of the pension system's board and former Republican state lawmaker, said in an interview. "If we thought that we could have abided by the law without hurting the pension fund we would have done that in a heartbeat. But we have a fiduciary responsibility."

The disagreement between the treasurer and the pension system has yet to be resolved, Mulready said.

Adding to the ESG drama in Oklahoma, a retiree and former president of the Oklahoma Public Employees Association in November filed a lawsuit against the state and its treasurer, calling the state's anti-ESG legislation "government overreach" and a violation of free speech. The lawsuit was backed by three groups representing public state employees.

Business as usual for Wall Street

Meanwhile, banks on state non grata lists — including BlackRock, JPMorgan Chase & Co., State Street and Vanguard Group Inc. — continued to do business in states such as Florida, Texas and West Virginia that had been especially vocal ESG critics.

Now navigating a patchwork of different state policies as well as different regulations overseas, US financial firms have to be more strategic in how they tailor their communications while also avoiding potential legal pitfalls, said Josh Lichtenstein, a partner with Ropes & Gray. That does not mean they have changed their investment strategies, he said.

BlackRock's high-profile CEO, Larry Fink, a frequent Republican target over his company's investment policies, made headlines in June when he said BlackRock was abandoning the term ESG. The company would instead choose more specific words like decarbonization or corporate governance, which Fink summed up as "conscientious capitalism."

"That's the progressive left's ammo: Once we figure out what their acronyms really mean they're going to change it," said Derek Kreifels, CEO of the State Financial Officers Foundation, speaking to a London journalist in November about his group's support for state anti-ESG efforts.

In October, BlackRock launched a new "climate-transition oriented" private debt fund to meet the growing needs of institutional investors who set low-carbon and climate transition goals for their portfolios. A survey of 200 large investors in 15 countries the asset manager conducted a few months earlier found that 98% of investors fall into that category, the company said.

For other players, it is business as usual. JPMorgan Chase, deemed by shareholder activist group As You Sow and others to be the world's largest fossil fuel investor, published an ESG report as recently as May 2023. It also has detailed on its website how the investor plans to channel $2.5 trillion this decade for sustainable development.

Both asset management firms remain members of the Net Zero Asset Managers initiative, an alliance vilified by ESG critics. Its signatories commit to work with clients to decarbonize their portfolios by 2050 in alignment with the Paris Agreement on climate change.

New realities for community banker, small-town mayor

Even in Florida, which in May enacted what is arguably the nation's strictest anti-ESG law, Climate First Bank continues to attract new customers "who wish to bank with the world's first [Federal Deposit Insurance Corp.]-insured bank found to combat the climate crisis." Ken LaRoe, the community bank's founder and CEO, said in an email.

But because of the new Florida law, known as H.B. 3, "we are required to bank any industry, including dirty energy, tobacco, the for-profit prison industry and others," LaRoe wrote. Such companies had previously been on the bank's exclusionary list, which the law revoked.

An analysis by the law firm Akin Gump says the Florida law limits investment decisions for state pension assets to "pecuniary factors," and prohibits consideration of "any social, political or ideological interests." Local governments are prohibited from considering ESG principles in investment decisions and in awarding contracts.

By contrast, Oklahoma's law has some wiggle room, enough to offer a possible solution for Stillwater and its stalled capital improvement project.

Oklahoma Attorney General Gentner Drummond had considered the city's calculations showing that going with a lender other than Bank of America would cost Stillwater $1.2 million in lost energy savings and shrink the city's project.

In a letter to the mayor, the attorney general wrote his "position" is that the loss qualified the city and Bank of America for an exception under the 2022 energy discrimination law.

"But that was not a binding legal opinion," Joyce said. "What is the city's liability if someone else in a few years tries to enforce the law? We had no certainty."

So Stillwater decided to look within for funding for its energy efficiency upgrades. Rather than taking 12 months, the project will now take several years and there is no guarantee the funding will remain, Joyce said. "Overall," he said, "we're in a worse situation."

S&P Global Capital

by Karin Rives

Hospitals Face More Credit Rating Downgrades Ahead, Fitch Says.

- **Operating margins will improve over time, but slowly**
- **Margins still falling short of what's needed to save, invest**

The not-for-profit hospital sector may continue to see downgrades as their health-care entities struggle to recover from the pandemic.

While 2023 didn't face the same intensity of challenges as its predecessor, namely higher labor costs and disappointing revenues, not-for-profit hospitals are still a ways off from being stable, Fitch Ratings senior director Kevin Holloran said during a presentation Thursday.

"For a lot of people, this is going to be another make-or-break year for the sector," he explained. Labor "is still troublesome for a big swath of the sector that's out there."

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

January 4, 2024

Early Median Signs Show 'Signs of Life' Amid Stress for U.S. NFP Hospitals:

Fitch

Fitch Ratings-New York/Austin-04 January 2024: U.S. not-for-profit hospitals are beginning to dig out of a formidable operating trench, according to Fitch Ratings during a webinar hosted earlier today. However, results for the sector are still nowhere near pre-pandemic levels.

While median operating margins will gradually improve, a larger expense base will keep huge gains unlikely over the next two years, according to Senior Director and Sector Head Kevin Holloran. “2024 will not be markedly better and certainly not the V-shaped recovery we’re hoping for,” said Holloran. “NFP hospital margins are still below both pre-pandemic levels, but more importantly they will tread below the “magic number” operating margin of 3%.”

A theme likely to dominate this year is ratings “trifurcation”, which Fitch discussed its outlook report for the sector. This means a heightened risk of downgrades for a portion of hospitals already struggling to return to some degree of pre-pandemic normalcy. This follows a 2023 that saw a 3:1 ratio of hospital downgrades to upgrades.

Of note are recent Fitch downgrades among providers with smaller size and scale, and in hospital systems in two states now seen as challenging states in which to operate. “IT implementation issues, significant capital spending and aggressive expansion initiatives that simply did not work out as intended will further cloud outlooks for smaller hospitals and some providers in Washington and Pennsylvania,” said Holloran.

Also of concern is what Holloran called a “dreaded” second year of debt service covenants violations, which “may intensify the potential for bondholders to declare an event of default and perhaps accelerate bond repayment.”

A replay of the webinar in its entirety will be available shortly. Fitch will release its latest NFP hospital medians later in the year.

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FERC Opens Inquiry into Upstream Investment Interests in Public Utilities: Troutman Pepper

On December 19, 2023, FERC issued a Notice of Inquiry (“NOI”) to examine whether and how to revise its policy on providing blanket authorizations for holding companies, including investment companies, to acquire securities in electric utilities and their upstream owners pursuant to section 203(a)(2) of the Federal Power Act (“FPA”). Specifically, the Commission is soliciting comment on what constitutes control of a public utility in evaluating holding companies' requests for authorization and what factors it should consider when evaluating control. Commissioner Mark Christie concurred with a separate statement, stating that FERC should examine whether investment companies are truly acting as passive investors in electric utilities and whether FERC's blanket authorization practices are still sufficient to protect the interests of the electric utilities' customers.

The Commission has issued blanket authorizations on a case-specific basis to holding companies, allowing acquisitions of securities in certain electric utilities over the $10 million threshold pursuant to FPA section 203(a)(2), as well as to investment companies on a company-specific basis to acquire securities in publicly traded electric utilities over the $10 million threshold and up to 20% of the voting securities in the electric utility. These authorizations are time-limited, requiring periodic reevaluation to ensure they remain in the public interest, and are typically based on representations from the investment companies that they cannot exercise control over the electric utilities. FERC noted that changes in the public utility, finance, and banking industries, including consolidation and the growth of large index funds and asset managers, necessitate a review of the Commission's blanket authorization policy.

FERC's Notice of Inquiry seeks comments in response to various questions related to whether, and if so, how the Commission should revise its current policy on providing blanket authorizations for investment companies. In addition, FERC seeks comments in response to questions regarding whether FERC should consider the size of an investment company in evaluating a request for blanket authorization and what factors the Commission should consider when evaluating control over public utilities as part of a request for blanket authorization.

Commissioner Christie concurred in a separate statement, stating that there is a potential conflict between the interests of investment companies and the public service obligations that an electric utility has. As a result, Commission Christie stated the NOI is timely and compelling to explore whether investment companies are actually exerting control over electric utilities rather than acting as passive investors and to examine whether FERC's blanket authorization policies adequately protect the electric utilities' customers. Commissioner Christie noted that while Congress has directed the Commission to streamline regulations to facilitate greater investments in the utility industry, this should not come at the expense of protecting consumers. Commission Christie further stated that it is the Commission's task to balance these responsibilities and continually evaluate this balance.

Initial comments on the NOI are due 90 days after publication in the Federal Register, with reply comments due 120 days after publication in the Federal Register.

FERC's NOI, issued in Docket No. AD24-6, can be found here.

Troutman Pepper

by Quintessa Davis and Russell Kooistra

December 29, 2023

Bureau of Transportation Statistics Releases Final Update to the Government

[Transportation Financial Statistics.]

The Bureau of Transportation Statistics (BTS) today released its final update to the Government Transportation Financial Statistics (GTFS), with data through 2021. The GTFS provides a set of maps, charts, and tables with information on transportation-related revenue and expenditures for all levels of government, including federal, state, and local, and for all modes of transportation. This year BTS will transition to a new product called Transportation Public Finance Statistics (TPFS). TPFS builds on the GTFS foundation buy increasing the granularity of the estimates and will include a preliminary release in June of 2024 (2022 estimates) as well as an annual release in December 2024.

Continue reading.

Friday, January 5, 2024

High-Yield Municipal Bonds: A Cautious Outlook for 2024

High-yield municipal bonds, a star performer in the financial arena with a 9.2% gain in 2023, are expected to tread on a different trajectory in 2024. Money managers, who had reaped the benefits of a limited supply of high-yield offerings and a broad market rally initiated in November of the previous year, caution against expecting a repeat performance.

Potential Challenges in 2024

The financial forecast for 2024 is mired with potential hurdles, including the possibility of the Federal Reserve cutting interest rates and an increase in municipal issuers making a beeline to borrow. The slowing U.S. economy could especially impact sectors such as nursing homes, tobacco bonds, and charter schools, that form a significant chunk of the high-yield muni market.

A Growing Concern for Defaults

A survey by Hilltop Securities has raised red flags about potential defaults, particularly in senior living facilities. The survey found 45% of the respondents, who were high-yield muni investors, expressing their concern. Financial institutions, BNY Mellon Wealth Management and Barclays, echo this sentiment of caution with their prediction of a subdued performance for high-yield munis. Barclays, in particular, forecasts mid-to-low single-digit returns.

Presidential Elections and Market Performance

The upcoming U.S. presidential election is poised as a potential game-changer for high-yield muni performance. Changes in economic policies, a likely outcome of the election, could send ripples across the financial sector, influencing the performance of these bonds.

Optimism Amid Uncertainty

Despite the cautious outlook, there are optimists like Franklin Templeton Fixed Income's municipal-bond team who believe in the potential for improved performance. The team opines that with interest rates on the decline and capital availability, the stage could be set for better performance if mutual fund inflows occur. However, recent data from LSEG Lipper paints a different picture, showing outflows from high-yield muni funds and indicating investor hesitation. Market participants are advising prudence in the face of economic uncertainties and potential Federal Reserve rate cuts in 2024.

By: BNN Correspondents

Published: January 5, 2024

Investors Expect Tepid Returns for High-Yield Munis After Stellar Year.

- **A gauge tracking high-yield munis surged 9.2% in 2023**
- **Supply and demand dynamics supporting such debt remain strong**

Money managers don't anticipate another banner year for high-yield municipals, one of the best-performing sectors of US debt in 2023.

Junk muni bonds posted a 9.2% advance for the full year, the most since 2019. Returns were buoyed by a lack of high-yield supply and a widespread market rally starting in November.

The market could look different this year if the Federal Reserve cuts interest rates and muni issuers rush to borrow. A slowing US economy also doesn't bode well for a sector that's largely made up of nursing homes, tobacco bonds and charter schools, said John Flahive, head of fixed income at BNY Mellon Wealth Management.

Continue reading.

Bloomberg Markets

By Maxwell Adler and Amanda Albright

January 5, 2024

The Bloomberg Tape: Jobs, Munis, and Ozempic

Ben Emons, Head of Fixed Income at NewEdge Wealth, joins to give his market reaction to the jobs report for December. Chris Brigati, Senior VP and Director of Strategic Planning at SWBC, joins to discuss the muni bond market. Simone Foxman, reporter with Bloomberg News, joins to discuss her story on the burden weight loss drugs are having on state budgets, US taxpayers, and the healthcare system. Kristin Pothier, US Healthcare Lead at KPMG, joins to discuss the outlook for M&A in the healthcare sector in 2024. Julia Pollak, Chief Economist at ZipRecruiter, joins to break down the jobs report and outlook for hiring in 2024. Hosted by Paul Sweeney and Lisa Mateo.

Listen to audio.

Bloomberg

Jan 05, 2024

States and Localities In 2023: A Look At the Top Stories of the Year

The first half of the year was marked by the end of pandemic-era benefits. The second half was dominated by the shutdown. All the while, leaders were preoccupied with infrastructure, technology and flags.

The U.S. House voted 749 times this year, but passed just 27 bills—making Congress the least productive in decades. But that's not the story in state and local government. 2023 has been a busy year, and Route Fifty's top 10 stories show the breadth of topics that leaders from statehouses to city halls have been dealing with. This is just a sampling, of course. Other big stories of the year covered electric vehicles, bail reform, broadband, gas stoves, artificial intelligence, passenger rail, housing and more.

Continue reading.

ROUTE FIFTY

DECEMBER 29, 2023

2023 Trends from NLC's Center for Research and Data Analysis.

As the countdown to 2024 begins, it is important for local governments, of all sizes and geographies, to keep an eye on key trends impacting their communities. To help stay ahead of the curve, the NLC Center for Research and Data Analysis staff highlights a few key takeaways from recent research that will continue to inform and be of interest in the year ahead…

Municipal Finance

Against the backdrop of elevated but moderating inflation, cities can expect to see continued real growth in their tax revenues in the coming year, enabling the expanded funding of public services and infrastructure projects. At the same time, local governments are engaging in cautious budgeting headed into 2024, which may prove to be beneficial in the long run, as they have built up significant fiscal reserves and avoid excessive spending. Check out NLC's recent report: City Fiscal Conditions 2023.

Continue reading.

National League of Cities

by Joshua Franzel, PhD

DECEMBER 19, 2023

State and Local Governments Rake in Surpluses after Pandemic.

State and local governments accumulated $1.3 trillion in excess savings during the pandemic recession and subsequent recovery, from first quarter 2020 to second quarter 2023. Much of this excess is due to large federal transfers and high tax receipts relative to prepandemic trends.

While excess household savings have been credited with helping support U.S. economic resiliency throughout 2023, households were not alone in amassing excess savings after the pandemic. The existence of large sums in state and local government coffers runs counter to historic post-recession trends. State and local governments usually grapple with budget shortfalls due to rising social program demands and weak revenue streams following recessions.

Spending deadlines, along with requirements about how the funds should be used, accompanied most federal pandemic relief funds distributed to state and local governments. Additionally, many state and local governments face political pressure to pass accumulated non-pandemic relief funds along to households via transfers or tax cuts, for example. These factors may lead to sizeable drawdowns in state and local government excess savings over the next few years.

Continue reading.

dallasfed.org

by Ron Mau and Fang Yang

December 19, 2023

Cost Efficiency of Municipal Green Bonds' Measures: A Marginal Abatement Cost Curves Approach

This paper aims to investigate the cost-efficiency of the carbon reduction measures financed in Swedish municipalities through the scheme of municipal green bonds using the marginal abatement cost curves (MACCs) methodology.

Read the paper.

sei.org

Tommaso Piseddu
Research Associate

Fedra Vanhuyse
Head of Division: Societies, Climate and Policy Support

Published on 21 December 2023

Investor Jitters or Legitimate Concerns? Decoding the State Revenue Decline and Its Impact on Municipal Bonds.

Municipal bonds are typically seen as a boring fixed income sector. Volatility and defaults

are both low. So, when any type of risk begins to grow, it tends to make investors nervous. And right now, a major risk is starting to brew.

The cash that helps pay for muni bond coupons—state and local revenues/taxes—is starting to slip.

But should investors actually be concerned or is this just a case of the boy who cried wolf? Is the recent dip in state revenues the start of a worrisome trend? The data suggests that it may not be a real concern.

Trending Lower

Taxes. They are the lifeblood of state and local governments. States rely on income taxes for about 40% of revenues and sales taxes for more than 35% of total revenues. Without this cash flowing in, they can't pay for essential services and expansion plans. They also can't pay their debts. Normally, this isn't a worry and muni bonds feature some of the lowest default rates of any bond type. But when something upends the apple cart of taxes, investors start to take notice. And that's just what is happening today.

State and local governments' revenues are starting to slide.

[Continue reading.]

dividend.com

by Aaron Levitt

Dec 22, 2023

[Puerto Rico Electric Power Authority v. Assured Guaranty: SIFMA Amicus Brief]

SUMMARY

Court:
U.S. Court of Appeals
(First Circuit)

Amicus Issue:
Whether a "pledge" of revenue is merely an unsecured promise. Whether the special revenue provisions of the Bankruptcy Code only protect the lien on revenues that are already on deposit with the trustee. Whether revenue bondholders do not have a contractual right to payment in full, but merely an unsecured claim for an amount calculated in an estimation proceeding.

Counsel of Record:

Faeger Drinker Biddle & Reath LLP

by Laura E. Appleby & Kyle R. Hosmer

[Read the Brief.]

[Fitch U.S. Charter School Rating Criteria: Discussion Paper (Potential Changes to Charter School Rating Methodology in Advance of Exposure Draft)]

Fitch Ratings believes that components of its current "U.S. Public Finance Charter School Rating Criteria," particularly the criteria's treatment of some major revenue defensibility factors, may be better characterized as scalable, rather than "asymmetric" credit factors. ("Asymmetric" factors have only neutral or negative rating impacts.) Fitch's new view of revenue defensibility would add the possibility that certain factors — such as charter renewal prospects and certain governance metrics, including authorizer framework — may have positive rating impacts, instead of just neutral or negative "asymmetric" impacts. Fitch's existing criteria resulted in "weaker" revenue defensibility profiles for almost all charter schools, effectively limiting ratings across the sector. A potential shift in view is that competitive funding positions vary widely among issuers and could result in higher revenue defensibility profiles for a subset of charter schools. Issuers that may receive higher revenue defensibility assessments will demonstrate favorable attributes across Fitch's proposed enhanced revenue defensibility factors, including authorizer funding and charter renewal protocols, competitive position, academics and certain governance metrics.

ACCESS REPORT

Wed 20 Dec, 2023

America's Billionaire Sports Team Owners Had a Banner Year Getting Public Handouts for Extravagant New Stadiums.

Standing on a portable stage erected at home plate of the Milwaukee Brewers ballpark, Wisconsin Gov. Tony Evers recently praised the professional baseball team as an "essential part" of the state's "culture and identity" and "economic success."

With fanfare, Evers then signed off on $500 million in public aid for the stadium's renovation, adding to a remarkable run of such blockbuster deals. This year alone, about a dozen Major League Baseball and National Football League franchises took steps toward new or improved stadiums.

A new wave of sports facility construction is underway. One driven, in part, by a race to keep up with rivals and one that could collectively cost taxpayers billions of dollars despite skepticism from economists that stadiums boost local economies.

Continue reading.

BY DAVID A. LIEB AND THE ASSOCIATED PRESS

December 24, 2023

Tobacco Bonds Are on Fire, Defying the Odds.

Backed by cigarette sales, they continue to thrive despite high rates and declining smoking

Anyone who has tried to quit smoking knows that cigarettes are tough to resist—almost as hard as it is for politicians to keep their hands off big piles of money.

Smoking and government spending had a rare chance to interact in the late 1990s when the largest American tobacco companies agreed to pay $206 billion over 25 years to 52 U.S. states and territories in exchange for those jurisdictions giving up future legal claims against them. The payers and the terms have been tweaked over the years as a result of more companies joining and lawsuits involving some states, but they are now effectively payments in perpetuity.

At least 21 states or territories, plus local entities within some of them, didn't want to wait for the money to trickle in, taking it up front and transferring that risk to municipal bond investors. Even after all these years, tobacco bonds are close to 9% of the high-yield municipal bond market, according to analysts at Invesco. Unlike those who buy bonds secured by the full faith and credit of a state government with taxing authority, though, tobacco bond investors typically have no recourse if the cash runs low.

Continue reading.

The Wall Street Journal

By Spencer Jakab

Dec. 28, 2023

Why Small US Colleges Are Struggling Financially.

Scores of small colleges in the US are facing growing pressures from demographic changes and increasing costs. Speaking with Vonnie Quinn and Sonali Basak, Nic Querolo also discusses the outlook for municipal bonds in 2024.

Watch video.

Bloomberg Markets Muni Moment

December 27th, 2023

States Will Need Millions to Protect Affected Wetlands.

After the U.S. Supreme Court stripped federal oversight of millions of acres of wetlands, the financial maintenance of those lands now falls to the states. It could take years for them to address the loss of federal standards, if they do it at all.

Earlier this year, the U.S. Supreme Court stripped federal oversight from millions of acres of wetlands long protected under the Clean Water Act. Now, erecting safeguards to ensure those waters are not polluted, drained or filled in by developers falls to the states.

They're finding that it's not easy.

“States and tribes already didn’t have enough funding to support the programs they have, and now they are being put in a position where they need to step up,” said Marla Stelk, executive director of the National Association of Wetland Managers, a nonprofit group that represents state and tribal regulators.

Continue reading.

governing.com

by Alex Brown, Stateline

Dec. 29, 2023

Private Credit Attracts Billions From US Pension Plans.

- **State and local funds boost allocations to booming sector**
- **Retirement plans seek higher returns, but there are risks**

US state and local retirement funds are pumping billions into private credit, joining the stampede into a booming sector of finance in the pursuit of higher returns.

These systems are collectively allocating at least $100 billion of their roughly $5 trillion in assets into private debt, according to Equable, a bipartisan pension researcher founded by public finance leaders. While that’s only a sliver of their holdings at present, funds’ private credit positions have been steadily growing and are poised to take off as pension plans including the California Public Employees’ Retirement System — the largest among its peers and a bellwether — show a keen interest in committing more to the space.

Continue reading.

Bloomberg Markets

By Shruti Singh

December 18, 2023

Forbes: These Are Good Times For Bond Investors And Mid-Cap Stocks

“It’s sort of opposite day in the financial markets,” George Bory said during Allspring Global Investment’s market-outlook press conference. “But for bond investors, these are good times.”

Bory, the firm’s chief investment strategist for fixed income, said earlier this month in New York that 2024 may be more challenging for equities, but that the bond market is well supported because fundamentally monetary policy is tight, inflation is falling, and economic growth is slowing. He said these are the three most important factors that bond investors want to see.

Headquartered in Charlotte, N.C., Allspring manages $551 billion in assets. The global asset management firm started in 2021 after Wells Fargo sold it to two private equity firms: Reverence

Capital and GTCR, which own 70% of Allspring.

Continue reading.

Forbes

by Lawrence Carrel

December 27, 2023

Fitch: Relative Calm for U.S. State & Local Governments in 2024

Fitch Ratings-San Francisco/New York-11 December 2023: Both U.S. state and local government ratings are in a strong fiscal position with a recession looking less likely in 2024, according to Fitch Ratings in its outlook report for the sectors.

Fitch has a neutral sector outlook for state and local governments in the coming year despite slowing economic growth for the U.S. That said, the country should be able to avoid tipping into a technical recession in 2024, which is good news for state and local government fiscal dynamics as they are closely tethered to the macro environment.

“A combination of strong reserves, significant liability reductions and other prudent budget management measures leave state and local governments well positioned,” said Senior Director Eric Kim.

Though the pace of tax policy changes slowed in 2023, it remains historically high with some measures altering the fundamental provisions of a tax code. “Tax cuts can have unexpected consequences for taxpayer behavior and economic response, particularly cuts that cover broad aspects of tax policy as Fitch observed in some states,” said Kim. Revenue volatility that significantly exceeds a state’s expectations could pose near- and medium-term fiscal risks.

Commercial real estate exposure, and particularly office exposure, is another area of increased focus for local governments, most of which have sufficiently diverse revenue structures and predominantly residential tax bases. “Larger urban centers with substantial commercial office space remain sensitive to secular changes in office policies and commuting patterns,” said Senior Director Michael Rinaldi.

Fitch’s ‘U.S. States and Local Governments Outlook 2024’ is available at ‘www.fitchratings.com’.

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S&P U.S. Public Finance 2023 Year In Review: Better Than Expected

Key Takeaways

- Credit fundamentals were relatively strong this year for most sectors, and we expect this to continue as we look ahead to 2024. Some sectors are facing credit pressure and their challenges will be detailed in our 2024 sector outlook publications.
- Higher interest rates and inflation, coupled with our expectations for slower economic growth in the year ahead, will create headwinds from a credit perspective.
- Proactive management and governance are key to credit stability, given the broad range of risks facing governments and not-for-profit entities such as extreme weather events, cyber attacks, demographic shifts, labor force imbalance, and workplace trends.

Continue reading.

12 Dec, 2023

NASBO State Expenditure Report.

View the NASBO report.

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

View the S&P list.

15 Dec, 2023

S&P U.S. Public Finance Rating Activity, November 2023

Download S&P Report.

Fitch Rtgs 2024 Outlook: Strong Credit Profiles Support US CDSL Sector

Despite Expected Slowdown

Fitch Ratings-Chicago/San Francisco/New York-13 December 2023: While the U.S. economy has remarkably averted recession thus far, the U.S. Community Development & Social Lending (CDSL) sector is not out of the woods just yet. Although Fitch is no longer forecasting a recession in 2024, the U.S. economy is expected to slow sharply as higher interest rates and a slowdown in bank credit weigh on consumer spending and private investment. However, Fitch believes that CDSL issuers are well-positioned to face these headwinds.

"Issuers in the CDSL sector have repeatedly demonstrated their resilience and adaptability during turbulent economic times," says Karen Fitzgerald, Fitch Senior Director and Sector Head. "Given their strong financial profiles, conservative risk management practices, effective oversight, and successful track records, we expect CDSL issuers to remain steadfast as they face ongoing uncertainty and the continuing challenges of housing unaffordability and limited market access in 2024."

Fitch made 19 downgrades and one upgrade to the sector's ratings in 2023. Sixteen of the 19 downgrades were driven by direct linkages of U.S. housing finance agency (HFA) loan programs to the U.S. sovereign rating, which Fitch downgraded on Aug. 1. These 16 credits are primarily secured by mortgage-backed securities (MBS) issued by Ginnie Mae, Fannie Mae and/or Freddie Mac.

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Corporate and Municipal CUSIP Request Volumes Rise in November.

NORWALK, Conn., Dec. 14, 2023 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for November 2023. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly increase in request volume for new corporate and municipal identifiers.

North American corporate requests totaled 5,907 in November, which is up 4.3% on a monthly basis.

On a year-over-year basis, North American corporate requests closed the month up 15.9% over year ago totals. The monthly volume increase was driven by a 5.6% increase in request volume for corporate debt and a 3.1% increase in requests for U.S. corporate equity identifiers. November also saw a 5.1% increase in request volume for short-term certificates of deposit (CDs) with maturities of less than one year, while request volumes for long-term CDs (maturities greater than one year) fell 9.0%.

Municipal request volume rose 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 – climbed 2.7% versus October totals. On a year-over-year basis, overall municipal volumes are down 6.0%. Texas led state-level municipal request volume with a total of 146 new CUSIP requests in November, followed by California (72) and Indiana (70).

Continue reading.

KBRA Releases Research – 2024 Public Finance Sector Outlook: U.S. Airports Navigate Strong Post-Pandemic Landing

KBRA believes the U.S. airport sector has successfully weathered the COVID-19 pandemic and the accompanying sharp decrease in passenger activity that began in March 2020. The combination of generally robust pre-pandemic balance sheet resources, federal recovery payments together with expenditure reductions, as well as support of airlines/concessionaires all contributed to financial stability. Also crucial were cost recovery mechanisms embedded in airline use and lease agreements that ensured coverage of debt service requirements. Significant federal aid (~$18.5 billion) was provided to airport operators as economic assistance to prevent, prepare for, and respond to the pandemic and to offset the loss of revenues.

Key Takeaways

- Passenger activity approached, and in many instances exceeded pre-pandemic volume, although recovery was uneven across airports.
- Federal recovery funds, airport operator actions, and balance sheet resources assisted in maintenance of stable financial postures.
- Significant infrastructure needs remain to be addressed and financing source adequacy is ongoing.
- Environmental issues as well as potential reputational and cybersecurity risks remain prominent.

Click here to view the report.

December 12, 2023

S&P U.S. Not-For-Profit Retail Electric Sector Update And Medians: Despite Some Deterioration, Resilient Metrics Support Ratings

Key Takeaways

- Nearly 60% of S&P Global Ratings' not-for-profit 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, yet we are seeing that inflationary pressures are affecting some utilities where retail rates are not increasing in lockstep with cost increases or are exhibiting rising delinquent accounts.
- Median financial metrics for fixed-charge coverage and debt to capitalization have held for the past three years, and we attribute this to widespread rate-setting autonomy, the general practice of passing through power and fuel costs to ratepayers, and credit-supportive management policies and practices.
- However, even as the median nominal amount of available financial reserves has increased over the past three years, median days' liquidity has slightly declined as utility operating expenses have increased.
- We lowered the rating on seven credits while raising the rating on three credits in 2023 through November. We revised four outlooks to negative from stable and two to positive from stable.

Continue reading.

13 Dec, 2023 | 19:34 United States of America

Fitch: Federal Funds Ease US Water Utilities' Capex Burden but Gap Remains

Fitch Ratings-New York/Austin-12 December 2023: The American Rescue Plan Act (ARPA) and the Bipartisan Infrastructure Law (BIL) provide important funding support to water and sewer utilities to address needed infrastructure improvements and maintenance, Fitch Ratings says. Despite the significant infusion of funds, Fitch estimates a funding gap in excess of $85 billion over the next five years that will need to be covered by paygo or additional debt.

Federal funding under ARPA and the BIL is supportive of water utility credit quality as it helps maintain and improve existing infrastructure, thereby moderating increases in Fitch's life cycle ratio, a measure of the age of capital assets. Federal grants under these laws also offset some of the need for new debt funding and significant rate increases to address capital plans, supporting overall affordability.

Utilities face increasing capex costs given inflation, aging infrastructure, and Environmental Protection Agency (EPA) mandates and proposed rules, namely per- and polyfluoroalkyl substances (PFAS) remediation, Lead and Copper Rule Revisions (2021) and Lead and Copper Rule Improvements (2023), which would require most water systems to replace lead service lines within 10 years.

Water supply and sewer construction spending were up 15.3% and 27.2%, respectively, in October 2023 from a year ago, according to Census data. Within the Fitch-rated portfolio, five-year capex/depreciation ratios have been increasing year over year, exceeding 150% since 2019, reflecting sustained, robust capital spending. This spending has kept the Fitch-calculated life cycle ratio relatively stable at around 37% for the last several years.

The EPA estimates $625 billion of total water infrastructure needs over 20 years for states and territories, according to the September 2023 Drinking Water Infrastructure Needs Survey and Assessment (DWINSA), based on 2021 data. This represents an increase of 32% from the last survey based on 2018 data. Distribution and transmission compose the largest need at 67% of total infrastructure needs. Lead line replacement alone is estimated to cost between $50 billion and $80 billion, per the DWINSA.

The BIL provides $35.7 billion in funding through 2026, the majority of which will be grants or principal forgiveness loans, specifically for water infrastructure ($50 billion total inclusive of wastewater funding). ARPA funding separately supports an estimated $55 billion of additional water/sewer investments through 2026. Much of this funding will flow through State Revolving Funds (SRFs). Funding eligibility is not solely based on capital needs, as a significant portion of federal grant amounts are set aside for disadvantaged communities.

The EPA also provides a standard annual SRF allotment via the drinking water ($1.1 billion in 2023) and clean water ($1.6 billion in 2023) SRFs with each receiving an additional 20% state match. Recent use of congressional earmarks benefiting certain states over others and proposals to cut annual SRF funding could limit this resource in the future. However, the proposed cuts do not appear to have broad support and may not make it into the final federal budget.

The funding gap between infrastructure needs as assessed by the EPA and annual SRF allocations (inclusive of state match requirements), ARPA and BIL funding is likely to widen after ARPA and BIL programs expire. It may need to be filled by additional borrowing or deferring discretionary capital projects.

Federal and state financing options may also be available, but most will be in the form of loans instead of grants. This includes low-cost loans provided through the Water Infrastructure Finance and Innovation Act (WIFIA) program and state programs such as the State Water Implementation Fund for Texas. The municipal water systems of Chicago and Philadelphia received significant WIFIA loans to replace lead pipes, and Orange County Water District, CA received funding to address PFAS contamination.

S&P: Pending Federal Regulation Could Significantly Affect Thousands Of U.S Water Utilities

Key Takeaways

- Per-and-polyfluoroalkyl substances (PFAS) contamination could pressure liquidity reserves and affordability in the U.S. water utilities sector, as the costs will likely be passed through to consumers
- Small utilities would be more vulnerable to credit deterioration due to the effects of the proposed regulation
- S&P Global Ratings views the impact of PFAS regulation on health and safety positively given heightened public awareness around potential forever chemical contamination

Proposed federal regulation related to emerging contaminants could affect the credit quality for thousands of U.S. water utilities, given the potential for increased capital and operating costs that could pressure rate flexibility.

In March 2023, the Environmental Protection Agency (EPA) proposed a national primary drinking water regulation for PFAS, otherwise known as forever chemicals, which is expected to be finalized in the next several months. For water utilities across the U.S., the proposed MCL might result in costly treatment upgrades, ongoing monitoring and asset replacement, disposal, and staffing.

S&P Global Ratings anticipates these costs will require meaningful rate increases in a rising-cost environment. Regulatory pressure, rising interest rates, and inflationary cost pressures are expected to weaken affordability for some utilities, especially smaller providers with vulnerable demographic characteristics. Failure to pass through mandated costs could weaken financial margins and credit quality.

Annual Financial Impact On Sector Could Approach $3 Billion

Initial costs might be limited to simple testing and ongoing monitoring of the water supply, but at the most stringent proposed MCL, the EPA estimates 4,300 water utilities will be affected by one or more PFAS contaminant. The American Water Works Association estimates that could grow to 7,000 utilities, with a total financial impact on the sector of nearly $3 billion annually in additional operating and maintenance costs. Disposal of toxic biosolids, carbon filters, and any other contaminated treatment bioproducts is estimated to add $3.5 billion in annual costs for U.S. utilities. In our view, these costs are substantial, but we view favorably the effects to health and human safety, with advanced treatment providing higher water quality and customer confidence in addition to upgrading technology, which can be used to meet further regulatory requirements.

We view smaller utilities and those with vulnerable economic metrics as particularly at risk, given the more limited ability to pass-through costs and thinner operating margins and nominal liquidity. We expect that if the proposal is implemented, utilities might seek regional partnership or consolidation to better manage capital expenses and leverage economies of scale, which we view favorably. Higher cost burdens will fall on utilities with less-diversified water-supply or have large watersheds exposed to industrial use. In addition, identifying and sourcing a new water supply, if PFAS detections occur, can have significant cost implications for utilities. The proposal's three-year implementation period for utilities means demand for granular activated carbon, certified operators, and construction bids will grow and potentially escalate costs, exposing utilities to supply chain and inflationary challenges.

Many utilities have successfully implemented remediation efforts ahead of the finalized MCL, incorporating the capital and operating costs associated with enhanced treatment. We believe utilities that demonstrate strong relationships with major industrial customers and their rate-base will fare better in the long term as installation of pretreatment and timely adoption of rate increases assist in maintaining stable operating margins through the capital-intensive period. We believe transparency and accountability are critical to ratepayer trust, incorporated within our view of rate-setting flexibility through our Operational Management Assessment. Furthermore, financial costs could be defrayed by successful litigation against primary polluters such as 3M and Dupont, which are currently expected to pay approximately $12 billion and $1 billion, respectively. The U.S. government is also expected to provide grants and additional funding opportunities, which we view favorably. However, we note federal funding will not be available for operating costs past initial design and build.

11 Dec, 2023

S&P U.S. Not-For-Profit Health Care Rating Actions, November 2023

S&P Global Ratings maintained 16 ratings without revising the outlooks, took three positive rating actions and three negative rating actions in the month of November. In addition, we revised two outlooks favorably, revised two outlooks unfavorably, and placed one issuer on CreditWatch with negative implications, all without changing the ratings in the U.S. not-for-profit health care sector.

There were three new debt issuances in the month, with two ratings maintained and one raised on H. Lee Moffitt Cancer Center & Research Institute. In addition, Novant Health was placed on CreditWatch with negative implications due to a definitive agreement to purchase three hospitals for $2.4 billion, which is likely to be fully financed by debt.

The 10 rating actions and outlook revisions consisted of the following:

- Three upgrades on one system and two stand-alone hospitals all in the 'A' category;
- Three downgrades on one system and two stand-alone hospitals in the 'A', 'BBB', and 'BB' categories;
- Two favorable outlook revisions on stand-alone hospitals with both revised to positive from stable; and
- Two unfavorable outlook revisions on one long-term care facility to negative from stable and one stand-alone hospital to stable from positive.

Continue reading.

13 Dec, 2023

Hospitals Creeping Toward Recovery Grapple With 'Out of Control' Costs.

- **Facilities are still grappling with labor shortages, expenses**
- **Investors are bullish on the sector as returns rebound**

During the depths of the pandemic, hospital operator Main Line Health managed to keep all of its beds open and avoid layoffs. But the suburban-Philadephia system struggled like the rest of the industry with spiraling costs and shortages, and had to bring in 250 outside nurses to cope with pressing demand.

Today, most of those agency nurses are gone and a bump in payments from private insurers points to better fortunes for Main Line and its four hospitals. Things "are a little better and they will get better this year," President and Chief Executive Officer Jack Lynch said.

Yet even as the bottom line looks set to improve, Lynch frets over pressures old and new, including expenses that remain significantly higher. "Inflation is literally out of control," he said in an interview. It's a familiar story.

Continue reading.

Bloomberg

By Lauren Coleman-Lochner

December 13, 2023

[Charter Schools Get Squeezed in Retreat From Low-Rated Debt.]

A slowdown could add to pressure on a sector facing belt-tightening

At the Academy for Sciences & Agriculture, highlights of 2023 include improved reading scores and a high-school play based on the board game Clue. Investors are chewing over a less upbeat development at the Minnesota charter school, though: a missed bond payment.

At charter schools, as elsewhere, boom times have given way to belt-tightening, raising questions about who will survive. Higher salaries and dwindling federal Covid aid are stretching revenues and squeezing budgets. Repayment problems are rising in the $30 billion market for the low-rated bonds sold by K-12 public charter schools, according to research firm Municipal Market Analytics.

At the same time, higher rates on ultrasafe bonds have sapped investor interest in risky charter-school debt, limiting stressed schools' access to new financing. Charter-school bond issuance dropped to $2.8 billion this year through Dec. 13 after averaging $4 billion to $5 billion since 2019, according to a Municipal Market Analytics analysis of Bloomberg data.

Continue reading.

The Wall Street Journal

By Heather Gillers

Dec. 15, 2023

[Why Hackers Are Targeting Schools and Hospitals: WSJ Podcast]

You've seen the headlines. High-profile companies are hit by a cyberattack, and customer information is stolen. But some hacks don't make headlines. These days, hackers are holding data hostage from public sector organizations like schools, hospitals and utilities. This means that local governments are spending big to clean up after these attacks and prevent new ones. It's not just bad news for students and patients. Municipal bond holders can also take a hit. WSJ reporter Brenda León joins host Alex Ossola to talk about how municipalities are looking to protect themselves against future breaches.

Listen to the podcast and read the transcript.

The Wall Street Journal

12/11/2023

[AI Is Coming Soon for Governments' Information. What's It Worth?]

States and localities may have hidden treasure in their data that can be profitably unearthed by commercial interests. Governments need to be able to realize the value of

their data while still protecting the public.

Recent developments in artificial intelligence are likely to make it possible for data scientists to probe public-sector information sources for a variety of commercial interests. Just as hedge funds looking to exploit information advantages now pay for satellite imagery of parking lots, farmland crop progress and oil rigs, there will soon be new ways for private investors and marketing wizards to glean a competitive edge from information now stored in public-sector computers.

For an obvious example, governmental financial data now stored in various databases will hold keen interest for municipal bond investors. Such information is collected now by the Municipal Securities Rulemaking Board in its electronic database. Other organizations own complementary pieces of the puzzle, which could have commercial value when combined by an analytical engine to provide insights into potential bond ratings changes, default risks and subtle improvements in financial measures. Those could change the market valuation of billions of dollars of tax-exempt securities. And that is just one use case.

Other state and metropolitan public information sources are likely to offer similar treasure troves of raw data that can now be compiled into analytical warehouses by scraping information from public websites. There are likely to be dozens of other types of governmental data files routinely maintained for internal use, but not presently posted on the Internet, which could still be searchable under Freedom of Information (FOI) requests.

Continue reading.

governing.com

OPINION | Dec. 12, 2023 • Girard Miller

GFOA 2023 Awards for Excellence Winners Announced.

The six winners are examples, above all, of what comes from embracing change. These include stories of resilience, financial stewardship, and community consensus that help one town recover after a natural disaster, while another makes a generational investment in the future.

LEARN MORE

Bloomberg Muni Market Breakdown.

Nick Venditti, Senior Fixed Income Portfolio Manager at Allspring Global Investments, joins to discuss the bond market and gives his Fed outlook. Hosted by John Tucker and Bailey Lipschultz.

Listen to audio.

Dec 15, 2023

Muni Market's Mega Rally 'Likely Unsustainable,' BlackRock Says.

BlackRock Inc. says the municipal-bond market's rip-roaring rally is probably unsustainable.

US state and local debt posted a historic return of more than 6% in November and another 0.7% already in the first part of December. Those types of gains are very unusual for the traditionally staid muni market where investors are accustomed to monthly returns less than 1%.

After the rally that began in November, US state and local debt has gotten expensive compared to US Treasuries. BlackRock's muni team said in a note that the "trajectory of the rally is likely unsustainable" and noted the high valuations.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 11, 2023

Goldman Sachs and abrdn Optimistic on Muni Bonds in 2024.

This year proved a difficult one for bonds as the Federal Reserve aggressively hiked rates for much of the year. With the rate narrative changing moving into 2024, investors moved back into bonds in a big way beginning in October, including municipal bonds. Alexa Gordon of Goldman Sachs and Jonathan Mondillo of abrdn discussed the performance of muni bonds this year as well as opportunities heading into 2024 at VettaFi's 2024 Market Outlook Symposium.

Attendees were asked if they believed municipal bonds are attractive compared to U.S. Treasuries. Of the advisors participating in the survey, 78% reported they believe municipal bonds are attractive in comparison.

It's an insight that reflected the majority of this year's muni performance according to Alexa Gordon, PM and head of muni ESG at Goldman Sachs. In an environment of rising interest rates, munis offered outperformance compared to U.S. Treasuries. There are still tailwinds for munis heading into the new year, particularly given low supply and high nominal rates.

"I think there's a real potential for munis to continue to get more attractive as we head into 2024," Gordon explained.

Both Gordon and Jonathan Mondillo, head of U.S. fixed income at abrdn, agree that municipal bond attractiveness depends greatly on the time frame. Currently, Mondillo sees less opportunity in high-grade municipal bonds compared to U.S. Treasuries.

"When we dip down into… single A-rated municipals, BBB-rated municipals, and you look at it on a spread basis after tax, we think things look extremely attractive," said Mondillo.

Muni Bonds Prove Resilient in a Difficult Rate Environment

This year proved challenging for bonds in the face of continued and aggressive Fed rate hikes. In the last 30 years, municipal bonds have only generated a negative annual return four times. Munis looked on track to end negatively for the year until October when the inflation and rate narrative changed. Since then, munis have bounced back and look to continue the uptrend heading into 2024.

The outlook for rates appears more favorable looking ahead to 2024. In an environment of interest rate stability, bonds benefit as flows return. “Munis benefit from this even more, given the retail client base,” Gordon explained.

Despite aggressive rate hikes and resultant impacts on performance for the majority of the year, the recovery and performance of muni bonds exemplify the value of the asset class. “The fact that we can still end the year with positive returns — it speaks to not only the to the resiliency of the asset class more broadly, seeing the increasing demand, but also the importance of carry,” Gordon explained.

“The short to intermediate range is where we see most of those clients in the retail space playing

Retail investors are primarily concentrated in short to intermediate muni bonds for now. It makes sense, given that yields in municipal bonds between 1-10 years are currently around 3%. That’s 70 basis points above the 20-year average of the related index according to Gordon.

Municipal Bonds: “This is a Great Time to Put Money to Work”

What’s more, muni credit proved resilient this year. Given the strong credit fundamentals, Gordon believes “this is a great time to put money to work” to capture potential highs in muni bonds, even as they retreat from October peaks.

Challenges do exist next year, with many major cities forecasting budget deficits in 2024. However, municipal bonds are well fortified to ride out any economic slowing according to Mondillo. Munis currently carry high rainy day balances and “heavy reserve fund balances”.

In the face of economic slowdown, “municipalities will actually be able to weather that storm quite well,” Mondillo explained. “The asset class overall should insulate investors.”

Looking to the second half of 2024, the potential for rate cuts could prove a tailwind for munis. Investors sought refuge in money market funds and short-duration Treasuries while interest rates soared. Now with markets pricing in rate cuts beginning next year, yields continue to fall and bond prices rise. Increasingly more investors are moving money back into long-duration core bonds, including munis.

The rate path may deviate from current market expectations around Fed rates. That 2024 is also an election year will bring its own volatility to markets.

“There’s a lot of timing questions that are still to be seen,” Gordon explained. It makes predicting the medium-term difficult. For now, Goldman Sachs believes that munis will continue their trend of positive returns moving into 2024. The Goldman Sachs Community Municipal Bond ETF (GMUN) is passive and seeks to generate tax-efficient income. The strategy focuses on higher credit quality within investment grade munis with maturities between 1-15 years.

The abrdn National Municipal Income Fund (VFL) is a closed-end fund. It offers a longer duration strategy within munis and is offering distributions close to 4% tax-exempt.

ETFTRENDS.COM

by KARRIE GORDON

DECEMBER 14, 2023

Munis Are Thankful for November

November update

- Municipal bonds posted historic total returns of 5.90% in November.
- Rallying interest rates led the way, while strong demand aided outperformance versus Treasuries.
- Although valuations are tight, favorable seasonal dynamics still warrant optimism into the new year.

Market overview

Municipal bonds posted their strongest month in over 40 years in November. Falling interest rates provided leadership as slowing economic growth, moderating inflation, and a second-consecutive pause from the Federal Reserve prompted more dovish forward monetary policy expectations and pushed 10-year Treasury yields lower by 61bps. The asset class further outperformed comparable Treasuries, as investors positioned for improved demand and a dearth of supply into the new year. The S&P Municipal Bond Index returned a whopping 5.90%, bringing the yearto-date total return to 3.58%. Longer-duration bonds (i.e., more sensitive to interest rate changes), lower-rated credits, and the tobacco, Puerto Rico, hospital, and housing sectors performed best.

Issuance remained elevated in November at $36 billion, 11% above the five-year average, bringing the year-to-date total to $337 billion. However, supply was easily absorbed as investors raced to lock in high absolute yields as opportunities dwindle. As a result, deals were oversubscribed 6.3 times on average, above the year-todate average of 4.2 times. At the same time, mutual fund outflows slowed as performance rebounded. Late in the month, the asset class posted its first weekly inflow since August — notable given that November typically contends with sizable tax-loss harvesting.

Continue reading.

advisorperspectives.com

by Peter Hayes, James Schwartz, Sean Carney of BlackRock, 12/13/23

SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

- Issuance (as of November) $352.6 billion, -4.9% Y/Y

- Trading (as of November) $12.9 billion ADV, -7.7% Y/Y
- Outstanding (as of 3Q23) $4.0 trillion, -0.3% Y/Y

Download xls

December 7, 2023

S&P CreditWeek: What Are The Biggest Risks To Credit Markets In 2024?

View S&P's CreditWeek.

7 Dec, 2023

GFOA: Distinguishing Between Internal Cash Flows and Internal Resource Flows

Many governments incorrectly recognize inflows and outflows in the fund from or to which the initial cash flow occurs, rather than treating it as simply the cash conduit, effectively "grossing-up" the reported resource flows in that fund.

DOWNLOAD

Government Finance Officers of America

Publication date: October 2023

Author: Michele Mark Levine

RBC Is Getting More Resumes as It Becomes No. 2 Muni Underwriter.

- **RBC rose three spots, managing $32 billion in debt this year**
- **Resumes hit muni head Spangler's inbox amid industry upheaval**

RBC Capital Markets is having its best year on record, propelling the Canadian bank to become the No. 2 underwriter of US state and local debt.

Its public finance team led by Bob Spangler has risen three spots this year on Bloomberg's ranking of underwriters to its highest position ever and the best performance of a foreign bank. The top slots have been historically reserved for American behemoths including Bank of America Corp., JPMorgan Chase & Co. and Citigroup Inc.

RBC has been credited with managing over $32 billion of long-term municipal bonds this year, amounting to more than 9% of overall sales, according to data compiled by Bloomberg. That's up 2.7 percentage points from last year, one of the largest gains of any bank, the data shows.

Continue reading.

Bloomberg Markets

By Danielle Moran and Amanda Albright

December 7, 2023

[US Tries to Contain Hacking Campaign Targeting Water Systems.]

- **Hacking group behind attacks is tied to Iranian government**
- **Aliquippa water authority had to switch to manual systems**

US authorities are working to contain a campaign by Iranian hackers against multiple drinking water and sewage systems around the country.

“We are aware of active targeting by these actors and exploitation,” Eric Goldstein, executive assistant director for cybersecurity at the Cybersecurity and Infrastructure Security Agency, told reporters in a call on Monday. A “small number” of water utilities have been compromised, he said, and he urged operators to bolster security.

There has been no known impact on safe drinking water or operational systems, Goldstein said.

Continue reading.

Bloomberg Technology

By Katrina Manson

December 4, 2023

[Two Recent Cyberattacks on Water Systems Highlight Vulnerability of Critical Infrastructure.]

Pro-Iran hackers allegedly hit a system near Pittsburgh, causing it to replace its Israeli-made equipment as a precaution. Meanwhile, another group hit a system in North Texas and caused operational issues.

Two recent hacks on water systems by cyber gangs that sympathize with foreign, hostile governments show the ongoing vulnerability of critical infrastructure.

The Municipal Water Authority of Aliquippa in Pennsylvania was attacked on the Friday night after Thanksgiving. The hackers breached the system that it uses to manage water pressure and left a message on the affected device that equipment made in Israel is “a legal target” given the country’s ongoing war with Hamas.

The utility’s General Manager Robert Bible said it turned off the impacted equipment and operated one of its water pump stations in manual mode. Bible said the authority, which has about 15,000 customers, would replace the affected equipment to be safe.

Continue reading.

Route Fifty

By Chris Teale,
Staff Reporter, Route Fifty

DECEMBER 5, 2023

Bloomberg: Cybersecurity Threats Are On The Rise In the US

A series on cyber attacks that have taken place around the country are causing important municipalities serious issues like water treatment plants and hospitals having to shutdown. Anne Neuberger, Deputy National Security Advisor for Cyber and Emerging Technology says sometimes in periods of crises, we'll see an increase in a particular type of cyber attack.

Watch video.

Bloomberg Markets

December 8th, 2023

A Hidden Risk in the Municipal Bond Market: Hackers

Cyberattacks leave schools, hospitals and utilities struggling to pay ransom, restore services and boost security

Local governments are spending big to mop up after hacks and prevent new ones. That means peril—and opportunity—for the investors who buy their bonds.

Hacks are on the rise across all industries, but the public sector's weak protections make it an increasingly attractive target for cybercriminals. Cybercrime has left schools, hospitals and utilities from Baltimore to Los Angeles struggling to pay ransom, restore services and boost security. Finances have suffered, threatening credit ratings.

The number of K-12 public schools suffering ransomware attacks almost doubled between 2021 and 2022 to almost 2,000 a year, according to a report by Emsisoft, a cybersecurity company. The growing use of technology in education, which was accelerated by the Covid-19 pandemic, as well as healthcare's reliance on IT infrastructure, has made schools and hospitals particularly vulnerable, according to analysts.

"This year alone, we've seen a lot more of these attacks compared to prior years, and it's a concern that has come up in almost every discussion that we have with issuers," said Li Yang, lead analyst at S&P Global Ratings.

Cyberattacks on the Los Angeles Unified School District, the nation's second-largest school system, caused problems including the release of confidential student data. Superintendent Alberto M. Carvalho said officials convened a task force of cybersecurity experts to begin modernizing the district's technology. This year the school district sold hundred of millions of dollars of debt and plans to use $72 million to secure its technology infrastructure, according to a spokesperson.

So far, cyberattacks seem to act as a wake-up call for municipalities, leading to investments in security that reassure bondholders. Researchers at Massachusetts Institute of Technology found that following a ransomware attack, municipalities spent 50% more on technology and bond yields fell by 0.03 percentage point.

The Los Angeles Unified School District's renewed focus on cybersecurity attracted investors including Belle Haven Investments. Dora Lee, Belle Haven's director of research, said the firm views it as a boost for a borrower's creditworthiness when finance officials increase cybersecurity and the financial resources to weather an attack.

"Just as we evaluate whether or not a state or local government is continuing their investment in their physical infrastructure, we are also looking to see that continued investment in their IT software," Lee said.

No protocols govern disclosure about muni issuers' relative vulnerability to cyberattacks, ratings firms said. Downgrades would only come when the cleanup of a problem hurts the finances of the local government.

That leaves investors scrambling to keep up. Big incidents, such as the one that crippled Baltimore's city government computers in 2019, attract notice. Less-prominent attacks don't always get the same attention.

"Markets are watching more closely, as big cyberattacks get big headlines, but smaller ones don't," said Daniel S. Solender, partner and director of tax-free fixed income at the asset manager Lord Abbett.

The Securities and Exchange Commission voted earlier this year to adopt rules requiring publicly traded companies to report cyberattacks. Starting later this month, companies will have to describe the processes under which they identify in their annual reports material cybersecurity risks.

Ratings firms are asking local governments issuing debt about the protections they have in place—such as whether they have cyber insurance and how quickly they are prepared to respond and recover in case of a cyberattack, said Rudy S. Salo, public-finance attorney and partner at Nixon Peabody.

"Cybersecurity has evolved as a risk factor, and starting in 2018, you started to see due diligence questions disclosed in bond deals, and two years later, more and more rating agencies took notice," said Salo.

Analysts expect the sophistication and frequency of cyberattacks will continue to evolve but worry that cyber risk management remains underfunded. There is cyber insurance available, but the costs can be prohibitively high for small government agencies. Job retention in information-technology departments is likely difficult when competing with the private sector, according to analysts.

Governments "don't usually run with much excess cash to plow into a state-of-the-art technology," said Lisa Washburn, managing director at Municipal Market Analytics, a bond research firm.

The Wall Street Journal

By Brenda León

Dec. 7, 2023

[Dragos Launches Program to Provide Water, Electric Utilities With Free Cybersecurity Tools.]()

Cybersecurity company says it will give software free to operators with under $100 million in revenue

Cybersecurity company Dragos said it would provide free security software to small water, natural gas and electric utilities in the U.S., as a string of recent cyberattacks have drawn attention to weak defenses at critical infrastructure operators.

Dragos will provide tools for threat detection and hunting, vulnerability management and threat intelligence free of charge to utilities with less than $100 million a year in revenue, said Robert Lee, the company's chief executive. The Community Defense Program also includes membership in OT-CERT, an information and threat intelligence sharing group for industrial cybersecurity, operated by Dragos.

"Everybody communitywide, including governments, has been talking about how the small infrastructure providers just don't have the resources to do the cybersecurity work that we would like, and it really comes down, usually, to economics," Lee said. A pilot of the program was launched in 2022 following Russia's invasion of Ukraine, in which Dragos provided software to 30 U.S. organizations in light of threats stemming from the conflict.

Continue reading.

The Wall Street Journal

By James Rundle

Dec. 6, 2023

Fitch and Moody's Diverge on Financial Future of Hospitals.

- **It will be 'another make or break year' for sector, Fitch says**
- **Labor shortages and wage pressures will still compress margins**

Two major ratings firms disagree on how US hospitals will fare in the coming year.

Fitch Ratings said it's too soon to call a rebound in the not-for-profit institutions' recovery and maintained its deteriorating outlook on Tuesday. The caution comes a month after Moody's Investors Service upgraded its forecast on the sector to stable from negative.

Next year "will remain challenging and will be yet another make or break year for a sizable portion of the sector," senior director Kevin Holloran wrote in a note. He and co-author Mark Pascaris predict that downgrades will once again outpace upgrades in 2024.

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

December 5, 2023

[S&P: Historical Peak Of Negative Outlooks Signals Challenges Remain For U.S. Not-for-Profit Acute Health Care Providers]

Sector View: Negative

S&P Global Ratings expects a constrained operating environment in 2024 largely due to persistently high labor and operating costs, which, for many organizations, have not been entirely offset by generally improving revenue trends. Although acute contract labor expenses have dropped, many providers continue to contend with an imbalance between the rate of growth across expenses and revenue. As organizations ramp up longer-range capital plans and strategic investments, additional spending or debt issuances could also be a factor influencing credit quality, depending on balance-sheet strength and the level of cash flow improvement. The pace of margin recovery, supported by labor management, throughput and efficiency gains, and performance improvement plans, coupled with balance-sheet and enterprise strengths, will be key for providers to maintain credit quality in the coming year.

Continue reading.

6 Dec, 2023

[S&P Outlook For Global Not-For-Profit Higher Education: Credit Quality Divergence Continues]

U.S. Sector View: Bifurcated, Still

Our view of the sector in the U.S. remains mixed. Competition for students is intensifying, operating expenses are rising, and schools are facing budget pressures, but these hurdles aren't affecting all colleges and universities equally. Our sector view is negative for less selective, more regional institutions without financial flexibility; we expect they will face significant credit stress in 2024. However, our sector view is stable for institutions with strong demand and financial resources that are better equipped to manage and will likely maintain or strengthen their positions.

Continue reading.

7 Dec, 2023

S&P: U.S. Local Governments And School Districts Still Benefit From

Stimulus As The Clock Ticks Down

Key Takeaways

- Nearly four years after the start of the pandemic, U.S. local governments that received federal stimulus are using it for a variety of needs, although as of summer 2023 approximately 55% of State and Local Fiscal Recovery Fund (SLFRF) and Elementary and Secondary Emergency Relief Fund (ESSER) dollars remained unobligated and/or unspent.
- The flexibility provided by stimulus dollars over the past several years allowed issuers to offset other costs, which helped raise reserve levels; in some cases higher reserves led to a slight improvement in overall credit quality.
- Local governments and school districts that used the money to fund salary increases or other ongoing costs will need to replace the federal dollars with ongoing revenues or risk credit deterioration, which is exacerbated by high interest rates and inflationary pressures.

Continue reading.

4 Dec, 2023

Schools Deal with Worst Budget Outlook Since the Great Recession.

"The long and the short of it: It's bad. It's very, very bad," Davis Joint Unified School District Superintendent Matt Best said of the $2 million budget deficit forecast for the next school year. On Thursday night, trustees saw a budget that was as dismal, if not worse than the Great Recession.

With the California Legislative Analysts Office reporting a $68 billion budget deficit after months of low tax revenues, schools and community colleges can expect a $18.8 billion, three-year state funding deficit.

Based on how much money the state has given school districts over the last two years and expects to give this year, they've over-appropriated the minimum guarantee afforded by Proposition 98.

Continue reading.

By Monica Stark, Enterprise staff writer

Biden to Invest $8B Toward Vision for Nationwide Expansion of Passenger Rail.

The long-awaited grants for construction and planning show that the administration is unfazed by attacks in Washington over the popularity of passenger rail, with nearly every state receiving money.

President Joe Biden, known for decades as the U.S. Senate's most loyal Amtrak passenger, unveiled his administration's vision for a more robust passenger rail network throughout the country, with more than $8 billion in funding for big-ticket projects and grants for better service in nearly every state.

The president traveled to the crucial swing state of Nevada to announce the awards Friday, highlighting a $3 billion grant his administration is giving to help a private company build a line between Las Vegas and the suburbs of Los Angeles where trains are expected to travel 186 mph. Proponents hope the new line will be in service by the time L.A. hosts the 2028 Summer Olympics. That and other large awards for the California high-speed rail project in the Central Valley and a new line between North Carolina and Virginia had already become public earlier this week.

But these new awards cover a much broader swath of projects across the country. The administration will spend nearly $94 million to add capacity to Chicago's Union Station, $143 million to improve service between Pittsburgh and Harrisburg in Pennsylvania, $27 million to upgrade tracks used by Maine's Downeaster Amtrak route and $15 million to eliminate bottlenecks in Montana. Virginia is in line to receive another $729 million to add more capacity between Richmond and Washington, D.C., including a new rail bridge over the Potomac River.

Continue reading.

Route Fifty

By Daniel C. Vock,
Senior Reporter, Route Fifty

DECEMBER 8, 2023

FERC Denies Muni Complaint on Proposed RNG Interconnection Request: Troutman Pepper

On November 30, 2023, the Commission denied the Minnesota Municipal Power Agency's ("MMPA") complaint alleging that Northern Natural Gas Company ("Northern") violated the Natural Gas Act ("NGA") by refusing to execute an interconnection agreement for MMPA's planned renewable natural gas ("RNG") facility in Elk River, Minnesota ("Elk River Project"). The Commission denied MMPA's complaint without prejudice because the complaint was unripe since Northern has yet to act on MMPA's interconnection request.

In November 2021, MMPA submitted an interconnection request to Northern to interconnect its Elk River Project. After the request was submitted, Northern clarified that MMPA would first need to conduct an environmental review for the Elk River Project. MMPA stated in its complaint that even after MMPA submitted an updated interconnection request, provided an environmental assessment, and responded to several informational requests, Northern still refused to execute an interconnection agreement. Eventually, MMPA filed its complaint at FERC requesting that the Commission require Northern to provide MMPA with an executed interconnection agreement to introduce RNG from the Elk River Project into Northern's pipeline system. In its complaint, MMPA alleged that Northern: (1) violated the NGA and Commission precedent by requiring that the RNG satisfy biomethane or RNG specifications that are not included in Northern's FERC gas tariff; (2) applied the Commission's interconnection policy improperly and applied it in an unduly discriminatory manner; (3) violated the Commission's open access requirements by applying "biomethane standards" that resulted in a different standard of review for interconnections involving RNG; and (4) caused business and financial harm to MMPA by refusing to sign MMPA's interconnection request.

Among other arguments in response, Northern requested that the Commission deny the complaint as unripe. Northern claimed that it had neither denied nor unreasonably delayed an interconnection with MMPA since its review of the Elk River Project was still ongoing. Specifically, Northern stated that it was still conducting its due diligence to avoid potential contamination of its system by hazardous waste and threats to pipeline operations. Northern added that the Elk River Project had to follow the same interconnection application process as other projects, and that additional review was needed for the proposed Elk River Project because it sources gas from a landfill that was a former Superfund site, as opposed to agricultural feedstock.

The Commission denied MMPA's complaint without prejudice, holding that the complaint was unripe because Northern had not yet acted on MMPA's interconnection request. The Commission explained that the record showed that discussions were ongoing at the time of the complaint and that Northern had narrowed its information requests to MMPA to reach a resolution, but MMPA had not responded at the time of the complaint.

The order can be found here.

Troutman Pepper – Antonia Douglas and Mary-Kate Rigney

December 8 2023

Fitch Revises 2024 Sector Outlook for U.S. Water Utilities to Neutral.

Fitch Ratings-New York/Austin-06 December 2023: Inflationary pressures will continue to ease for U.S. water utilities in 2024, so much so that Fitch Ratings has moved its sector outlook to neutral from deteriorating, according to its outlook report for the sector.

Water utility costs rose over 3% in 2023 on the back of a 6.5% inflationary increase in 2022. However, the rate of inflation appears to have crescendoed and will likely continue to level off in the coming year. "Water utilities have now worked higher operating and capitals costs into their budgets," said Senior Director Audra Dickinson. "With the operating environment now on more stable footing, water and sewer systems seem to have greater certainty around budgeting for the upcoming year."

Water utilities' operating budgets for 2024 reflect more standard rates of increase around chemicals, labor, supplies and power. However, it is important to note cost decreases are not likely, resulting in a new norm for water utilities.

Two other areas of focus for 2024 include the increased frequency and worsening severity of extreme weather events, and the rising potential for cyberattacks to cripple water systems.

Water utilities are working to expand and improve resiliency of water supply and contend with unforeseen expenses that can arise in the aftermath of severe weather events. On the cyber front, water and sewer utilities continue to work toward adhering to certain cybersecurity best practices absent any formal regulation. "Shorter-term spending would likely focus on conducting cybersecurity assessments, but any identified vulnerabilities or successful breaches at a utility could result in unforeseen capex," said Dickinson.

Fitch's "U.S. Water and Sewer Outlook 2024" report is available at www.fitchratings.com.

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U.S. Public Power Acclimating to a Calmer 'New Normal' in 2024.

Fitch Ratings-Austin/New York-07 December 2023: U.S. public power utilities are entering a period of relative calm in the coming year, according to Fitch Ratings in its 2024 Outlook report.

Fitch is changing its sector outlook for public power to neutral for 2024 from deteriorating in 2023. While operating costs are expected to be modestly higher, the worst appears to be over. Easing inflationary headwinds have led a new normal where utilities have to account for higher across-th--board costs which, in many cases, could translate to rate increases.

“Natural gas costs have stabilized at lower levels, though slower economic growth and persistently high interest rates could contribute to lackluster operating performance,” said Senior Director Kathy Masterson. “Capacity constraints and proposed environmental rules are increasing long-term concerns that could dampen performance over time.”

Longer term, risks related to generating capacity constraints and energy shortfalls are growing, raising the spectre of higher wholesale energy prices and “rolling blackouts”. Extreme temperatures together with burgeoning data and AI-related load will likely drive record peak demand for electricity, while drought conditions, plant retirements and wildfire risks could challenge resource availability.

Pressures related to wage growth, regional labor shortages and protecting systems against cyberattacks and the effects of climate change, appear more manageable. That said, “a breach of critical utility assets from cyberattacks that halt service or require ransomware payments could negatively affect utility financial performance and could result in widespread public and private sector shutdowns,” said Masterson.

Fitch’s ‘U.S. Public Power and Electric Cooperatives Outlook 2024’ report is available at ‘www.fitchratings.com’.

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Additional information is available on www.fitchratings.com

Bloomberg Muni Notes and Outlook.

Joe Mysak, columnist with Bloomberg News, joins to discuss the municipal bond market. Hosted by Nathan Hager and Bailey Lipschultz.

Listen to audio.

Dec 08, 2023

Why Municipal Bonds Are So Attractive Right Now.

Stephanie Larosiliere, Invesco's head of municipal business strategies, discusses what makes muni bonds an attractive investment right now with Romaine Bostick and Scarlet Fu on "Bloomberg Markets: The Close."

Watch video.

Muni Moment – Bloomberg Markets: The Close

December 6th, 2023

Retail Buyers Spur Muni Trading Record, Biggest Rally Since 1982.

- **Mom-and-pop investors piled into municipal bonds last month**
- **Record number of trades executed in November, MSRB data show**

Municipal-bond trading soared to an all-time high in November as mom-and-pop investors snapped up bonds, driving the market's best month of performance since the 1980s.

There were 1.5 million trades in November, which was a monthly record, according to the the Municipal Securities Rulemaking Board. The regulator said that demand from small-time investors was a major factor in the spike in trading.

In November alone, AAA benchmark yields dropped over 90 basis points depending on the maturity, according to Bloomberg BVAL. The surge in interest came amid a global bond rally on growing optimism the US central bank is nearly done hiking interest rates and will soon have to hit pause on its tightening regime.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 4, 2023

[Bloomberg: Muni Bond Funds Poised for 20% Gains Even After November's Surge]

- **Leveraged closed-end funds rallied with broader market**
- **Steep discount, Fed cuts, activism seen powering returns**

Municipal bond funds that use borrowing as a way to juice returns had a banner month in November, surging almost 12%. Some market watchers say that's only just the start.

Leveraged closed-end muni funds rallied along with the broader market as evidence of slowing job growth and cooling inflation convinced traders that the Federal Reserve's rate-rise cycle is over. Further gains may be in store should the central bank pivot to cutting rates next next year, as many now expect.

But there's more to the story. Despite last month' gains, leveraged closed-end muni funds are still trading at steep discounts to their net asset value. In the past, this has set them up for a market-beating performance. Taken together, these conditions — combined with the arrival of activist investors looking to push measures that would boost funds' share value — paint a bullish picture for the sector.

Continue reading.

Bloomberg Markets

By Martin Z Braun

December 6, 2023

JPMorgan Chief Addresses the E.S.G. Backlash.

Mr. Dimon has called the Texas laws bad for business, highlighting the work the bank does to fund schools, hospitals and other businesses.

Jamie Dimon, the chief executive of JPMorgan Chase, said on Wednesday that he would now "punch back" over Texas's 2021 efforts to restrict the state's business with financial firms that embrace environmental, social and governance policies.

Texas passed two laws in 2021 that limit the state's work with banks that regulators determine restrict their work in the energy and firearms industries. JPMorgan spent much of 2022 on the sidelines from underwriting municipal bonds in the state.

Mr. Dimon has called the Texas laws bad for business, highlighting the work the bank does to fund schools, hospitals and other businesses.

Continue reading.

The New York Times

By Lauren Hirsch

Nov. 29, 2023

[$1.5 Billion Now Available In Federal Transportation Grants.]

A variety of road, transit, rail and trail projects are eligible for funding under the Transportation Department's popular RAISE program.

State and local governments could get a slice of up to $1.5 billion to complete critical freight and passenger transportation infrastructure projects, the Biden administration announced Thursday.

The U.S. Department of Transportation issued a notice of funding opportunity for the 2024 Rebuilding American Infrastructure with Sustainability and Equity, or RAISE, program. Earlier this year, it handed out $2.2 billion under the program to 162 major projects across the country.

"Thanks to President Biden's leadership, we are delivering safer, cleaner infrastructure to communities of every size and in every part of the country, creating a new generation of jobs and helping families build generational wealth in the process," Transportation Secretary Pete Buttigieg said in a statement.

Continue reading.

Route Fifty

By Elizabeth Daigneau,
Executive Editor, Route Fifty

DECEMBER 1, 2023

S&P Sustainability Insights: North American Wildfire Risks Could Spark Rating Pressure For Governments And Power Utilities, Absent Planning And Preparation

Key Takeaways

- To maintain profitability in regions exposed to climate hazards, insurance companies manage losses by implementing various strategies, including discontinuing writing new business
- Collaboration between different levels of government, as well as an entity's planning and preparedness for emerging risks, could help offset exposure to wildfire risk
- Certain U.S. state regulatory frameworks can increase the credit risks from wildfires for public power and investor-owned utilities, potentially leading to litigation risks

Continue reading.

[Free registration required.]

29 Nov, 2023

[US Lead Water Pipes to be Replaced in 10 Years Under Proposed EPA Rule.]

The “vast majority” of lead drinking water pipes would need to be replaced within 10 years under proposed Lead and Copper Rule Improvements announced Thursday, a top EPA water official said.

The Environmental Protection Agency’s proposed rule calls for water systems to replace a minimum of 10% of their lead pipes annually with a goal of replacing 100% nationwide within 10 years—a dramatic update to a Trump-era rule that took effect in 2021. The EPA expects to finalize the new rule in 2024.

The Trump rule reduced the number of lead pipes that need to be replaced annually to 3%—down from 7% under the original 1991 lead and copper rule.

Continue reading.

Bloomberg Green

By Bobby Magill

November 30, 2023

Fitch: New Nuclear Projects Remain a Challenge for Public Power

Fitch Ratings-New York-29 November 2023: Absent broader joint action, improved cost competitiveness and/or greater certainty of cost and delivery, most U.S. public power systems are unlikely to pursue new nuclear construction over the next few years, and those that do face the risk of weakened credit quality, Fitch Ratings says.

The recent announcement by the Utah Associated Municipal Power Systems (UAMPS) and NuScale Power to terminate their Carbon Free Power Project (CFPP) illustrates the challenges facing public power systems as they consider new nuclear construction. The CFPP was created by UAMPS to develop the nation’s first-generation small modular reactor nuclear plant, to be located at the Idaho National Laboratory near Idaho Falls, Idaho. The project planned to deploy six, 77-megawatt nuclear power modules provided by NuScale Power. Energy from the project was slated to replace generation from coal plants to assist members in decarbonizing their energy portfolios.

The project was unable to attract interest from enough purchasers to continue development, despite the plant’s modular design, improved safety measures and the offer of low-cost government funding, likely due to schedule delays and cost concerns. Earlier this year, UAMPS raised the estimated cost of the project to $9.3 billion from $5.3 billion, and the cost of power to $89/MWh from $58/MWh, reflecting higher interest rates and inflationary pressures.

Nuclear energy is important to the public power sector, accounting for roughly 7% of the sector’s capacity and nearly 18% of generated energy. Publicly-owned utilities, together with the country’s electric cooperatives, own 19% of the nation’s nuclear generating capacity and have benefitted from the strong performance of the operating reactors, most of which were completed between 1970 and

1990. Since 2000, the nation's nuclear units have recorded a capacity factor of 91%, helping systems achieve their objective of reliable and affordable power.

Interest in new nuclear generation should remain piqued as a result of proposed Environmental Protection Agency (EPA) rules to limit carbon-dioxide emissions from power plants, as well as widening concerns about the effects of climate change and more aggressive carbon-free energy standards. However, until the cost of new construction can be assured through insurance or guarantees provided by the U.S. government or highly creditworthy entities, widespread ownership agreements can broadly distribute and limit project exposure, and new design construction is proven to be both feasible and replicable, these risks will remain formidable barriers to participation.

Nuclear projects are large, costly and complex, and developers have a historically poor record of completing new projects on time and within budget. New projects launched at the Summer and Vogtle nuclear stations in 2013 were plagued by scheduling delays, fabrication challenges, labor shortages and significant cost overruns almost from the beginning of construction. While the first of the new Vogtle units entered commercial operation earlier this year, and the second unit is expected to come online in 2024, the project is seven years late and $16 billion over budget. These challenges contributed to rating downgrades of co-owners MEAG Power and Oglethorpe Power Corporation between 2017 and 2021. Construction of the new Summer units was ultimately halted in 2017, similarly contributing to downgrades of the South Carolina Public Service Authority (Santee Cooper).

The Tennessee Valley Authority completed its Watts Bar Unit 2 in 2016 after work was suspended in 1985 and resumed in 2007. However, the final cost was roughly $2 billion higher than initially planned. The operational breadth and financial strength of TVA allowed the utility to absorb the costs and maintain its then current ratings.

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[Unveiling the Crucial Role of Financial Forecasting in Shaping Annual Rates for U.S. Public Utilities.]

U.S. public utilities, like water, wastewater and solid waste, are generally operated by government entities or local municipalities. These governing entities establish dedicated

departments within their overall operations to oversee the planning, construction, operations and maintenance of the aforementioned public utilities for their citizens. Depending on the size and complexity of overall operations, we may see public utilities structured in the following models: Municipal Utilities Department (MUD), Utility Authorities/Districts, Public-Private Partnerships and Cooperative Utilities.

Regardless of the model, the primary goal is to ensure the reliable and efficient delivery of essential services to the public while adhering to regulatory standards and maintaining growth and strong fiscal health. Typically, the utility operations are largely funded through the utility rates that citizens pay for these services. Hence, the need to review and adjust the utility rates is the single critical piece to ensure the longevity and growth of any utility operation are adequately funded to meet future demands.

In this article, we will take a closer look at the process of utility rate setting and the dire need to incorporate comprehensive financial forecasting in the entire process.

Continue reading.

dividend.com

by Jayden Sangha

Nov 28, 2023

JPMorgan Sees Sky-High Rates Reviving Short-Term Muni Deals.

- **Public finance bankers have more talks on short-term products**
- **Fixed-rate debt was all the rage during low interest rate era**

Decades-high interest rates are poised to revive interest in a little-used corner of the municipal-bond market: variable rate deals.

That's according to the public finance leaders at JPMorgan Chase & Co., the third-biggest underwriter in the $4 trillion market who say talks with US state and local government clients about short-term securities, typically tied to variable interest rates, are picking up.

The Federal Reserve's tightening regime continues to ripple through the muni bond world with the talks signaling a shift away from years of bond sales being structured with fixed-interest rates as municipalities tried to lock in ultra-low borrowing costs.

Such discussions with issuers haven't taken place in a long time, according to Jamison Feheley, head of public finance investment banking at the bank.

"It was really hard to argue against — why would you do anything but long, fixed-rate debt when 30-year paper was in the 2% range?" Feheley said in a Zoom interview on Nov. 29. "Why wouldn't you lock that in?"

Now, he said issuers are thinking strategically about whether to incorporate short-term debt products into their portfolios. He said they may be reluctant to "lock in" their debt with longer, fixed-rate bonds while rates remain elevated.

Floating-rate notes, for example, can be tied to the yield on the Sifma Index which is currently 3.3%. Yields on the gauge of short-term municipal borrowing costs that resets weekly have been below fixed-rate 30-year AAA benchmark debt, which currently sits at 3.7%, since September.

For debt issuers, offering the securities represents a bet that short-term interest rates won't go higher.

JPMorgan's public finances team expects a stronger year for muni sales next year. Issuance this year is essentially flat, or down 2%. This month, the team's muni strategists led by Peter DeGroot forecast an 8% bump in muni issuance in 2024.

A revival of deals by hospitals and healthcare entities may prove to be a bright spot next year as the sector recovers from Covid-related pressures and pursues tie ups. Healthcare is "is really poised for a significant uptick in 2024," Feheley said. That will be driven by hospitals' capital needs as well as activity from mergers and acquisitions in the space, Feheley said.

Charles Giffin, head of public finance at the bank, sees 2024 kicking off on a high note as issuers benefit from the current bond rally which has pushed yields downs. November was the best month for state and local debt since the 1980s, with the securities notching a 6.4% gain.

"January's going to be a great time to issue debt," he said.

Bloomberg Markets

By Amanda Albright

December 1, 2023

[Bloomberg Muni Market 2024 Look Ahead]

Joe Mysak, editor of the Bloomberg Brief: Municipal Markets, joins to discuss the muni bond market. Hosted by Paul Sweeney and Molly Smith.

[Listen to audio.]

Bloomberg Markets

Dec 01, 2023

[US Is Going Through 'Muni Renaissance': Vanguard's Will]

Nathan Will, Vanguard's head of municipal credit research, says municipal bond yields are "tremendously attractive" on "Bloomberg Markets: The Close."

[Watch video.]

November 29th, 2023

Munis Haven’t Rallied So Much in a Month Since Paul Volcker Ran the Fed.

- **Bloomberg index heads for its best monthly gain since 1986**
- **Falling Treasury yields and lower muni bonds sales fuel rally**

The last time the municipal bond market rallied so much, it was Paul Volcker — and not Jerome Powell — who was winning a war on inflation.

Fueled by growing speculation that the Federal Reserve has tamed inflation enough to start cutting interest rates next year, everything from Bitcoin to tech stocks to Treasuries have rallied sharply this month. For state and local government debt, it has been a particularly heady run: They’ve delivered a return of more than 5% in November, the best month since January 1986.

The swift, surprising surge has been enough to lift returns and erase losses. The Bloomberg muni index is now up nearly 3% for the year, a rebound from a loss of 2.2% at the end of October. Benchmark yields for muni bonds due in 10 years reached below 2.74% Wednesday, the lowest since mid August.

Continue reading.

Bloomberg Markets

By Shruti Singh

November 29, 2023

Investors are Using Bond Insurance More than Before the Pandemic: Build America CEO

Sean McCarthy, CEO at Build America Mutual, joins Bloomberg Radio to discuss his business, launching BAM, credit outlook for municipal borrowers, and demand in the muni bond markets.

Watch video.

Bloomberg Markets

November 29th, 2023

Closed-End Muni Funds Now Trade at Biggest Discount in 18 Years.

Closed-end municipal bond funds have been hammered during the recent selloff in fixed-income markets and now trade at the widest discounts to their asset value in the past 18 years.

Big funds—such as the $2.8 billion Nuveen AMT-Free Quality Municipal Income Fund (ticker: NEA), at around $9.66, and Nuveen AMT-Free Municipal Credit Income Fund (NVG), at about $10.35—are trading at 16% to 17% discounts to net asset value.

Over the past year, the average muni closed-end fund discount has been closer to 10% and the long-term average is around 5%.

The Nuveen AMT-Free Quality Municipal Income Fund yields 4.3% while the Nuveen AMT-Free Municipal Credit Income Fund, which has a sizable chunk of its assets in bonds with lower credit ratings or none at all, yields 5%. The average muni closed-end fund yields almost 5%.

Continue reading.

Barron's

By Andrew Bary

Sept 30, 2023

AllianceBernstein: Municipal Impact Investing: The First Step Is Identifying the Need

NORTHAMPTON, MA / ACCESSWIRE / November 28, 2023 / Municipal bonds issued by school districts can have a direct impact on helping kids stay in school, especially in communities where they're most likely to drop out. But the need isn't always easy to spot. This makes it challenging to know if a bond will effectively target the problem. So, how can muni investors know where or whether their bond will make an impact? Here's how we figure that out early on, and it starts with data. For example, school districts generally offer free or discounted meals to students who qualify. Understandably, schools within underserved communities experience higher participation in such programs.

But if we overlay meal program participation rates with enrollment trends from 2017 to 2021, another troubling pattern emerges: the same communities that heavily rely on subsidized school lunches – 60% and up – also struggle the most to keep their students in classrooms. Enrollment declines in these districts were almost five times greater than those with the lowest lunch program participation.

Declining enrollment can have concerning developmental consequences for students and financial consequences for schools, which rely on enrollment-based state and federal support. The reasons behind enrollment losses can vary, from outward migration to the rise in homeschooling. But disturbingly, over one-third of enrollment declines in recent years can't be accounted for by increases in private or home schooling or by changes in demographics. These students have simply gone missing from the system.

Continue reading.

AllianceBernstein

Tue, November 28, 2023

Why Invest In Taxable Municipal Securities?

A taxable municipal bond is a non-tax-exempt fixed-income security issued by a local government to finance projects that the federal government will not subsidize. In this article we explain what taxable municipal securities are, why you should invest in them and how they fit into your portfolio.

What are taxable municipal securities?

Taxable municipal bonds are debt securities issued by states, cities, counties, and other governmental entities, often to finance a project or activity that may directly or indirectly benefit private industry. They differ from tax-exempt municipal bonds in that they are subject to federal tax; Internal Revenue Service rules disqualify municipal bonds from eligibility for federal tax exemption if there is a substantial private use or benefit associated with the bond issue. However, taxable municipal bond issues are often exempt from state and local taxes, meaning that investors who purchase bonds issued within their home state will receive interest income that is only taxable at the federal level. Compared to US Treasuries or tax-exempt municipal securities, these generally offer a higher yield. Bond proceeds are often used to finance industrial development or to improve public pension funding levels. Bear in mind that the Tax Cuts and Jobs Act (TCJA) of 2017 eliminated advance refunding of municipal bond issues on a tax-exempt basis. [1]

Taxable municipal bonds are popular among investors who cannot take advantage of federal tax exemption. These investors include pension funds and foreign investors.

Why invest in taxable municipal securities?

Taxable munis appeal to fixed income investors for a variety of reasons. First, they are perceived to be safer than other taxable alternatives. When one considers the 10- year cumulative default rate of investment grade municipal securities (0.09%) against global corporate bonds (2.23%) with comparable credit ratings, municipal bonds are a safer asset class when protecting against issuer default, according to Moody's.

Second, taxable municipal securities often provide more attractive yields than many global bonds and other corporate debt. For example, the average yield on the 10- year AAA rated taxable muni was 2.9% over the past several years. By comparison, yields on many sovereign bonds with comparable maturity remained at much lower levels over the same time frame. On average, Japanese and German 10-year government debt yields were 0.09% and 0.43%, respectively.

At the same time, AA taxable munis often provide incremental yield pickup vis-à-vis investment grade corporate debt with comparable credit ratings.

Third, for US investors, some taxable municipal issues are exempt from state and local taxes within the state of issuance. For investors who reside in states that impose a high personal income tax rate such as California, New York, and New Jersey, the state and local tax advantage associated with taxable munis can be noteworthy.

How do taxable municipal securities fit into your portfolio?

Taxable municipal bonds are appealing to investors seeking an incremental yield opportunity while maintaining a strong credit rating. They are also attractive for tax-deferred investment accounts such as IRAs, 401(k)s, and pension funds, where tax-exempt municipal bonds are less appropriate. Additionally, these bonds have attracted demand from foreign investors who traditionally did not invest in municipal securities because they could not reap the tax benefits. Based on the Federal

Reserve Flow of Funds data, foreign buyers increased municipal holdings from the end of 2013 (USD 73.8bn) through 2021 (USD 118.7bn), before falling back a bit to USD 108.4bn by 2Q23, reflecting a volatile rate environment.

The taxable municipal market comprises bonds with longer duration when compared to corporate bonds. Examining the maturity distribution of a basket of taxable munis shows that almost 50% come due at the 15-year maturity and beyond. By comparison, only about 25% of an investment grade corporate index includes longer-dated bonds. As a consequence, the taxable muni sector can provide opportunities to add duration or match long-dated liabilities within an overall wealth management strategy.

What are some of the key risks?

The taxable muni market is less liquid than either the corporate bond market or the market for sovereign securities. Also, when purchasing taxable munis as with other fixed income investments, a thorough understanding of early call risk is necessary. Make sure to read the full report for further information on risks.

For ongoing developments in the taxable municipal bond market, please see our monthly report, *Fixed Income Strategist*.

by UBS Editorial Team

Main contributor: Kathleen McNamara, CFA, CFP, Municipal Strategist, CIO Americas

28 Nov 2023

Munis in Good Shape to Face a Recession: Fitch's Bohner

Arlene Bohner, Fitch Ratings head of US public finance, says most US public finance entities are in good shape to weather a recession on “Bloomberg Markets: The Close.”

Watch video.

November 22nd, 2023

S&P: US Voters Approve Over $44B in New Local Government Bonds

US voters signaled a decided willingness to fund new local infrastructure and other projects during the Nov. 7 elections.

Relatively high interest rates failed to curb taxpayers’ spending appetite, as voters approved more than $44 billion in municipal bonds designated for schools, roads and other public infrastructure uses. A further $29.78 billion is still pending as of Nov. 14, according to data compiled by S&P Global Market Intelligence.

Continue reading.

by Ingrid Lexova

20 Nov, 2023

Hospitals' Appetite for Borrowing Returns After Pandemic Years.

- **Four hospitals plan to tap the market for bond sales**
- **Wage and staffing expenses ease as profit margins rebound**

Hospitals are returning to the municipal-bond market after shying away since the pandemic.

The sector is now "through the trough" financially, said Matt Cahill, an analyst at Moody's Investors Service, which upgraded its outlook for not-for-profit hospitals to stable earlier this month, citing moderating expenses and increasing revenues as patients return for treatment.

"There are health systems from different parts of the country working on deals," said Daniel Steingart, a vice president at Moody's, adding that he's seeing appetite for borrowing return

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

November 22, 2023

Public Debt Crisis is Here: Mark Zandi

Wall Street has been on guard about rumblings in the US financial system. Moody's Analytics Chief Economist Mark Zandi joins Yahoo Finance Live to weigh in on the state of the financial sectors and areas for concern following regional bank failures in early 2023.

Zandi states the system is "this engine that's shaking under stress" of higher interest rates and does not predict stabilization until the yield curve evens out. Furthermore, Zandi expresses concern about liquidity risks in the US Treasury market, from ballooning debt and warnings of a potential "freezing up" on bonds. When asked about the reality of the public debt crisis, Zandi plainly states: "We're here."

For more expert insight and the latest market action, click here to watch this full episode of Yahoo Finance Live.

Continue reading.

Yahoo Finance Live

by Eyek Ntekim and Jared Blikre

Wed, Nov 22, 2023

Navigating Public-Private Partnerships To Drive Value In Collaboration.

Critical infrastructure projects—whether a desalination plant or a suspension bridge—help support economic activity and catalyze growth and development. Yet, roadblocks like a lack of talent or raw materials can deter progress.

To overcome these challenges and see projects through effectively, I think it's important to recognize ways that government agencies and the private sector can team up. As we enter 2024, I believe it is time to embrace public-private partnerships as a true form of collaboration.

How Do Public-Private Partnerships Work?

Working together, private companies and government entities can combine their strengths to develop, design, finance and operate large-scale infrastructure projects soundly.

Continue reading.

Forbes Business Council

by Lihy Teuerstein

Nov 20, 2023

Lihy Teuerstein, CEO of IDE Water Assets, an expert on large-scale water infrastructure projects and alternative procurement.

S&P: U.S. Privatized Student Housing Stabilizes As Recovery Continues And University Financial Support Dwindles

Key Takeaways

- S&P Global Ratings raised two ratings and revised five outlooks to positive on U.S. privatized student housing issuers in the past year, as many projects' operations rebounded to pre-pandemic levels.
- Occupancy continues to increase slowly as more projects near full capacity.
- Financial operations have stabilized, given increases in rental revenue and occupancy since the onset of the pandemic in early 2020.
- As of fiscal year-end 2022, two projects have underfunded debt service reserve funds, but most have increased their reserves.

Continue reading.

20 Nov, 2023

As Groundwater Dwindles, Powerful Players Block Change.

Here are some of the people fighting efforts to conserve a vital resource that's disappearing across the United States.

From a small brick building in Garden City, Kan., 13 men manage the use of groundwater across five million acres in the southwest corner of the state, some of the most productive farmland in America for corn, wheat and sorghum.

They serve on the board of Groundwater Management District 3, which since 1996 has overseen the pumping of 16.2 trillion gallons of groundwater — enough to fill Lake Mead, the country's largest reservoir, twice over.

The board is elected, but not by everyone: The only people eligible to vote are large landowners, a group of less than 12,000 people in an area of roughly 130,000. And in some years, fewer than 100 people actually vote. Others — cashiers at Walmart, teachers at the community college, workers at the local St. Catherine Hospital — have no say in the management of the aquifer on which they, too, rely.

Continue reading.

The New York Times

Nov. 24, 2023

Want to Understand Your Neighbors? Go to a Municipal Meeting.

Part theater, part dirge, occasionally part circus, the meetings on any given night fill with people united by a common cause.

Last winter, spurred by discontent, I made my way to the town hall. I didn't know where to stand, where I would find the sign-up sheet or quite where to look when I spoke into the small microphone. But it doesn't take long to fall in line with the rhythms of a municipal meeting. It's a scene as fascinating as it is frustrating, as enlightening as it is disappointing, a startling mix of civic failure and success — often in a single night — and I have continued to enter the meeting chambers with regularity ever since.

What first took me here was a collective effort to convince the Town Council to prohibit the use of gas-powered leaf blowers. (It was quite a ride, but last summer we succeeded.) What I experienced over many months compelled me to continue attending the Town Council meetings and to add others — the Planning Board, the Historic Preservation Commission, the Board of Education — all part of the connective tissue of our town's six square miles and two ZIP codes. And it turns out, I can stream all of them from home, most on the town's YouTube channel, which means on certain nights these meetings play out in my family's kitchen.

Part theater, part dirge, occasionally part circus, the meetings on any given night fill with people arriving on their own or as part of small groups, united by a common cause. In time, themes appear: the Fire Department's budget, a controversial development project, pedestrian safety, a dearth of senior services, cannabis licenses. Attend enough, and you come to recognize fellow regulars, exchange nods, smiles and eye rolls while you sit alongside one another, wait in a snaking public comment line or whisper in the hallway. Once, when a contentious meeting went late, someone, perhaps anticipating the rancor, passed out homemade cookies.

Continue reading.

The New York Times

By Jessica Stolzberg

Nov. 22, 2023

California's Resilience: A Closer Look At Municipal Bonds in the Golden State

As one of the largest states in economic prowess and population, it stands to reason that California is one of the largest issuers of municipal debt. As such, it features prominently in many national municipal bond funds. At the same, as a high tax state, California munis are a top draw for investors living within the Golden State's borders. So, when concerns about California's finances creep into the news, it makes sense that investors get nervous.

But they may not have anything to worry about.

California is on some of the surest footing in decades. A hefty rainy day fund, high tax receipts and other factors make it an ideal destination for muni investors. Whether that be those who reside in-state or out of state.

Continue reading.

dividend.com

by Aaron Levitt

Nov 21, 2023

Bloomberg Muni Market Outlook.

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, joins to discuss the muni bond market. Hosted by Paul Sweeney and Carol Massar.

Listen to audio.

Bloomberg Markets: The Tape

Nov 24, 2023

'Weird' Muni Bond for Virginia Tire Recycler Offers Juicy Yield, No Risk.

- **Escrow bonds with mandatory put preserve tax-exempt allocation**
- **Structure delivers 'free lunch, dinner and dessert' for buyer**

Municipal bonds can often seem like the quirky cousins within the $53 trillion US fixed-income market. But sometimes being a little weird pays.

Consider the $65 million in environmental improvement revenue bonds sold last week by the Southampton County, Virginia, Industrial Development Authority for a new tire-recycling project. The facility, to be located at a logistics center in the southeastern portion of the state on the border with North Carolina, will "demanufacture" car and light truck tires into scrap steel, solid fuel, liquid fuel and syngas, according to the preliminary official statement to the bonds. A private company, PRTI, is running the project and will be the ultimate borrower.

Resource recovery has a spotty record in the municipal bond market. Of the $57 billion in municipals in distress or default, $1.86 billion was used to finance resource recovery, according to data compiled by Bloomberg. But investors in the bonds sold last week don't need to worry about that risk because recycling isn't repaying the bonds.

And that's where the quirkiness comes in.

The debt was sold only to preserve the private-activity bond allocation made by the commonwealth of Virginia that will allow PRTI to use relatively low-cost tax-exempt financing to build the facility. The use of tax-exempt financing to benefit private companies – offered by municipalities to boost local economies — is capped by the federal government and expires if it's unused in a given year.

So the new bonds are a sort of placeholder. The money raised in the debt offering will be invested in US Treasury securities and put into an escrow account, and the bonds are subject to a mandatory tender next June. At that point PRTI will come to market with new bonds and use the proceeds of that issue to build the new facility in Virginia.

The bonds, rated Aaa by Moody's Investors Service, were priced at par — or 100 cents on the dollar — with a 4.88% coupon on Nov. 6. At the time, top-rated municipal bonds maturing in a year were yielding 3.54%, according to the Bloomberg BVAL yield curve. So investors picked up more than 1.25 percentage point in extra yield, basically just because of the eccentricities of the municipal market.

And as it says right on the cover of the bond offering documents, "The Bonds are being offered only to investors who, in making their investment decision, rely solely on the Government Obligations and any cash on deposit in the Mandatory Tender Account, and not on the credit of the company or the feasibility of the Project." So virtually no credit risk, though the bonds are subject to the alternative minimum tax.

'Wabi-Sabi'

These kinds of deals, used by borrowers looking to preserve their private-activity bond allocations in advance of remarketing to final investors, are relatively unusual. Bloomberg doesn't track annual sales of such deals on a separate basis, but anecdotal evidence suggests they come up a few times a month.

For investors, "bonds with this type of structure are the muni equivalent of wabi-sabi," Nicholos Venditti, senior portfolio manager at Allspring Global Investments, LLC, in an email, referring to the Japanese art of finding beauty in imperfection. He continued, "Any time investors can find beauty in the weird, or in this case, excess return in the weird they should jump at those opportunities. All it takes is some extra work and a slightly different perspective."

Eric Kazatsky of Bloomberg Intelligence concurred, saying that private activity bonds subject to the alternative minimum tax like these already offer a yield premium that's like "the proverbial free lunch," because so few investors have to pay the AMT. Add to that the escrow and put structure embedded in the Virginia debt issue, and it's like "free lunch, dinner and dessert," he said.

Chris Hare, chief executive officer of PRTI, said in a telephone interview that the company already has a facility operating in Franklinton, North Carolina, and is working to make sure its process is "industrially scaled." He can save the assurances for the next set of investors.

Bloomberg Markets

By Joseph Mysak Jr

November 15, 2023

— With assistance from Trevor Rowe and Shelby Knowles Nikolaides

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Municipal CUSIP Request Volumes Rise in October.

NORWALK, Conn., Nov. 13, 2023 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for October 2023. 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 decline in request volume for new corporate identifiers, while municipal volumes grew on a monthly basis.

North American corporate requests totaled 5,664 in October, which is down 17.0% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month up 17.0% over year ago totals. The monthly volume decrease was driven by a 26.2% decrease in request volume for corporate debt and a 15.9% decrease in requests for U.S. corporate equity identifiers. October also saw a 15.2% decrease in request volume for short-term certificates of deposit (CDs) with maturities of less than one year, and a 5.9% decrease in request volumes for long-term CDs (maturities greater than one year).

Municipal request volume rose this month after declining in September. The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – climbed 7.4% versus September totals. On a year-over-year basis, overall municipal volumes are down 7.2%. Texas led state-level municipal request volume with a total of 163 new CUSIP requests in October, followed by New York (93) and New Jersey (60).

Continue reading.

CUSIP Global Services

Mon, Nov 13, 2023

Tools for Sustainable State Budgeting.

Long-term budget assessments and stress tests promote fiscal resilience

Overview

Responsible state fiscal policy requires more than just balancing the current year's budget. It must also include ensuring that the budget is on a sustainable path. Otherwise, policymakers cannot have the lasting impact they hope for: They may act to improve state services or cut taxes only to have to scale those efforts back later. This risk is especially high in the aftermath of the COVID-19 pandemic. Record budget surpluses, driven largely by federal pandemic aid, empowered states to adopt historically large tax cuts and spending increases from 2021 to 2023, investments that many state leaders hope to build on in coming years.1

Going forward, state leaders must be able to assess whether their decisions will be affordable over the long term or will jeopardize their ability to solve state problems or even sustain programs and services in the future. Unfortunately, the nature of state budget processes discourages such long-term thinking. State policymakers devote much of their time to developing, enacting, and implementing annual or biennial budgets, a core government function and a prime opportunity for lawmakers to achieve immediate policy goals.

One key strategy for changing this short-term focus is for states to use two analytical tools—long-term budget assessments and budget stress tests—to regularly measure risks, anticipate potential shortfalls, and identify ways to address impending challenges. Long-term budget assessments project revenue and spending several years into the future to show whether and why states may face chronic budget deficits. Stress tests estimate the size of temporary budget shortfalls that would result from recessions or other economic events and gauge whether states are prepared for these events.

[Continue reading.](#)

The Pew Charitable Trusts

November 15, 2023

[Muni Bond Blowup Exposes Flaws in $600 Billion Corner of Market.](#)

- **Sports complex went bust less than three years after debt sale**
- **Little vetting by agency with history of rubber-stamping deals**

The red flags were flying all around Randy Miller. He'd already had bouts with bankruptcy. He'd been accused — not once, but three times — of defrauding business associates. He pointed to a partnership with international soccer powerhouse Manchester United, even though the other ties to professional teams he cited were over three decades old.

But when the 68-year-old businessman and his son turned to Wall Street in 2020 and 2021 for money to build a sprawling youth-sports complex in the Sonoran Desert outside of Phoenix — after repeatedly failing to drum up enough financing on his own — it not only obliged, but lent him $280 million to do so.

All it took was an eight-page application to the Arizona Industrial Development Authority, which had never turned down any of the scores of borrowers that sought the state's imprimatur on their bond sales, an audit late last year showed. Dangling yields near 8% back when the Federal Reserve was pinning rates near zero, the debt was snapped up by big institutional money managers like the

Vanguard Group Inc. and AllianceBernstein Holding LP.

Continue reading.

Bloomberg Markets

By Martin Z Braun

November 17, 2023

Fitch: U.S. State Liabilities Drop Temporarily in Pandemic Aftermath

Fitch Ratings-New York-15 November 2023: U.S. states experienced a steep decline in long-term liability burdens in fiscal 2022, but the decline is only temporary, according to Fitch Ratings in its latest annual update report.

The median ratio of state direct debt plus net pension liabilities dipped to 4% of personal income in fiscal 2022 from 4.5% in fiscal 2021, the sharpest drop in the seven years since all states started reporting pension data under current accounting rules. The median ratio of Fitch-adjusted net pension liabilities plunged to 1.7% of personal income in fiscal 2022 from 2.9% in fiscal 2021.

However, the decline in liability burdens appears to be short-lived reflecting market exuberance during the pandemic recovery, which propelled a 24% rise in state pension asset portfolios. Market volatility since then has already erased a part of the fiscal 2022 gains. Available data from pension plans indicate assets falling an average of 5.2%, with states' fiscal 2023 audits likely to show comparable declines. "Since the pandemic began, state liability metrics have been very volatile and we expect volatility to continue at least through next year if U.S. economic conditions weaken," said Senior Director Doug Offerman.

The ranking of states' carrying cost burdens also remained largely unchanged in fiscal 2022, with Illinois having the highest carrying cost (20.3% of governmental expenditures) and Nebraska on the opposite end of the spectrum (0.8% of governmental expenditures).

"Flush with resources in the aftermath of the pandemic, many states are opting to supplement their routine contributions to pensions to accelerate funding progress," said Offerman. Fiscal 2022 supplemental deposits totalled almost $9 billion, with California and Connecticut contributing an extra $2.3 billion and $4.1 billion, respectively, under budgetary mechanisms predating the pandemic. Additional excess deposits were made by Washington, Indiana, Kentucky, and New Jersey.

Fitch's "2023 State Liability Report" is available at www.fitchratings.com.

Fitch 2023 State Liability Report (Post-Pandemic Asset Surge Lowers Pension Burdens)

State long-term liability burdens fell sharply in fiscal 2022 state audits, as a surge in the market value of pension assets lowered net pension liabilities (NPLs) reported by states. However, the resulting decline in state liability burdens reflected market exuberance in the pandemic recovery, and will partly reverse in fiscal 2023.

ACCESS REPORT

Wed 15 Nov, 2023

Fitch: Lower Tuition Growth Prospects Will Constrain Some US Higher Ed Margins

Fitch Ratings-Chicago/New York-16 November 2023: Muted U.S. college and university net tuition growth amid a challenging inflation environment will constrain operating margins this academic year, Fitch Ratings says. Tuition-dependent private colleges with little competitive demand strength are most at risk of contraction in net tuition and margins, as these schools bear the brunt of enrollment and pricing pressures.

Revenue growth rates from net tuition, which adjusts for institutionally-funded financial aid and scholarships provided to students (or ‘discount’), varied widely from FY21 to FY22 among the Fitch-rated portfolio. For the 2023-2024 academic year, Fitch is expecting a decline in net tuition growth to 2%-4% for most institutions. Rising discount rates, which are now over 56% for first-time undergraduate students per the most recent NACUBO study, will limit growth.

Continue reading.

Municipal Water Projects Advance with State Revolving Fund Financing and Funding.

The Bipartisan Infrastructure Law (BIL), officially known as the Infrastructure Investment and Jobs Act, provides significant funding for improving the nation’s drinking water, wastewater and stormwater infrastructure. The law delivers $50 billion to the U.S. Environmental Protection Agency (EPA), mostly to the State Revolving Fund (SRF) programs, which goes out to communities from state agencies as a mix of loans and grants or principal forgiveness.

While this is the single largest investment in water that the federal government has ever made, it is not enough to close the water infrastructure investment needs gap. EPA estimates the nation’s water infrastructure capital needs over the next 20 years to be approximately $896 billion in total.1 Moreover, local governments are responsible for 98 percent of all water infrastructure capital, operations and maintenance investments, including investing over $148 billion in 2021 alone, according the U.S. Census Bureau.

While the NLC Rebuilding America dashboard showcases the cities, towns and villages that have successfully received direct federal grants from BIL, local government State Revolving Fund recipients are not included because those applications run through the state. Each state has its own timeline, processes and affordability criteria for project selection and providing financing or funding to local governments.

Continue reading.

National League of Cities

by Carolyn Berndt & Peyton Siler Jones

NOVEMBER 14, 2023

Funding for Broadband Infrastructure Projects: What's Next (Part III) - Squire Patton Boggs

In our last post, we previewed that states would be spending the months leading to December 2023 preparing "Initial Proposals" to award the funds that the National Telecommunications and Information Administration (NTIA) allocated to them under the Broadband Equity, Access, and Deployment program (the "BEAD program"). The Initial Proposals are the documents that must (1) identify the specific locations in the state that qualify for funding as unserved, underserved, or community anchor institutions and (2) outline the competitive bidding process each state proposes to employ to select projects and award funds. Much has happened since.

Submission of BEAD Initial Plans

Most states have chosen to split their Initial Plans (as allowed by NTIA rules) into a first part identifying qualifying locations proposing a process to challenge whether specific locations qualify for funding (Volume I) and a second part addressing the state's proposed procurement process, including participation requirements and evaluation criteria (Volume II). NTIA must approve a state's Initial Plan before the state can move forward with implementation. That means no state can initiate its challenge process until NTIA has approved its Volume I Initial Proposal, and no state can initiate its BEAD procurement process until NTIA has approved the Volume II Initial Proposal and the challenge process has concluded.

Although most states have released their Volume I Initial Proposals, so far, only 12 states have submitted their Volume I Initial Proposals to NTIA for approval. NTIA has only approved those of Virginia and Louisiana. Virginia, Louisiana, and Nevada are the only states that have submitted their Volume II Initial Proposals to NTIA for approval. NTIA has created a dashboard tracking each state's process with the submission and approval of Initial Proposals.

Continue reading.

Squire Patton Boggs – Eduardo R. Guzmán

November 16 2023

Treasury Releases Updated SLFRF Reporting Data Through June 30, 2023.

In a blog last month, NASBO analyzed data published by Treasury based on quarterly project and expenditure (P&E) reports submitted by Coronavirus State and Local Fiscal Recovery Fund (SLFRF) recipients. At that time, data were available through the period ending March 31, 2023. This week, Treasury released an updated reporting dashboard and dataset through June 30, 2023. The following analysis is based on this latest data, with a focus on project plans and expenditures by Treasury category, as well as estimated revenue loss, reported by states, territories, and the District of Columbia (DC) (hereafter referred to collectively as “states”).

Continue reading.

NASBO Budget Blog

By Kathryn White posted 10-19-2023

Investors Dive Into $4 Trillion Muni Bond Market, Boosting Trading Volume.

- **Volume hit about 87,400 on Nov. 1, surpassing last year’s high**
- **Yields and lack of supply have been boosting activity**

Investors are rushing into the $4 trillion municipal bond market to take advantage of bargain prices. “Trade volumes are up so much because munis is the cheapest it’s been in about a decade,” Simone Santiago, a managing director at Morgan Stanley Investment Management, said. “There is this fear that if I don’t get involved at this moment, I will miss my opportunity to buy munis at such attractive levels.”

On Nov. 1, trading volume was about 87,400, surpassing the high of approximately 84,000 reached a year ago, according to Municipal Securities Rulemaking Board data. Since the top of the month, volumes have been hovering between 70,000 to 80,000.

Continue reading.

Bloomberg Markets

By Skylar Woodhouse

November 16, 2023

It’s an Ideal Time for Muni Bond Exposure With These ETFs.

History tends to repeat itself and if that’s the case in the current economic environment, then investors may want to side with muni bonds. American Century offers a pair of attractive, low-cost exchange traded fund options that allow for this exposure.

With high interest rates hampering the prospects of global economic growth, investors are pumping the brakes on riskier assets.

“We are in a low growth environment in the US. In Europe we are probably already in recession. We are in an environment where investors will demand more risk premium to own credit,” said Karim Chedid, head of investment strategy for BlackRock’s iShares arm in the EMEA region, per a Financial Times report. “Valuations are not cheap and that is driving some of the de-risking.”

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

NOVEMBER 16, 2023

New York Life's Guidelines: Navigating the Allocation of Municipal Bonds

Arguably, one of the most important pieces of investing is allocation. Getting the right assets classes in the right amounts is a major part of reducing risk and getting the returns you need. For high-ne--worth investors and those looking for tax-free income, an allocation to municipal bonds is a must-have.

But how much in muni bonds should an investor really hold? And what kind of munis?

The answer may not be so simple. However, insurance giant and asset manager New York Life may have some answers depending on what investors want out of their municipal bond portfolio. Their guidelines could serve as a base for advisors and individuals looking toward muni bonds.

Continue reading.

dividend.com

by Aaron Levitt

Nov 14, 2023

The Tape: Bloomberg Muni Market Update

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, joins to discuss the muni bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Nov 17, 2023

Expect Munis to Perform Well in 2024: Abrdn's Mondillo

Jonathan Mondillo, Abrdn's head of North American fixed income, discusses the outlook for the municipal bond market on "Bloomberg Markets: The Close."

Watch video.

Muni Moment – Bloomberg Markets: The Close

November 15th, 2023

States’ Anti-ESG Laws Will Harm Taxpayers.

Boycotting financial-services companies over climate investment policies risks raising pension systems’ costs.

The Securities and Exchange Commission is slated to soon release mandatory disclosure rules for environmental, social and governance policies that are expected to require companies to report climate-related risks likely to have a material impact on their businesses. It is unclear whether compliance with these rules will be merely onerous, or absolutely unreasonable. On the flip side, many state policymakers have been crafting proposals to prevent their states from contracting with companies that practice ESG.

Ironically, these policies will have the same effect as the heavy-handed federal government regulations they’re rebelling against: micromanaging US businesses and adding significant, unnecessary costs to achieve ideological aims. Think of it as right-wing ESG.

For example, in 2021 Texas enacted laws prohibiting municipalities from contracting with banks with particular ESG policies, specifically those that prohibited investment in fossil fuel companies. While many supported this policy, believing it would protect Texas’ fossil fuel production, policymakers were less than transparent with voters about the costs — much of which taxpayers will bear. In the aftermath of the Texas law, five of the largest municipal bond underwriters stopped doing business in the state, unable or unwilling to comply with the restrictions.

Continue reading.

Bloomberg Opinion

By Douglas Holtz-Eakin

November 7, 2023

Douglas Holtz-Eakin is president of the American Action Forum and was chief economic policy adviser to Senator John McCain’s presidential campaign.

US Voters to Weigh Over $44 Billion of Bond Measures in Midterm Election.

- **Proposals from Texas dominate list of largest ballot measures**
- **This year’s tally marks a decline from $66 billion in 2022**

Voters on Tuesday will decide if US cities and counties can bring more than $44 billion of bonds to the market to finance building and expanding hospitals, schools and roads.

That sum is down by roughly a third from 2022 — a midterm election year, typically when more referendums are brought to ballots — as issuers sought approval of more than $66 billion of bond measures. While voters signed off on more than 80% of last year’s proposals, the latest measures come as states and cities run out of federal Covid-relief funds and voters across the country are being squeezed by rising costs.

“It seems as though economic sentiment is still bad, people really feel hurt by inflation,” said Tom

Kozlik, head of public policy and municipal strategy at Hilltop Securities Inc. Though, he added “if there are schools or local governments and areas that have been experiencing growth — a lot easier for them to ask for approval as opposed to places that haven’t been.”

Continue reading.

Bloomberg Markets

By Eniola Longe and Nic Querolo

November 6, 2023

State Governments Lure Workers With Higher Pay. Moody’s Warns of Budget Strains.

- **Long-term pension liabilities expected to exceed wage growth**
- **Government wage growth is expected to out pace inflation**

State and local governments are approaching pre-pandemic employment levels as workers are lured into public service with incentives such as higher salaries that will strain some budgets, Moody’s Investors Service warned.

The US labor market has experienced a strong recovery following significant job losses at the beginning of the Covid-19 pandemic. But public employment fell behind as state and local governments struggled to compete with the private sector for workers. So cities and towns and state agencies have had to raise pay and retirement benefits to keep up.

“Many states’ revenue growth should be sufficient to pay for wage increases while maintaining a balanced operating budget,” Moody’s said in a Nov. 3 report. “However, in some cases, states will likely have to draw on reserves and face structural imbalance in order to fund the bumps.”

Continue reading.

Bloomberg Markets

By Maxwell Adler

November 7, 2023

S&P U.S. Not-For-Profit Health Care Rating Actions, October 2023

View the S&P Rating Actions.

6 Nov, 2023

S&P U.S. Transportation Infrastructure Airport Update: The Industry Is Cleared For Takeoff, With Cost Pressures On The Horizon

Key Takeaways

- Our sector view for airports remains stable.
- We expect revenue growth will be balanced against increased financing costs and large step-ups in operations and maintenance expenses as well as renewed capital spending to modernize and expand capacity.
- Our economic outlook no longer includes a recession but projects a shallower, more protracted slowdown, which could translate into softening U.S. domestic airline travel.
- S&P Global Ratings' Transportation Infrastructure Medians report analyzing financial metrics through the fiscal 2022 highlights the strong rebound in overall airport performance measures powered by passenger growth and prudent management actions taken during and after the pandemic. Year-to-date, 20 airports across all hub sizes have issued a total of $10.7 billion of debt with an average principal amount of $544 million.

Continue reading.

7 Nov, 2023

Sewer Rates Soar as Private Companies Buy Up Local Water Systems.

New state laws have unleashed dozens of buyout attempts.

For residents in some Pennsylvania communities, flushing the toilet has suddenly gotten much more expensive.

In many townships and counties, rates have spiked as private water companies have bought up wastewater systems from local governments.

The new push to privatize sewer services follows the passage of a state law in 2016 that allows the dollar value of water systems to include not just pipes and plants but market factors such as their worth to the community, allowing them to be sold at much higher prices.

Community groups and municipal leaders say that law, an example of "fair market value" legislation, has unleashed dozens of buyout attempts as private companies have offered tens of millions of dollars for local water systems. Pennsylvania's municipalities have been at the forefront of the national movement, though an ongoing court case could slow the state's momentum.

Continue reading.

Route Fifty

By Alex Brown

NOVEMBER 9, 2023

Peer Review of U.S. Managed Lanes (Attribute Assessments, Metrics and Ratings): Fitch Special Report

This report provides an annual snapshot of Fitch Ratings' U.S. managed lanes (ML) portfolio, including key rating drivers (KRDs) and performance for each rated project in the past year. This report also discusses our ratings approach for MLs and includes noteworthy trends and updates in the current sector. ML projects discussed in this report are financed with debt primarily secured by ML net revenues. MLs are a subset of the toll road sector and are rated by Fitch under the Transportation Infrastructure Rating Criteria (May 2022).

ACCESS REPORT

07 Nov, 2023

A Sample of the Return on Investment for Certain Federal Infrastructure Awards.

As more than 1,100 cities, towns and villages pursue, win and deploy infrastructure grant funds from the Bipartisan Infrastructure Law (BIL), officially known as the Infrastructure Investment and Jobs Act (IIJA), they are not only focusing on the infrastructure benefits of the project but have also demonstrated how these infrastructure projects will strengthen their local economies.

Some of the BIL programs require applicants to submit a benefit-cost analysis (BCA). NLC has collected a handful of these BCAs to demonstrate how direct federal funds can go further in the hands of local recipients. While the benefit-cost analyses required can be a bit overwhelming and even costly for smaller municipalities, they demonstrate the determination and work that municipalities are willing to do to show the value of these federal investments in their communities and for their residents.

Continue reading.

National League of Cities

by Christine Baker-Smith, McKaia Dykema & Kyle Funk

NOVEMBER 9, 2023

Navigating the Fiscal Crisis in Public Transit.

Two transportation-focused think tanks held back-to-back events last week, bringing transit advocates, scholars and industry leaders together to discuss solutions for the fiscal cliff many agencies are facing.

In Brief:

- The Eno Center for Transportation and TransitCenter both held webinars looking at ways for

transit agencies to address financial challenges.
- Most big agencies had steep ridership and revenue losses in the wake of the COVID-19 pandemic.
- Federal relief is set to run out, leaving many agencies with big budget gaps.
- The biggest crisis facing U.S. transit agencies since the COVID-19 pandemic began is the so-called fiscal cliff — the steep drop in fare revenue that resulted from ridership losses and the looming expiration of federal relief funds that were provided to temporarily fill the gap.

Continue reading.

governing.com

by Jared Brey

Nov. 13, 2023

Bipartisan Infrastructure Law Second Anniversary: Historic Legislation's Impact for Municipalities

In November 2021, President Biden signed the Bipartisan Infrastructure Law (BIL), officially known as the Infrastructure Investments and Jobs Act (IIJA), into law. This historic legislation delivers necessary infrastructure funding to cities, towns and villages across the US. NLC and its members are celebrating BIL's second anniversary and the hope BIL is bringing to communities in critical need of infrastructure funds. This historic investment not only allows localities to make improvements to decades-old infrastructure but also funds new and innovative projects to make lasting infrastructure investments for the future.

As of August 2023, the administration has awarded more than $13 billion dollars in funding to municipal-eligible projects. These allocations have resulted in the development of more than 1,600 projects across over 1,100 municipal governments for investments in resilience, safety and clean energy as well as roads, bridges, public transportation and other infrastructure that are used by more than 97 million people.

Continue reading.

National League of Cities

by Julia Bauer & Patrick Rochford

NOVEMBER 6, 2023

Muni Investors, Take Heed of Fed Pause: AllianceBernstein

View the AllianceBernstein charts & graphs.

Public Retirement Systems Need Sustainable Policies to Navigate Volatile Financial Markets.

State pension funding gap, 2021

Overview

Over the past decade, policy reforms and increased financial contributions have dramatically improved the cash flow situation of some of the nation's most troubled state pension plans. Thanks to these changes, which include reforms to benefit designs, a commitment to fiscal discipline, and greater monitoring of the financial health of public retirement systems, no state is at risk of pension plan insolvency. Nevertheless, many states still have more to do to ensure the long-term sustainability of pension promises.

As recently as 2016, seven states still had gaps between outgoing benefit payments and incoming contributions that were large enough to cause insolvency if investments fell short of expectations and policymakers failed to react quickly. But by 2018, the number of plans at serious risk of insolvency had dropped to two. And in 2021, no state was below that dangerous threshold, a sign of the significant turnarounds achieved by states such as Colorado, Kentucky, and New Jersey.

However, sustainable pension policy requires more than just paying the bills due today. If a pension plan is meeting current needs but pension debt is steadily growing, future generations of policymakers might have to make unaffordable contribution increases or reduce benefits. From 2002 to 2018, states fell short of minimum funding thresholds by a combined $220 billion, which caused the funding gap to grow in good economic times as well as bad. But after more than a decade of increasing pension contributions—which have risen by 7% annually since 2008—by 2021, states collectively were contributing enough to keep pension debt stable (though not enough to make progress in paying down pension debt). Most states met or exceeded Pew's contribution benchmarks in 2021, but 21 still had negative amortization, meaning that contributions were insufficient to keep the funding gap from growing.

Continue reading.

The Pew Charitable Trusts Issue Brief

November 8, 2023

The Ever-Rising Municipal Bond Market's Technological Tide.

When describing the municipal bond market, the first adjectives are usually "staid" or "stodgy". The terms "data-driven" or "technologically cutting edge" are not usually the first prefaces attached.

That's unfortunate—and increasingly inaccurate. Technological tides have risen steadily in this market, particularly in investing and money management, from digitized financial data to algorithmic trading. Now they are sweeping through.

Technology drives market innovation by its functions and the speed at which it can provide them. The question is not can it be done, but how can it be done, and how fast can it be done. The results are transformative. And with artificial intelligence and machine learning, it's only moving faster.

Continue reading.

Forbes

by Barnet Sherman

Nov. 8, 2023

Municipal Bonds: This Is No Time for Market Timing

Municipal-bond investors who “wait for the turn” in interest rates may be missing out on the opportunity for strong forward returns when that reversal actually happens.

There were no headlines about important developments in the municipal bond market on the front page of the October 27, 2022, edition of The Wall Street Journal. However, something significant did occur on that day: it marked the local peak in municipal bond yields. But this inflection point could not be found in financial news headlines because no one knew at the time—such developments are only clearly glimpsed in the rearview mirror. It would be almost impossible to call the peak in interest rates with any real confidence until weeks or even a month after the fact.

However, there are a few things that we do know now. In the month following the peak in rates in October 2022, the turn (i.e., the reversal to a decline in rates) happened very quickly. From the end of the October to the end of November, municipal yields fell across the curve by roughly 50 to 60 basis points.

Continue reading.

Lord Abbett

By Nicholas Bragdon – Associate Investment Strategist

November 6, 2023

Muni Market Rally Has Legs, BlackRock's Carney Says.

Sean Carney, BlackRock’s head of municipal strategy, explains why now is a good time to turn constructive on municipal bonds. He speaks with Romaine Bostick and Katie Greifeld on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

November 8th, 2023, 12:54 PM PST

Bloomberg Muni Market Breakdown.

Chris Brigati, former SVP of Munis at Valley Bank, joins to discuss the muni bond market. Hosted by Matt Miller and Molly Smith.

Listen to Audio.

Bloomberg Markets

Nov 10, 2023

Bonds vs. Bond Funds: How Higher Rates Are Changing the Calculation

Many investors are taking a second look at bonds. Here are some options to consider.

The new era of higher interest rates has reignited a long-smoldering Wall Street debate: Is it better for ordinary investors to buy individual bonds outright? Or shares of bond mutual funds?

During the yearslong period of near-zero interest rates, the answer seemed simple: Funds had low fees and were easy to buy and sell, and share values rose alongside bond prices. If any one bond defaulted, losses were minimal.

The historic declines suffered by major bond funds last year highlighted the risks of that approach. Rising rates crushed funds' share prices. That is because bond prices drop when new higher-yielding bonds come on the market and make older, lower-yielding bonds less attractive. Because funds' share values are based on the market price of their bonds, someone who bought shares a few years ago could end up cashing out today with less money than they put in.

Continue reading.

The Wall Street Journal

By Heather Gillers

Nov. 11, 2023

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) $316.4 billion, -8.1% Y/Y
- Trading (as of October) $12.9 billion ADV, -7.7% Y/Y

- Outstanding (as of 2Q23) $4.0 trillion, -0.5% Y/Y

Download xls

Bloomberg Muni Market Outlook.

Eric Kazatsky, Senior Municipal Bond Strategist with Bloomberg Intelligence, joins to discuss the muni bond market. Hosted by Paul Sweeney and Matt Miller.

Watch video.

Bloomberg

Nov 03, 2023

Tender Offers Are Here To Stay – What Do I Need To Know? - Orrick

Municipal tender offers have rapidly increased in volume since 2020, and 2023 is anticipated to be the highest volume year for voluntary municipal tender offers. As reported by the Bond Buyer, 2021 and 2022 each saw about $4 billion in municipal tender offers. As of July, about $14.1 billion has been tendered or invited to tender this year. In the current interest rate environment, municipal issuers increasingly use tender offers to generate debt service savings, especially since advance refundings were eliminated by the Tax Cuts and Jobs Act in 2017. Many issuers are navigating these transactions for the first time.

Here's an overview of the basic structure, documentation and timeline of a tender offer to help issuers determine whether this financing structure could help them achieve their financing goals.

What is a tender offer?

In a tender offer, a bond issuer makes a public offer to bond holders to relinquish or "tender" their bonds for cash or to exchange their existing bonds for new bonds. The tendered bonds are then purchased by the issuer and canceled or exchanged for new bonds and then canceled.

Continue reading.

Orrick, Herrington & Sutcliffe LLP

November 1, 2023

Citigroup Weighs Shutting Once Dominant Muni Business.

- **CEO Fraser considering political ramifications of such a move**
- **Deliberations come amid restructuring aimed at boosting profit**

Chief Executive Officer Jane Fraser is weighing whether to shutter Citigroup Inc.'s municipal-bond trading and origination business, which for decades was a powerhouse in the $4 trillion market for US state and local debt.

Senior executives in favor of closing it down have presented the proposal to Fraser in response to her push to bring the firm's profitability in line with its competitors, according to people familiar with the matter. No final determination has been made and the CEO could still elect to hold on to the business.

Political ramifications may factor into the decision, the people said, asking not to be identified discussing internal deliberations. Banks often point to their work raising money for cities and states when facing scrutiny from local and federal politicians, and a decision to exit such a business could invite blowback.

The debate shows just how far Fraser is willing to go to improve Citigroup's returns, which have long lagged behind Wall Street's other top banks. She has already moved ahead with plans to jettison more than a dozen retail-banking units in overseas markets and initiated the biggest restructuring of Citigroup in decades as she whittles down the company's byzantine management structure.

The business of underwriting bonds for state and local governments has been thrust into the spotlight by Texas and several other Republican-led states that have picked fights with Wall Street over policies that limit work with the gun and fossil-fuel industries. Earlier this week, JPMorgan Chase & Co. CEO Jamie Dimon warned Texas that the state risks undermining its business-friendly reputation by pushing anti-business laws.

The debate at Citigroup is focused on how profits from the muni operation have been a laggard, and is not a response to political confrontations in Texas, the people said. The costs associated with the business don't always justify the revenue it brings in, one of the people said.

It's a notable fall for the bank's municipal-bond business, which spent years near the top of the league tables and ranked No. 2 as recently as 2021. Since then, Citigroup has tumbled in the rankings for underwriting state and municipal debt. The Wall Street giant has fallen to eighth place this year, according to data compiled by Bloomberg.

A representative for the New York-based company declined to comment on deliberations about the the muni-bond business.

While the brewing controversy in Texas was not the reason for Citigroup to begin deliberating the future of the municipal business, it didn't help. Being frozen out of Texas deals has further crimped the unit's revenue, thereby hurting overall profitability, the people said.

Just three years ago, Texas deals accounted for 14% of Citigroup's municipal-bond volume, according to data compiled by Bloomberg. Fraser, for her part, has sought to rekindle her bank's business in the state. In August, she and Ed Skyler, Citigroup's head of enterprise services and public affairs, traveled to Texas to meet with Governor Greg Abbott about the bank's continued commitment to the state.

Last year, Citigroup revamped parts of the group's trading and banking units, closing its muni proprietary-trading operation, which used the firm's own cash to trade and invest. The company also offered buyouts to more than a dozen senior traders, bankers and salespeople, which spurred further departures across the group.

Fraser, as part of her bid to boost profits, has pledged to be dispassionate when it comes to ditching or rejiggering businesses that don't meet the firm's targets for profitability. She's looking to lift a key measure of profitability known as return on tangible common equity to at least 11% by 2027 at the latest. Many of her rivals are already notching returns much higher than that: JPMorgan's figure stood at 23% in the first nine months of 2023. At Bank of America Corp., that ratio was 16%.

"When I became CEO, we began immediately with refreshing our strategy, laying out the new vision for the firm in order to transform Citi into a simpler bank and to unlock the full value potential and to deliver higher returns in the medium term," Fraser said at an investor conference in September. "I had a very clear-eyed assessment of exactly where we stood versus our peers, but also the issues that have held us back over the years."

Bloomberg

By Sridhar Natarajan and Jennifer Surane

November 3, 2023

— With assistance by Martin Z Braun and Danielle Moran

[S&P U.S. Municipal Water And Sewer Utilities Rating Actions, Third-Quarter 2023.]

Overview

S&P Global Ratings took 28 rating actions, made eight outlook revisions, and made one CreditWatch placement in the U.S. municipal water and sewer utilities sector in the third quarter of 2023. We affirmed 57 ratings with no outlook revisions and placed one rating on CreditWatch with negative implications.

Positive rating actions outweighed negative actions, with 13 upgrades compared to two downgrades in the quarter. The upgrades were to systems that had exhibited sustained improvement in financial performance or material positive changes in operating characteristics. We assigned a negative outlook to five ratings, exceeding the three outlooks revised to positive.

New ratings further increased against first- and second-quarter 2023 and also trended above the same period last year. Although rating movement has remained stable and consistent with that of second-quarter 2023, movement is generally down from the same period in 2022.

Continue reading.

30 Oct, 2023

[Muddling Through Stubborn Inflation and Spooked Bond Markets.]

Halloween seems an apt metaphor for what state and local financiers will encounter over the next year and beyond: plenty of tricks but a modest supply of treats.

Wall Street banshees call it "bondageddon": the recent period of selloff-driven market losses in the

U.S. government bond market that some researchers claim is the worst since 1787. In parallel, this year's run-up in municipal bond yields — the returns investors expect — has been equally dramatic. After years of suppressed interest rates driven to near zero or even negative numbers by central banks around the world, investors suddenly awoke to a wicked brew of stubborn inflation, tight labor markets, monetary tightening and seemingly endless federal borrowing. Like zombies, high interest rates have arisen to spook the markets and public policymakers.

Markets now face a world of positive "real" interest rates — rates that exceed inflation — and there's new talk about the "term premium," which is the extra interest that longer-term investors now demand for the risks they take of higher future rates, along with growing federal deficits and possible higher inflation. Gone are all the pro-deficit incantations of a few years ago about the supposedly supernatural powers of Modern Monetary Theory to keep interest rates low forever while political vampires gorge on government debt.

Continue reading.

governing.com

OPINION | Oct. 31, 2023 • Girard Miller

Behind the Battle on Public University Funding.

What is behind the decline in funding to public universities? Director Steve Mims joins Lunch Break with Tanya Rivero to discuss his new documentary, 'Starving the Beast' addressing the ongoing debate surrounding funding and the divide that has led us to this place.

Watch video.

The Wall Street Journal

By Ydejesus

September 8, 2016

Muni Market's Five-Year Streak of November Gains Is on the Line.

- **Seasonal slowdown in municipal bond sales provides tailwind**
- **Economic downturn, geopolitical risks bode well for bonds**

This month might be a good time for investors to stuff their portfolios with municipal bonds.

It's not just that tax-equivalent yields on munis are hovering around 10% for wealthy residents in high tax states like New York and New Jersey. It's the track record. Since 2018, state and local-government debt has gained in November, according to the Bloomberg Municipal Bond Index. And over the last 10 years the month has posted positive returns seven times.

Seasonal supply and demand dynamics help to explain why. Municipal issuance tends to be slower in November and investors typically have more cash on hand from coupon payments than available debt to purchase. Citigroup Inc. estimates that the cash investors receive from bond payments will exceed the volume of state and local-government bond sales by $3 billion in November.

Continue reading.

Bloomberg Markets

By Martin Z Braun

November 1, 2023

Muni Bonds Extend Rally, Driving Yields to Biggest Weekly Drop Since 2022.

Municipal bonds extended a rally on Friday with yields falling more than 11 basis points across the curve after softer than expected payroll data fueled bets that the Federal Reserve is done raising interest rates.

Yields on benchmark 10-year debt fell 12 basis points to 3.35% on Friday afternoon, capping a 28 basis points slide this week, according to data compiled by Bloomberg. That's the largest weekly decline since May 2022.

US job growth slowed more than expected and the unemployment rate rose to an almost two-year high in October, easing investors concern about future rate hikes. Fixed income assets rallied on the news with yields on 10-year Treasuries falling 10 basis points to 4.6%.

Continue reading.

Bloomberg Markets

By Nic Querolo and Martin Z Braun

November 3, 2023

Opportunities in High Quality Bonds.

The UBS Chief Investment Office continues to favor positioning in high-quality municipal sectors, including bonds issued by states. They explain why in this edition of the Municipal Market Guide.

Outlook

In the near-term, we anticipate market technicals to remain relatively weak before strengthening in the December-January time frame, consistent with historical precedent. However, before that happens, we expect the pace of tax loss harvesting activity to accelerate into year-end, adding volatility to an already disorderly market.

For selective buyers willing to withstand the year-end volatility, the current environment still provides a good opportunity to lock-in attractive yields on tax-exempt municipal bonds. The yields now on offer from high-quality issuers have not been seen in 16 years. Which begs the question: buy now or wait it out until the new year? We are inclined to seek opportunities to buy highly rated bonds now and become more aggressive into the early part of December before new issue supply wanes. As a point of reference, taxable equivalent yields (TEYs) on short-dated high-quality munis now range from about 6.5% to 8%. Meantime, the value on longer-dated munis is more compelling. TEYs can exceed 10% for taxpayers residing in states that impose lofty personal income taxes, as an example.

We expect the pace of US economic growth to slow to below trend over the next 12 months. An environment in which economic growth slows, inflation declines, and the Fed loosens monetary policy bodes well for high quality munis. The timing is difficult to predict but we are obliged to remind our readers that municipals encounter higher friction costs than other asset classes and are not as easily traded in smaller block sizes. For private clients, tax exempt municipals are best viewed as a vehicle for income-oriented investors seeking shelter from higher taxation. To that extent, a short-term unrealized loss may be a small "price" to pay to lock-in a portfolio of high-quality bonds for the longer term.

Portfolio themes

Lock-in high taxable equivalent yields amid volatility

We view the recent increase in muni yields as an opportunity for income-oriented investors to seek attractive values on longer dated munis. As a point of reference, tax-equivalent yields (TEYs) on AA rated high quality municipal bonds at the 20-year maturity point now sit at levels (~7.8%) that are higher than the average (5.1%) over the past 15 years.

Buy high quality bonds

At current spreads, we continue to favor positioning in high-quality muni sectors rather than lower rated high yield credits. As a point of reference, the yield gap between high yield munis and investment grade munis sits at 194bps. By comparison, this spread rests below its longer-term average (235bps), suggesting that higher quality bonds offer the better value.

Target tax loss harvesting to save taxes

Following the increase in muni yields over the past few years, many individual bonds are now posting unrealized losses. By realizing a capital loss — harvesting a loss — to offset taxable gains, reported investment gains and tax liabilities decrease. Therefore, US tax regulations may have the effect of granting losses of noteworthy value to an investor, because these losses can be used to defer taxes.

While "wash sale" rules exist, municipal bond investors should consider tax-loss strategies along with other portfolio improvement strategies, such as duration adjustments; sector and geographical diversification; or consolidating positions. Investors may be able to lower their tax liability while shifting from underperforming securities to those securities better positioned for current market conditions.

For more on why CIO still favors high-quality bonds, read the full Municipal Market Guide report, published on 26 October 2023.

by UBS Editorial Team

31 Oct 2023

[ETF Investors Plowed Into Ultrashort Bonds as Global Markets Slumped.]

October ETF flows reflect investor uncertainty.

Key Takeaways

- The Morningstar Global Markets Index entered correction territory when it lost 3.27% in October.
- The Morningstar US Core Bond Index shed 1.56%, marking its sixth straight month in the red.
- U.S. exchange-traded funds collected roughly $29 billion, a modest sum by their standards.
- Ultrashort-bond funds reeled in nearly $14 billion to power fixed-income flows.
- Outflows from international equity and U.S. large-value funds weighed on stock-ETF flows.
- IShares, Vanguard, and J.P. Morgan finished October atop the ETF provider flows standings.
- Another rough month of performance left small-cap strategies looking undervalued at October's end.

Continue reading.

morningstar.com

by Ryan Jackson

Nov 1, 2023

Interest Rates Are Rising, But States Aren't Worried Yet. Here's Why.

State and local governments generally use bonds to finance major infrastructure projects. But higher rates won't bust budgets just yet. Plus, more news to use from around the country in this week's State and Local Roundup.

It's Saturday, Oct. 28, and we'd like to welcome you to the weekly State and Local Roundup. There's plenty to keep tabs on, with a federal court striking down Georgia's voting maps, the Texas House voting to let state and local law enforcement arrest migrants, and universal school choice voucher programs potentially busting some state budgets.

But first we turn to Wall Street, where U.S. Treasury 10-year bond rates have hit highs not seen since the Great Recession. That's usually a red flag for state and local governments because they use bonds to finance major infrastructure projects. If the rates on Treasury bonds go up, the rates on all sorts of other bonds go up too.

This year, though, state and local governments are in good shape to withstand the higher costs of issuing debt, according to experts. Thanks to federal pandemic aid and strong revenues over the last few years, one of the biggest things going for states right now is that most of them are flush with cash.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

OCT 28, 2023

[S&P: The Evolving Impact Of Environmental And Social Factors On Credit Ratings]

Key Takeaways

- Our credit ratings are forward-looking opinions that reflect the ability and willingness of debt issuers, like corporations or governments, to meet their financial obligations on time and in full.
- Our environmental, social, and governance (ESG) factors concern an entity's effect on and impact from the natural and social environment and the quality of its governance. However, not all of these factors influence creditworthiness and, thus, credit ratings.
- We define ESG credit factors as a subset of ESG factors which, by applying sector-specific criteria, we believe could materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis.
- Increasing frequency and severity of climate-related risks could result in environmental and social factors becoming more material, influential, and certain in our credit analysis over time.

Continue reading.. [Free Registration Required.]

25 Oct, 2023

S&P U.S. Public Finance Housing Rating Actions, Third-Quarter 2023

View the S&P Rating Actions.

23 Oct, 2023

Fitch Ratings Releases Granular Sector-Specific 2022 Transition and Default Study.

Fitch Ratings-London/New York-13 September 2023: Fitch Ratings has published an expanded sector-specific transition and default study for 2022. Transition and default rates are used by a number of participants in the debt capital markets to calibrate credit risk across their portfolios. From an investor with a mandate that includes rating level restrictions to a risk manager running complex quantitative models, reliable transition and default data act as key inputs to financial analysis. They also quantify the stability of ratings over time.

To aid with this analysis and to provide more granular information to market participants, Fitch has expanded its annual rating transition and default report to incorporate a number of key sub-sector and sub-asset-class tables. The new data includes a split out of financial and non-financial corporates including individual sector tables for emerging and developed markets. It also includes a breakdown of key structured finance sub-asset classes such as Autos, Credit Cards, Prime-RMBS and CLOs.

The full dataset includes 427 transition and default matrices, based on track record from 1990.

The dataset is available to Fitch Connect subscribers.

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[As TikTok and Other Chinese Technologies are Deemed Dangerous, What Should State and Local Governments Do?]

COMMENTARY | Finding and replacing Chinese-made equipment in state and local government networks will be challenging and expensive. But the threat is genuine and must not be ignored.

TikTok, the popular video app that is used by more than 135 million Americans, is facing an increasingly loud chorus of opposition from U.S. officials concerned about the company's relationship with the Chinese government.

As of April, at least 34 states have issued some sort of prohibition on the app's use on government-owned and -issued devices by agencies, employees and contractors. Montana, has gone so far as to pass legislation restricting the app on personal devices, though the measure is being challenged in court.

Driving all this action is concern that TikTok's parent company ByteDance could be forced to share data on U.S. users, such as their profiles, contacts, messages and location information, with the Chinese government under the country's 2017 National Intelligence Law. That law states that "any organization or citizen shall support, assist, and cooperate with state intelligence work," and experts say that Chinese companies would have no choice but to hand over data if authorities in Beijing requested it.

Continue reading.

Route Fifty

By Tom Guarente,
Armis

OCT 26, 2023

S&P: U.S. K-12 Schools Are A Playground For Cyber Criminals

Key Takeaways

- The Cybersecurity and Infrastructure Security Agency states that K-12 traditional school districts and charter schools (K-12 public schools) tend to be a target of cyber crime due to two primary reasons: They are "target rich and cyber poor."
- K-12 public schools maintain highly sensitive data and typically have more limited financial and resource allocation to data security, including in-house cyber security expertise, making them high risk for cyber crime.
- To date, for those S&P Global Ratings rated schools that have faced cyber incidents, we have not observed long-term operational or material financial impacts to credit quality due to cyber risk mitigation plans, including cyber insurance.
  Assessing cyber risk in K-12 public schools is part of our ongoing surveillance for these ratings, as we believe that the true number of cyber attacks on these schools is much higher than what was publicly reported.
- S&P Global Ratings' views cyber security 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.

Continue reading.

24 Oct, 2023

Treasuries Breach 5%, Munis Hit 10?

Eric Kazatsky and Karen Altamirano discuss the recent happenings affecting the muni market.

Watch video.

Bloomberg

October 27th, 2023

Muni Market to Recover in 2024, Wells Fargo's Peck Says.

Chuck Peck, Wells Fargo's head of municipal products, discusses the outlook for the municipal bond market with Katie Greifeld and Romaine Bostick on "Bloomberg Markets: The Close."

Watch video.

Muni Moment – Bloomberg Markets: The Close

October 25th, 2023

Muni-Bond Yields Have Finally Climbed Enough to Entice Buyers.

- **Bloomberg municipal-market panel discusses trends, outlook**
- **Topics include buyer demand and a changing marketplace**

Municipal-bond yields at the highest in more than a decade are spurring optimism on the part of investment managers, who have been dealing with persistent fund outflows this year as the market has struggled along with the rest of fixed income.

The muni market is on track for a second straight year of declines, punished by the Federal Reserve's interest-rate increases and its message that it intends to keep borrowing costs higher for longer to tame inflation.

Yields have surged across the bond universe, with one measure of rates rising to levels last seen in 2009. For market participants speaking on a Bloomberg muni-market panel Monday evening in New York, the selloff may have reached a point where demand will re-emerge.

Continue reading.

Bloomberg Markets

By Skylar Woodhouse, Nic Querolo, and Eniola Longe

October 24, 2023

Earn 4.5% With No Taxes? How to Invest in Municipal Bonds.

The tax advantages of buying bonds in your own backyard

Want to get a tax-free return on your money? Put sewers and subway systems in your portfolio.

The municipal bonds that state and local governments sell to pay for unsexy-sounding infrastructure projects are offering their highest yields in more than a decade. New bond investors snapped up Treasurys after interest rates surged this year, but the special tax advantages of muni bonds make them also worth a look, financial advisers say.

Munis, like all bonds, are debt. Local governments sell them to get money for funding big projects. Investors who hold munis generally don't have to pay federal tax on the interest they earn, unlike their gains from savings accounts or certificates of deposit. Better still, when investors buy bonds issued in their home state, they typically don’t have to pay state taxes on that interest either. Advisers say these tax advantages often give muni bonds an edge over other investments.

Continue reading.

The Wall Street Journal

By Oyin Adedoyin

Oct. 19, 2023

Fitch: Momentum Slows for U.S. Public Finance

Fitch Ratings-New York-18 October 2023: With continued Federal Reserve tightening increasing the likelihood of a mild recession early next year, there are signs that positive rating momentum has begun to slow, according to Fitch Ratings’ third-quarter U.S. public finance ratings review.

Last quarter showed a relatively even split between public finance upgrades (25) and downgrades (27) compared to 61 and 20, respectively, in 2Q’23. State government rating activity consisted exclusively of affirmations for states such as California, New York and New Jersey; while Fitch upgraded ratings for seven local governments, among them Buffalo (NY), Minneapolis (MN) and Sweetwater Union High School District (CA). That said, “Revenue growth is beginning to slow for U.S. states and local governments and an expected recession in the first half of next year will weaken macro conditions even further,” said Arlene Bohner, Fitch’s Head of U.S. Public Finance.

Not surprisingly, NFP hospitals are where the tilt towards more negative rating actions becomes more pronounced (two upgrades and six downgrades in 3Q’23).

“Staffing shortages and elevated labor costs, the delay of certain services due to lack of staffing, and an admission mix skewed towards more medical than surgical have become the new norm for many hospitals,” said Bohner.

Despite a flat quarter (one downgrade in 3Q’23), higher education will remain under formidable pressure for the foreseeable future. “A subdued consumer spending environment driven in part by resuming student loan payments will keep a damper on overall enrollment prospects, particularly for community colleges, while squeezing an important pipeline into traditional four-year schools,” said Bohner.

Fitch’s “U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2023” is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Fitch U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2023

Previously positive rating momentum slowed for the U.S. Public Finance (USPF) sector, which saw a relatively even split between upgrades and downgrades in 3Q23. Fitch Ratings upgraded 25 USPF ratings and downgraded 27 during the quarter, compared to 61 and 20, respectively, in 2Q23. Upgrades represented approximately 2.7% of rating activity in the quarter, while downgrades represented approximately 2.9%. Six of eight USPF sector outlooks are deteriorating, with the remaining two at neutral relative to 2022. The number and distribution of rating actions continues to underscore credit stability within the sector. Similarly, Rating Outlooks are overwhelmingly Stable, even in the face of weaker operating conditions, representing 90.9% of the portfolio. Positive Rating Outlooks/Watches represented 5.3% as of 3Q23 quarter end, while Negative Rating Outlook/Watches represented 3.8%. Revenue growth is beginning to slow for U.S. States and Local Governments; as such, an expected recession in 1H24 will weaken macroeconomic conditions facing U.S. states and local government entities. However, Fitch's measures of overall credit quality should remain stable and strong given prudent efforts in recent years to bolster financial resilience. In the Not-For-Profit Hospital sector, providers remain under considerable pressure, particularly with respect to labor challenges, general inflation and equity market volatility.

ACCESS REPORT

Wed 18 Oct, 2023

S&P U.S. Public Finance Quarterly Update Q4, 2023.

For most U.S. public finance issuers, higher interest rates and inflation remain headwinds from a debt issuance and operating/capital budget perspective.

DOWNLOAD

How States Can Avoid a COVID Relief Fiscal Cliff.

States that used COVID relief for one-time and short-term expenses and carefully managed the funding will be well positioned when federal funding expires.

After COVID-19 descended on the U.S. and forced a partial shutdown of the world's biggest economy in early 2020, Congress approved $5 trillion in emergency relief to respond quickly to the unprecedented disruption. The intervention worked. Though the two-month COVID recession was deeper than even the Great Recession of 2007-09, the U.S. bounced back much more quickly.

A key piece of the pandemic aid came in 2021, when Congress provided $350 billion in Coronavirus

State and Local Fiscal Recovery Funds, or SLFRF, to support the budgets of states, cities, counties and tribal governments that had been forced to mount massive relief efforts while simultaneously seeing their tax revenues plummet due to lockdowns and layoffs. Included in the American Rescue Plan, SLFRF was intended to address health and economic impacts, as well as maintain critical public services during the pandemic.

The funding kept state governments afloat and helped prevent the recession from dragging on for years. But now, with SLFRF funds set to expire by the end of 2026, states face a new challenge. As detailed in a new issue paper from the Volcker Alliance authored by Beverly Bunch, states must confront the fiscal cliffs they could face if they allocated the recovery aid to recurring programs rather than one-time costs stemming from the pandemic.

Continue reading.

Route Fifty

By Beverly S. Bunch and William Glasgall

OCTOBER 16, 2023

US Cities Enter Era of Austerity Without Pandemic Aid, Report Says.

- **Officials see sales, income tax growth slowing in fiscal 2023**
- **Municipalities brace for federal stimulus to expire in 2026**

Cities across the US seem to have financially weathered the pandemic, thanks mostly to massive federal stimulus funding.

Despite elevated inflation, tax revenues surged last year as economic activity picked up and unemployment rates fell to historic lows, according to a report published Thursday by the National League of Cities.

Yet, city leaders are concerned about the years ahead because the billions of dollars in pandemic aid they received is scheduled to expire in 2026. Many localities have already exhausted those funds.

Continue reading.

Bloomberg Markets

By Nic Querolo

October 19, 2023

S&P U.S. Not-For-Profit Health Care Rating Actions, September And Third Quarter, 2023.

S&P Global Ratings maintained 20 ratings without revising the outlooks, took two positive rating actions, nine negative rating actions, revised five outlooks favorably without changing the ratings, and revised two outlooks unfavorably without changing the ratings in the U.S. not-for-profit health care sector in September.

There was one new issuer credit rating assigned this month to Fisher-Titus Medical Center in Ohio. There were two new debt issuances in the month for Mercy Health in Missouri (rating and outlook unchanged) and the University of Illinois Health Services Facilities System (favorable outlook revision).

The 18 rating actions and outlook revisions consisting of the following:

- Two upgrades on stand-alone hospitals Flagler Health +, Fla. and Wellstar MCG Health, Ga. due to its acquisition by Wellstar;
- Nine downgrades on six stand-alone hospitals and three systems, with all but two in the 'BBB' or speculative grade categories;
- Five favorable outlook revisions–all from stable to positive–on two stand-alone hospitals (with a corresponding dependent outlook also revised to positive), one health system, and one long-term care center; and
- Two unfavorable outlook revisions on one stand-alone hospital and one system both in the 'A' category.

Continue reading.

17 Oct, 2023

S&P U.S. Not-For-Profit Health Care Outstanding Ratings And Outlooks As Of Sept. 30, 2023.

Continue reading.

18 Oct, 2023

Building Trust in Local Government with Better Budgeting.

A more transparent, collaborative and data-driven budget process can help municipalities implement real change.

Municipal budgeting processes have remained largely unchanged for decades, but that's not because local government officials think the process works perfectly. Many suspect their budget process could be improved, but revamping long-established practices is never simple.

With the public's satisfaction with government waning, it's time to consider how budgeting can improve the public's trust in municipalities, said Shayne Kavanagh, director of research for the Government Finance Officers Association. GFOA and its partners are working to better understand the municipal budgeting landscape and identify ways local governments can leverage best practices to build a modern, transparent and efficient budget process.

GFOA's Rethinking Budgeting initiative "is responsive to what I would call this pervasive sense that our institutions need updating," Kavanagh said.

Continue reading.

ROUTE FIFTY

by MOLLY BOLAN

OCTOBER 19, 2023

Is It Time To Stop Worrying About Pensions?

Public pension numbers are looking better than they have in over a decade. But some worry it may not last.

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer and this week I'm writing about the latest public pension plan numbers—which are the best they've been since the Great Recession and the Financial Crisis slashed assets by one-third between 2007 and 2009.

Nationally, pensions now have 77% of the assets they need to meet all their future unfunded liabilities, and the Equable Institute, a bipartisan non-profit that promotes public sector retirement security, predicts that will rise to 78% this year. It's the highest funded ratio for pensions since 2009.

What's more, funding discipline has improved over the last decade. Data collected by the Boston College Center for Retirement Research shows that more governments have been paying their full pension bill. Last year, 98% of the average pension bill was paid, compared with just 81% back in 2011. Some would also say that those bills are more realistic than they were before the Great Recession as many pension plans have shifted their investment return assumptions downward from 8% in 2009 to a median of 7% today.

Continue reading.

Route Fifty

By Liz Farmer

OCT 18, 2023

EPA Withdraws Cyber Audit Requirement for Water Systems.

The agency asserted that it still "remains committed" to helping states protect their water systems, despite legal challenges to its formal mandate.

The Environmental Protection Agency announced on Wednesday its withdrawal of earlier guidance aimed at fostering strong cybersecurity protocols within the nation's water system infrastructure, meaning states will no longer need to adhere to audit requirements for the cybersecurity of their public water systems.

The withdrawal stems from ongoing litigation between the states of Missouri, Arkansas and Iowa and the EPA, where the U.S. Court of Appeals for the Eighth Circuit ordered a halt of the memorandum's enforcement in July.

Despite the change in policy direction, the agency said that its cybersecurity posture remains "one of the EPA's highest priorities" and that cyber attacks "remain a significant threat" to water system operations.

Continue reading.

Route Fifty

By Alexandra Kelley

OCT 16, 2023

What Is Going On With the Economy and What Does It Mean for the Municipal Market? - ArentFox Schiff

Anyone who thinks they understand what is happening in the economy – and what will happen – should think some more. The post-pandemic state of the economy is somewhat of a mystery, but a mystery worth exploring. Unemployment is a low 3.8%. Inflation is somewhere between 3.5% and 4.5% depending on which index is used. Mortgage rates are about 7.5%, the highest rates since 2001. And the numbers released a few days ago have inflation being at best flat and at worst up a bit, raising questions about another rate increase.

The yield on the 10 year Treasury is about 4.8% and the 30 year Treasury is about 4.9%. The Fed Funds rate is about 5.33% – an inverse curve. And yet the economy produced 336,000 new jobs in September, outperforming predictions by almost two times.

In summary, as interest rates have risen over the past one and a half years, inflation has declined but surprisingly jobs have meaningfully increased. Typically increasing interest rates results in economic stagnation not in economic growth. Rising interest rates resulting in economic growth is counter-intuitive, counter-historical, and counter to conventional economic theory.

So why is this happening? One plausible theory is that essentially there are more jobs than people who need to work, i.e. there is a labor shortage allowing for significant pay raises and therefore strong consumer spending supporting continued economic growth.

Continue reading.

ARENT FOX SCHIFF

by DAVID L. DUBROW

OCTOBER 17, 2023

The View from Muniland: Once in a Generation

Jason Mertz: Daryl, it feels like Groundhog Day, with yet another challenging quarter for muni investors. The index was down about 4%, bringing year-to-date returns to –1.4% for the year. So what happened in August and September?

Daryl Clements: There's a couple of things you could point to, the first being the constant drumbeat from the Fed of higher rates for longer. Also, the Fed recently removed two rate cuts next year. And then it's just the expectation of more Treasury issuance.

JM: But the economic landscape has certainly changed.

DC: So, you go back a year. The Fed funds rate was about 2.5%; today it's 5.5%. Inflation was running over 8%; now it's less than 4% with core inflation, core CPI, at 2.5%. So, the economy is clearly slowing.

JM: The Muni Bond Index is yielding [the] highest it's been since 2007, 4.33%. On a tax-equivalent basis for someone in the highest tax bracket, that's north of 7.25.

DC: Oh, it's clearly an opportunity. Yields are as high as they've been in a generation, basically. If you expect yields to fall over the next 12 months, you want duration, because that will provide a boost to your total return.

And within that, you want to be mindful of your maturity structure. The municipal yield curve has a wonky shape, it's kind of a U shape. So, if you barbell around that, if you buy a 15-year bond and a one-year bond in equal amounts and compare that to the yield of an eight-year bond, you'll have a higher yield, but with the same interest-rate sensitivity.

And then credit. And what I mean by that: single A-rated bonds, BBB, some high-yield bonds, where spreads are wider than their long-term average, even though municipalities and states are in their strongest balance-sheet position ever. So you may want to take advantage of credit if you can.

JM: With income levels the highest they've been in over 15 years, you have a bit of asymmetry at your disposal. What exactly does that look like over the next 12 months?

DC: Yield not only provides income, but it also provides downside mitigation. And when you look at the asymmetry of returns today, it's astounding. For example, 10-year Treasury yield goes up 100 basis points over the next 12 months. The index return will, in essence, be flat. However, if the 10-year Treasury yield were to fall 100 basis points, that same index is up nearly 8.5%.

That is astounding, Jason. But investors aren't recognizing that. They're still a little shell-shocked. However, I think over time, as investors realize the benefits here—the upside relative to the downside mitigation—reason will prevail.

advisorperspectives.com

by Daryl Clements, Jason Mertz of AllianceBernstein, 10/23/23

[Opportunity Knocks for Municipal Investors.]

September update

- Municipal bonds sold off considerably in September alongside vastly rising interest rates.
- Limited demand and a seasonal transition back to net positive supply weighed on the market.
- The reset in yields and valuations provides an attractive long-term buying opportunity.

Market overview

Municipal bonds posted sharply negative total returns in September amid heightened volatility. Interest rates rose rapidly and pressured fixed income assets as the market navigated a moderate rise in inflation, continued strength in the labor market, surging oil prices, and more hawkishthan-expected message from the Federal Reserve (Fed). The asset class, dragged down by rich valuations and less favorable supply-and-demand dynamics, lagged versus comparable Treasuries. The S&P Municipal Bond Index returned -2.68%, bringing the year-to-date total return to – 1.07%. Shorter-duration (i.e., less sensitive to interest rate changes), AA-rated bonds and the corporate-backed, utility, and transportation sectors performed best.

Continue reading.

advisorperspectives.com

by Peter Hayes, James Schwartz, Sean Carney of BlackRock, 10/17/23

Bloomberg: Muni Bond Market Latest

Eric Kazatsky, Senior Municipal Strategist with Bloomberg Intelligence, joins to discuss the latest on the muni bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Markets

Oct 20, 2023

Growing a Fledgling Fund Amid Muni Chaos: Masters of the Muniverse

Rates are higher (for longer, if we're being honest), the curve is pancaking and, once again, fixed-income losses will be headline fodder. However, with every tick higher in benchmark yields, municipals get an opportunity that many in the asset class won't see in a career. For those investors focused on building an income stream and less on immediate statement marks, munis are becoming the must-have accessory for this fall season. James Pruskowski, chief investment officer and head of the Global Client Business at 16Rock asset management, joins Eric Kazatsky and Karen Altamirano this month to discuss the latest run-up in rates, the macro headwinds buffeting the market and what technological change in munis may look like.

Listen to audio.

Bloomberg FICC Focus

Oct 19, 2023

Front End of Yield Curve May Be at Peak: Truist's Hughey

Chip Hughey, Truist’s managing director of fixed income, discusses municipal bond yields with Katie Greifeld and Romaine Bostick on “Bloomberg Markets: The Close.”

Listen to audio.

Bloomberg Markets: The Close – Muni Moment

October 18th, 2023

Low Price Points Move Muni ETF Fund Flows.

Eric Kazatsky and Karen Altamirano look under the hood of muni ETFs.

Watch video.

Bloomberg

October 13th, 2023

Harnessing the Inverted Municipal Yield Curve: Alliance Bernstein

Continue reading.

OCTOBER 20, 2023

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

View the Current List.

5 Oct

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

View the list.

5 Oct, 2023

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

View the Current List.

5 Oct, 2023

NASBO Summary of Enacted Budgets.

View the NASBO Summary.

UBS to Exit Key Muni Investment Banking Business, Plans Job Cuts.

- **Bank to 'shift' away from negotiated muni bond sales: memo**
- **UBS is the 20th biggest muni underwriter so far in 2023**

UBS Group AG is halting most of its municipal bond underwriting business, just a few years after it hired dozens of bankers in an attempt to rebuild its state and local government debt department.

The bank, which is ranked the 20th biggest underwriter so far this year, will shift away from negotiated muni bond sales and is expected to reorganize its public finance group, according to a memo seen by Bloomberg News on Tuesday. The move is expected to result in staff cuts, according to a person familiar with the situation who asked not to be identified because the matter isn't public.

"We will shift our business away from the solicitation of negotiated new issues and instead pursue alternative solutions to access the new issue market, and we will reposition our resources to focus on where we see increasing client and advisor demand," according to the memo authored by UBS Global Wealth Management executives Jason Chandler and Patrick Grob.

A spokesperson for the bank confirmed the contents of the memo and declined to comment further. The Bond Buyer earlier reported on the contents of the memo.

Negotiated deals involve a borrower hiring an investment bank in advance of a transaction, and they account for about 80% of long-term muni sales this year.

Within the UBS public finance team, there will be job reductions in connection with the change, with the size of the cuts still to be determined, the person said.

It marks a major retrenchment by UBS, which in 2017 resurrected its state and local government bond underwriting business, after first exiting the space during the 2008 financial crisis. As part of the effort, the bank went on a hiring spree and lured away dozens of bankers from competitors.

Though over the last several months, some muni employees have left the group. In April, Siebert

Williams Shank & Co. announced the hiring of Edward Tishelman, UBS's former head of issuance strategies and municipal sales. Tim Sullivan, a managing director, departed this summer.

Lower Issuance

This has been a tough year for public finance bankers, with municipal-bond debt sales down 8%, according to data compiled by Bloomberg. UBS's ranking among underwriters has fallen four spots so far this year. Complicating matters was UBS's designation by Texas as one of several financial firms that "boycott" the fossil fuel industry — effectively ending its ability to underwrite debt in one of the most lucrative markets in the country. UBS disagreed with that decision, with a company spokesperson noting at the time that the firm doesn't boycott against energy companies.

Municipal bonds issued through competitive auctions account for a much smaller slice of total sales, with just over $50 billion of debt sold so far in 2023. Doug Vissicchio will continue to lead the bank's municipal trading business, which includes competitive underwriting, the memo said.

The memo noted that municipals are a core asset class for the bank's wealthy clients. "We remain focused on providing competitive solutions and products and, aligned with rising interest rates and increased client interest, have expanded our municipal trading and sales teams," the memo said. "This contributed to a more than 100% increase in trading volumes last year, with continued growth in 2023."

Bloomberg Markets

By Amanda Albright

October 10, 2023

[Uhlmann Confirms EPA Will Not Pursue PFAS Enforcement Actions against Farmers, Public Airports, and Municipal Wastewater Facilities: Bergeson & Campbell]

The American Bar Association (ABA) Section of Environment, Energy, and Resources (SEER) is holding its 31st fall conference October 11-13, 2023, in Washington, D.C. On October 12, 2023, in his remarks at the conference, David Uhlmann, Assistant Administrator for the U.S. Environmental Protection Agency's (EPA) Office of Enforcement and Compliance Assurance (OECA), stated that EPA will not pursue per- and polyfluoroalkyl substances (PFAS) enforcement actions against farmers who used biosolids, public airports that used aqueous film forming foam (AFFF) for fire suppression, or municipal wastewater facilities so long as they were acting in good faith. Bergeson & Campbell, P.C. (B&C®) is a proud sponsor of the SEER conference.

Background

On September 6, 2022, EPA proposed to designate perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS), including their salts and structural isomers, as hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). 87 Fed. Reg. 54415. More information on the proposed rule is available in our August 29, 2022, memorandum. As reported in our April 13, 2023, memorandum, EPA published an advance notice of proposed rulemaking on April 13, 2023, seeking information to assist in the consideration of potential development of future regulations pertaining to PFAS under CERCLA. 88 Fed. Reg.

22399.

On March 14, 2023, EPA held a public listening session to receive individual input related to concerns about potential liability under CERCLA. EPA stated that it would review and consider the input received in drafting a PFAS enforcement discretion and settlement policy to the extent that PFAS cleanup enforcement efforts occur under CERCLA. As reported in our March 17, 2023, memorandum, EPA stated that it intends to focus on manufacturers, federal facilities, and other industrial parties whose actions result in the release of significant amounts of PFAS. EPA does not intend to pursue CERCLA enforcement for PFAS contamination against the following parties:

- Water utilities and publicly owned treatment works (POTW);
- Publicly owned and/or operated municipal solid waste landfills;
- Farms that apply biosolids; and
- Certain airports and fire departments (state, Tribal, or municipal airports and Tribal or local fire departments).

Bergeson & Campbell PC – Lynn L. Bergeson and Carla N. Hutton

October 13 2023

EPA Issues Clean Water Act Permits Requiring Climate Change Adaptation.

As September ended, the U.S. Environmental Protection Agency (EPA)'s Region 1 office took a series of actions signaling the agency's intention to impose climate change adaptation requirements in National Pollutant Discharge Elimination System (NPDES) permits. In three permits issued to Massachusetts municipalities, the agency imposed obligations to develop adaptation plans aimed to mitigate risks to wastewater treatment plants and sewers resulting from larger storm events and more severe flooding. Region 1 also issued a guidance document to assist permittees with developing the adaptation plans required by NPDES permits. These adaptation planning requirements will likely appear in more EPA-issued permits and, ultimately, permits in authorized states issued to publicly owned treatment works (POTWs).

Continue reading.

Beveridge & Diamond PC – Andrew C. Silton and Lia Crutchfield

October 5 2023

U.S. Charter Schools Rating Actions, Third-Quarter 2023.

View the Rating Actions.

13 Oct, 2023

Fitch CDFI Peer Review (Five-Year History)

Overview Fitch Ratings' inaugural Community Development Financial Institution (CDFI) Peer Review summarizes the results of its first annual study of comparative financial information and ratios for a group of 24 CDFI loan funds (for a full list of the CDFIs that participated in the report, see page 7). This report covers financial information for fiscal year (FY) 2022 and the previous four fiscal years. The financial information included in this report was compiled based on Fitch's review of CDFI audited financial statements. The CDFIs that are the focus of this Peer Review are primarily non-profit, non-depository lending institutions (known as CDFI loan funds). According to a report by the Federal Reserve Bank of New York, as of August 2023, there were 582 CDFI loan funds, representing 39% of the 1,487 certified CDFIs in the United States. As of Q1 2023, CDFI loan funds held $34.5 billion, or 8% of all CDFI assets. CDFI loan funds play a vital role in serving low-income, low-wealth communities by providing capital to individuals, businesses, and organizations that historically have not had access to mainstream sources of credit. CDFI loan funds provide financing, often in the form of low-interest rate loans, and technical assistance to individuals, small businesses, microenterprises, affordable housing developers, and community service organizations.

ACCESS REPORT

Wed 11 Oct, 2023

Fitch Inaugural Peer Review Highlights Solid Financial Profiles of U.S. CDFIs.

Fitch Ratings-San Francisco/New York/Chicago-11 October 2023: The end of federal stimulus, dwindling private funding sources and a looming recession will spell some bumps for U.S. community development financial institutions (CDFIs), though Fitch Ratings' inaugural peer review for the sector says CDFIs are well-prepared for the coming headwinds.

Fitch economists are calling for a mild recession in the first half of 2024. As a result, CDFI loan performance may deteriorate from current levels, though loan losses are expected to remain manageable. Nonetheless, CDFIs are well-positioned to face current headwinds, according to Senior Director Karen Fitzgerald.

"Delinquency and loss rates have stayed relatively low over the past five years despite pandemic-related stress while CDFI balance sheets have grown substantially, averaging nearly 7% annually," said Fitzgerald. "Debt levels are also up over the last five years, albeit at a more moderate clip, due largely to more readily available public and private sources of funding from pandemic-related aid and relief programs."

However, with U.S. federal aid coming to a close and private funding also drying up to some extent, CDFIs will increasingly turn to bond markets to raise capital. This will likely increase CDFIs' cost of funds, though their funding mix should still allow them to offer credit at rates consistent with their mission while maintaining a sufficient equity cushion.

Fitch's inaugural 'Community Development Financial Institutions (CDFI) Peer Review' is available at 'www.fitchratings.com'.

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Additional information is available on www.fitchratings.com

CDFIs: An Under-Represented Stakeholder In the Public Finance Ecosystem?

Community development financial institutions (CDFIs) are vital investors in cities across America, but could they have a greater impact if they better pulled in dollars from public finance sources?

As long-standing lenders with a mission, CDFIs specialize in providing loans to individuals, organizations, and businesses in under-resourced or disadvantaged rural and urban communities often underserved by mainstream banks. They also provide other forms of fair, responsible financing that further economic potential. CDFIs can also function as trusted intermediaries that invest in a wide range of important sectors like housing, infrastructure, small businesses, and others.

CDFIs traditionally rely upon a myriad of funding sources, such as the U.S. Treasury CDFI Fund, the Community Reinvestment Act, grants from private foundations, funding from corporations, and many other private and philanthropic sources, to capitalize their operations and fund their lending and financing activities.

Continue reading.

The Kresge Foundation

by Aaron Seybert & Lourdes Germán

October 12, 2023

How the Quantum Computer Revolution Could Impact Municipal Bonds.

Tom Kozlik, Head of Public Policy & Municipal Strategy at Hilltop Securities, says he is even more bullish on munis after several consecutive weeks of investment flows out of municipal funds. He shares his optimistic outlook, weighs in on the potential impact of a government shutdown, and explains why he doesn’t think Silicon Valley is at risk of becoming the next rust belt.

Play Video

advisorhub.com

by Tom Kozlik, Hilltop Securities

October 12, 2023

Muni Funds That Use Borrowed Money Take a Big Hit.

Closed-end municipal-bond funds are suffering from rising interest rates

Some municipal-bond funds are suffering their worst stretch since the 2008-09 financial crisis, an acute example of how two years of rising interest rates have slammed investors' portfolios.

Closed-end municipal-bond funds have been particularly hard-hit because they often use borrowed money to invest in fixed-rate, long-term bonds sold by state and local governments. The leverage helps boost the returns from debt that is ultrasafe, but pays relatively little interest.

That worked for much of the past decade until rates started rising. Now, short-term borrowing is becoming more expensive while the market value of older, lower-yielding bonds in the mutual funds is falling.

Continue reading.

The Wall Street Journal

By Heather Gillers

Oct. 11, 2023

S&P Sustainability Insights: Managing Renewables Risk Is Increasingly Integral To U.S. Power Utilities Credit Quality

Key Takeaways

- Investments in renewable power sources are supporting energy transition in the U.S. power sector.
- Renewables typically have negligible variable costs, but the required technologies as well as transmission and storage needs, among other factors, could boost capital costs and weaken a utility's financial metrics in the long term.
- Intermittent power production and a changing regulatory landscape could create operational risks that may require adaptation by U.S. power utilities to stabilize credit quality amid the sector's evolution toward renewable generation sources.

Continue reading.

9 Oct, 2023

States Wrestle With AI-Driven Future.

While artificial intelligence and generative AI offer exciting applications for government,

state IT leaders remain concerned about the technology, its ethical uses and potential impacts.

Two states, on two sides of the country, illustrate some of the uncertainty that state IT leaders feel over the role of artificial intelligence, machine learning and generative AI in government operations.

California Gov. Gavin Newsom called for the state to preserve its role as a "global hub" for generative AI and a leader in "shaping the future of ethical, transparent and trustworthy AI." A recent executive order on the technology, requires agencies to draft a report by early November on potential use cases, risks and policies to guide the state government's use of generative AI.

Meanwhile, Maine in June instituted a six-month moratorium on its state government's use of the technology, saying the pause—that could be extended—is necessary to help keep the state ahead of a "rapidly evolving cyber threat landscape."

Continue reading.

ROUTE FIFTY

By CHRIS TEALE

OCTOBER 13, 2023

SCOTUS Agrees to Hear Case Concerning the Scope of Constitutional Challenges to Land Use Permit Conditions: Salber

Saiber Real Estate & Land Use Alert

The Supreme Court of the United States has agreed to hear *Sheetz v. County of El Dorado, California*, a case that concerns whether land use permit conditions in the form of monetary exactions created by legislation are completely exempt from constitutional review.

As we summarized in a prior alert, the matter involves a property whose owner applied for a building permit to construct a single-family residence. The County of El Dorado agreed to issue the permit with one important condition: the property owner had to pay a $23,420 traffic impact mitigation fee. The County had authorized the traffic impact mitigation fee as part of a general road improvement program intended to offset the impact of new development on the surrounding road infrastructure. The property owner challenged the impact fee as unconstitutional in California state court and ultimately lost, with the California Supreme Court declining to consider the property owner's appeal. The Supreme Court recently agreed to hear the case.

The Court's decision has the potential to significantly impact local governments and development, by either green-lighting monetary exactions that are exempt from constitutional review, eliminating or curtailing them by making them subject to the constitutional takings analysis; or by some alternate holding that attempts to balance the competing interests at hand.

To be clear, all development has an impact on the surrounding environment, whether it is a single-family home or a large industrial complex. The reality of municipal budgeting is that local governments have limited methods to offset those impacts and keep up with the demand on infrastructure and government services caused by development. In Mr. Sheetz's case, the fee concerned road improvements. However, local governments also struggle to account for the increased demand on stormwater management and flood prevention systems, sanitary sewer capacity, and public transportation, among other things – all of which affect communities in significant ways. But the government's efforts to offset development impacts must at all times comply with property owners' constitutional rights.

Oral argument in the case is not scheduled yet but will likely occur after the Court's November sitting.

Saiber LLC – Justin R. Calta and Nino A. Coviello

October 9 2023

US Public Pension Funds Caught In the Crossfire of the War On "Woke" Investing.

Data reveals that Republican state pension funds are more likely to be influenced by rhetoric in support of anti-ESG laws, despite historically showing relatively strong support for climate policies.

In the US, whether or not financial institutions should be able to invest in line with environmental or social factors has become a key issue for Republican politicians. Typically, Republican anti-ESG [environmental, social and governance] laws have been directed at state agencies, either banning them from doing business with financial institutions blacklisted for "boycotting" certain investments like fossil fuels or firearms, or prohibiting state or pension funds from making ESG investments.

By January 2023, almost 50% of US states either have some type of anti-ESG law in place or have placed blacklisting ESG action high on their legislative agendas.

These laws directly affect public pension funds, in terms of how they invest and how they vote on shareholder resolutions. By early 2023, legislators in more than 20 states had introduced bills amending the fiduciary duty laws covering investing and proxy voting for state retirement systems, prohibiting pension plans from taking non-financial considerations into account when voting at shareholder meetings.

Continue reading.

Energy Monitor

by Polly Bindman

October 16, 2023

"Leveraging Municipal Bonds For Green Energy Finance" - Dykema

Ann Fillingham authored the Law360 Expert Analysis article, "Leveraging Municipal Bonds For Green Energy Finance." In the article, Fillingham points out that as the nation takes on its infrastructure challenges — including on the energy side — leveraging all available capital resources will be critical.

by Ann Fillingham

10.12.23

2023 Dykema Gossett PLLC

Low Price Points Move ETF Fund Flows.

Eric Kazatsky and Karen Altamirano look under the hood of muni ETFs.

Watch video.

Bloomberg Markets

October 13th, 2023
