# Bond Case Briefs

*Municipal Finance Law Since 1971*

# Finance

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## S&P U.S. Municipal Water And Sewer Utilities Navigate A New Environment As Performance Drops.

**Key Takeaways**

- U.S. water and wastewater utilities' median financial performance diminished in fiscal 2023, while downgrades outpaced upgrades in 2024, consistent with S&P Global Ratings' negative sector view.
- Flat-to-declining median financial metrics reflect tightening margins as most utilities were operating in a new-baseline environment, with higher cost-of-service requirements. Balance-sheet metrics were mostly stable, but expense growth continued to pressure operating performance.
- Accelerating capital spending could further pressure margins as utilities address aging infrastructure, asset hardening, investing in new sources of supply, and complying with increasingly stringent regulations.
- Asset resiliency and long-term environmental-risk mitigation will continue to be integral to assessing utilities' financial outlook.

Continue reading.

5 Nov, 2024

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## Public Pensions and a Chance to Damp Down the ESG Wars.

**After a decade of increasing popularity among endowment funds and pensions, its use in investment decisions is coming under increasing political attack. Financial analysts — and perhaps AI — may be able to point the way to a safer middle ground.**

The culture wars have invaded public pension boardrooms. What began as a somewhat benign but unproven concept of thinking long-term about the sustainability of portfolio companies' business models in light of environmental, social and governance concerns has hit a brick wall across a swath of red states. A hardball backlash against so-called "woke" ESG investing that ostensibly ignores economic fundamentals and free-market securities valuations has taken hold in conservative corners of many state capitals, with impacts on pension funds and even the otherwise unrelated municipal bond market.

It's increasingly dangerous terrain for pension professionals and muni bond underwriters, although there is now a glimmer of hope on the horizon that a defensible screening process is achievable. And maybe artificial intelligence models can someday help replace doctrinaire belief systems with expert statistical forecasts. But first, some historical context.

Ever since the 1970s' political movements for pension and endowment funds to divest from companies doing business in apartheid South Africa, the concept of social investing has been

contentious. In addition to ideological disputes, there was uncomfortable end-game evidence that many public pension funds undertaking “Free South Africa” divesting shot themselves in the foot: When the regime changed, those divestiture stock prices recovered faster than the pension funds were able to reverse their policies, resulting in underperformance relative to their benchmark indexes.

Continue reading.

**governing.com**

OPINION | Nov. 5, 2024 • Girard Miller

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## WSJ: Trump Win Dents Muni Bonds

Prices fell Wednesday on bonds sold by state and local governments as investors prepared for a world of lower taxes and higher federal deficits.

Benchmark 10-year municipal bonds were yielding 3.12% in midday trading, compared with 2.96% yesterday before Republican Donald Trump won a second term, according to ICE Data Services. Prices fall as yields rise.

Treasury prices, which often drive moves in munis, fell Wednesday as investors anticipated more inflation and more federal debt. But muni bondholders likely also expect tax cuts could lessen the appeal of munis’ tax-exempt interest. Trump has pledged to cut taxes on U.S. manufacturers, for example.

Such promises “could have a considerable impact on the municipal market,” Abby Urtz, senior vice president at FHN Financial , wrote Wednesday.

One looming question for the $4 trillion market: The fate of the the $10,000 limit on state and local tax deductions created in 2017 to pay for other Trump tax cuts. That policy supercharged demand for New York and California munis.

**The Wall Street Journal**

By Heather Gillers

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## US Voters Back $52 Billion of Borrowing for Schools and Roads.

- **Approvals include California measures for climate, schools**
- **Passage comes as muni-bond sales increased this year**

Americans are poised to approve at least $52 billion of state and local government borrowing measures, according to preliminary vote tallies of S&P Global Market Intelligence data analyzed by Bloomberg.

Measures that appeared to pass include a $238.3 million transportation referendum for Charlotte, North Carolina, and a $240 million authorization for a school district near Columbia, South Carolina,

that will finance the construction of a new school and expand several others. Two of the largest measures on the ballot, a pair of $10 billion statewide referendums to finance climate change programs and education improvements in California, also passed.

The referendums come as state and local government borrowers are approaching a record year for municipal bonds sales. Issuers have sold over $442 billion of long-term debt so far, a more than 42% increase from the same period in 2023, according to data compiled by Bloomberg.

Continue reading.

**Bloomberg Markets**

By Aashna Shah and Nic Querolo

November 7, 2024

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## WSJ: Falling Rates, Rising Tax Risk Give Some Shine to Muni Bonds.

**State and municipal governments and agencies have increased issuance of debt by 39% this year**

Municipal bond issuance in the U.S. is heating up as local governments ramp up borrowing and investors gobble up the low-risk securities.

Industry experts said local governments have needed to borrow more as the massive federal stimulus received during the pandemic wears off. Issuances also are increasing in size, as the cost of projects become more expensive due to rising prices for materials, labor and services. Meanwhile, as the Federal Reserve cuts interest rates, yield-seeking investors have more reason to park their cash in munis.

“We were looking for a decent pick up year over year, the magnitude of the increase is what is a bit surprising,” said Sean Carney, chief investment officer of municipal bond funds at BlackRock, which manages about $188.4 billion in the asset class. municipal bonds. “I think we’re heading back to kind of the pre-Covid time frame where…we’re going to see a period of elevated supply.”

State and municipal governments and agencies have issued $447 billion of debt in the first ten months of this year to finance everything from affordable homes to airports to water and power supplies, according to Refinitiv data via the Securities Industry and Financial Markets Association. That is a 39% increase from a year earlier, even as borrowing costs in the period held at a multi-decades high. Sifma data also shows a higher volume of municipal bond trading this year.

Demand has outpaced supply in recent auctions by substantial margins, Carney said. The performance is attracting wider attention to a part of fixed-income markets mostly tapped by deep-pocket investors. “Sometimes we feel like the lost asset class,” Carney said.

He estimates this year’s issuance will total $475 billion, or around $105 billion above the total of bonds retired or refunded.

Having to pay higher interest rates hasn’t been much of a deterrent for local governments. “You can’t ask your failing roadway or water system to hang in there until rates fall,” Carney said.

Issuers may also have been trying to get ahead of the election, said Chad Farrington, co-head of U.S. municipal bonds at DWS. In fact, some analysts expect issuance to ease after Tuesday's vote, before rebounding next year once markets have a clearer view of government policies.

On the demand side, flows into municipal-bond funds increased to $26.5 billion this year through August, from $8 billion in the same period last year, according to the Investment Company Institute via FactSet.

Fund managers say that munis, like other fixed-income instruments, are increasingly becoming the new destination of funds parked for years in cash-like options such as certificates of deposit, which have lost appeal as the Fed cuts rates.

Then there is the tax factor. Municipal bonds' returns are often exempt from income tax. That feature is getting more relevant as certain provisions enacted in 2017 that benefited wealthy taxpayers are set to expire late next year.

"My clients are looking toward the Tax Cut Job Act expiration in 2025," said Kathleen Grace, chief executive officer of the Fiduciary Family Office. The boutique investment firm has $600 million of assets under management for clients who have an average net worth of $20 million. She said it makes sense for them to increase their holdings of assets offering tax-free returns to minimize the potential increase in federal taxation.

"We think those two factors are causing investors to get into the muni market, you know, [returns in] cash equivalents being lower and the prospects for higher taxes," said Dan Close, who heads Nuveen's $190 billion municipals division.

"If you're of the opinion that there is higher taxes in the future, one of the best ways to position your client's portfolio is to buy these state and local government bonds that finance infrastructure locally" and are exempt from federal and often state and local taxes as well, Close said.

**The Wall Street Journal**

By Paulo Trevisani

Nov. 5, 2024 12:21 pm ET

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## Muni Rally Accelerates Prompting Calls for Year-End Return Surge.

- **After election selloff, munis are rallying for a second day**
- **Strategists advise investors to buy-the-dip for long positions**

Municipal bonds rallied the most in three months on Friday, continuing a recovery that began Thursday after a sharp selloff following the US presidential election.

Benchmark state and local government yields fell by as much as 13 basis points as of 2:00 p.m. New York time. Those on 10-year, top-rated securities fell 10 basis points to 2.98% — the biggest daily decline since August, according to data compiled by Bloomberg. When muni rates climbed after the election —- trading in tandem with a rout in US Treasury securities — investors saw it as an opportunity to put cash to work, strategists said.

"A bullish reversal is underway for the muni market," wrote municipal strategists at Bank of America

Corp. in a research note published Friday. “Current levels for all investment-grade munis are good entries for new long positions,” according to the group led by Yingchen Li.

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**Bloomberg Markets**

By Erin Hudson, Sri Taylor, and Aashna Shah

November 8, 2024

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## Munis Tumble After Trump Victory Ignites Deficit Concerns.

- **Yields on muni bonds jumped as much as 16 basis points**
- **Investors of muni debt tend to take cues from Treasury market**

Municipal bonds plummeted on Wednesday after voters elected Donald Trump as US president. The move followed a rout in US Treasuries, which sold off over concerns that Trump’s policies will widen an already bloated budget deficit and cause inflation to surge.

Benchmark municipal-bond yields jumped as much as 16 basis points as of 4 p.m. New York time.

“A Trump win signals to the market that some proposed policies have a chance at sunlight, many of which could re-ignite inflation,” said Eric Kazatsky, senior US municipals strategist for Bloomberg Intelligence. “US Treasuries are speaking that fact to the market and dragging munis along for the ride.”

Continue reading.

**Bloomberg Markets**

By Danielle Moran and Lily Meier

November 6, 2024

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## Economic Outlook Supportive of Municipal Bonds.

The October jobs report, released last Friday, coupled with more downward revisions to monthly employment numbers, spooked some market participants. It also reignited talk about a looming recession. However, some experts believe economic contraction won’t come to pass. That could bode well for risk assets as well as lower-risk fare, such as municipal bonds. That indicates ETFs like the ALPS Intermediate Municipal Bond ETF (MNBD) could appeal for income investors.

“Recession fears were triggered when last Friday’s (early August) U.S. jobs report for July showed a rise in the unemployment rate to 4.3% from 4.1% and much weaker-than-expected monthly job creation. Those fears have exacerbated a global risk-asset selloff that began last [month. That was driven] by concerns over tech valuations and heightened geopolitical risks,” according to BlackRock.

**Why It Matters to MNBD**

The U.S. economy avoiding a recession is important to municipal bonds and ETFs such as MNBD. That's because periods of economic contraction can weigh on states' and cities' abilities to collect tax revenue. That revenue is the primary source repaying municipal debt obligations.

Fortunately for municipal bond investors, the October jobs report appears to be more of a bump in the road than a harbinger of a recession. Jobs are still being created and other economic indicators are sturdy. That potentially signals opportunity remains with ETFs such as MNBD.

"The unemployment rate is rising, but unlike ahead of past recessions, the main driver is not [layoffs. It] is an immigration-driven increase in labor supply. Job creation is slowing, but averaged a robust 170,000 over the past three months (ending July). Consumer spending, while cooling, remains relatively healthy and Q2 corporate earnings have so far topped expectations," added BlackRock.

However, some investors may not be able to shake the feeling that the U.S. economy could be heading for a pullback. That remains to be seen. But if that scenario arrives, MNBD could hold up well relative to other muni bond ETFs. That's because the ALPS fund is actively managed. That implies MNBD managers can more swiftly react to changing economic conditions and adjust the portfolio to feature allocations to bonds from the sturdiest issuers.

MNBD could also come into focus following Election Day. Depending upon the outcome of the presidential race, the U.S. tax code could be in for significant changes next year. Assuming previous tax cuts expire, investors could flock to tax-advantaged asset classes, including municipal bonds.

**etftrends.com**

by Todd Shriber

November 5, 2024

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Continue reading.

**Bloomberg Markets**

By Erin Hudson, Sri Taylor, and Aashna Shah

November 8, 2024

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## More Wealth Managers Recommending Muni Bonds.

In a changing bond market landscape, more wealth managers are recommending municipal bonds. The Federal Reserve is set to ease monetary policy and a new president will take office in 2025. So munis are an ideal option in the event of market volatility.

Regarding duration, advisors are looking to short-term and intermediate options as ideal in a rate-cutting environment. Furthermore, advisors are tipping the bond portfolio scales in favor of munis.

“Advisors are expected to accelerate their extension into short-term and intermediate-term bond portfolios as the Fed continues to cut rates, allocating a greater percentage of their fixed income exposure towards municipal bonds,” said Eric Golden, founder and CEO of fixed-income-focused fintech Canopy Capital Group, in Investment News.

Anticipating a ‘Notable Uptick’
“While exact figures on allocation increases can vary by advisor and client needs, we anticipate a notable uptick in interest and investment as the 2025 deadline approaches,” added Golden.

“We prefer to maintain our fixed income exposure on the short end of the curve,” said Stash Graham, managing director & chief investment officer of Graham Capital Wealth Management, also via Investment News. [“And we] do this to limit our interest rate or duration risk. We still believe present and future risks with the long end of the yield curve could rise.”

Those looking for broad exposure to munis can consider the Vanguard Tax-Exempt Bond ETF (VTEB). The fund tracks the Standard & Poor’s National AMT-Free Municipal Bond Index. This index measures the performance of the investment-grade segment of the U.S. municipal bond market. Overall, this index includes municipal bonds from issuers. Those issuers are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes, and the federal alternative minimum tax. It also features a low 0.05% expense ratio.

In terms of credit quality, munis are situated right between Treasury yields and corporate bonds. The fundamentals of munis have improved over the past few years. That makes them an ideal option for fixed income investors looking to balance credit risk and yield.

“Municipal-related credit risks have been mitigated over the last few years, as they were significant beneficiaries of the federal government’s COVID-era fiscal policies,” said Graham. He added that he tends to focus more on general obligation bonds than revenue bonds back by hospitals.

Shortening Duration on Munis
Given advisors’ skew towards short-term bonds, investors may want to opt for the Vanguard Short-Term Tax-Exempt Bond ETF (VTES) if they’re looking to shorten duration on their muni exposure. Like VTEB, exposure comes by way of via a low 0.07% expense ratio.

The fund tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index is designed

to balance the need for tax efficiency with the need for tax-exempt yield. This balance can translate to potentially higher yields than those afforded by competing strategies, for an appropriate level of duration risk.

**etftrends.com**

by Ben Hernandez

November 6, 2024

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## 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) $446.5 billion, +39.3% Y/Y
- Trading (as of October) $13.2 billion ADV, +2.0% Y/Y
- Outstanding (as of 2Q24) $4.1 trillion, +1.8% Y/Y

Download xls

November 1, 2024

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

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

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

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

Continue reading.

29-Oct-2024 | 07:02 EDT

## S&P U.S. Municipal Water And Sewer Utilities Rating Actions, Third Quarter 2024

**Overview**

S&P Global Ratings took 48 rating actions, revised 22 outlooks, and took four CreditWatch actions within the U.S. municipal water and sewer utilities sector in third-quarter 2024. One hundred and three ratings were maintained with no outlook revisions. Two were removed from CreditWatch, and two were placed on CreditWatch with negative implications.

Negative rating actions exceeded positive actions by two to one. Unfavorable outlook revisions exceeded favorable revisions by thirteen to eight. Bond issuance increased relative to second-quarter 2024 and is stronger compared to the same quarter in 2023.

Continue reading.

29 Oct, 2024

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## S&P Sustainability Insights: Rising Insurance Costs And Mounting Affordability Challenges Could Weigh On Some U.S. Governments' Creditworthiness

**Key Takeaways**

- With economic losses from Hurricanes Helene and Milton estimated to exceed $60 billion, S&P Global Ratings expects homeowners' insurance premiums will continue to rise in many regions of the U.S.
- Higher insurance premiums and diminishing coverage and availability could exacerbate existing U.S. housing affordability issues.
- Regions experiencing a spike in the cost of living could be susceptible to demographic and demand shifts that pressure long-term tax base growth and credit stability.

**Higher Housing And Insurance Costs Could Constrain Economic Growth And Weigh On Government Credit**

**Why it matters:** By 2022, more than 55% of households earning the median income or lower were spending over 30% of disposal income on housing costs (also known as housing burdened), according to the U.S. Census Bureau's American Community Survey data. Existing affordability challenges are amplified when combined with costs from increasingly frequent and damaging storms and flooding. And weaker economic growth and property value decreases could occur in the long term without offsetting tax-base growth. This confluence of events could lead to a downward credit trend for some U.S. governments.

**What we think and why:** When higher insurance premiums compound existing housing affordability problems, it can affect location and purchase decisions for homebuyers and employers. If these conditions persist, it could lead to lower taxable property values, affecting local government revenues and long-term growth. Playing catch-up to replace losses keeps governments from pursuing new economic growth and can affect long-term financial stability.

Continue reading.

[FREE REGISTRATION REQUIRED]

31 Oct, 2024

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## Presidential Election Puts Muni Bonds in Focus.

It's not yet clear who will occupy the White House in 2025. It's also not known what the makeup of the two chambers of Congress will look like. With the Tax Cut & Jobs Act (TCJA) set to expire next year, changes in the tax code are likely afoot. The mere specter of higher taxes could be an impetus for advisors and investors to more closely examine muni bonds and ETFs like the ALPS Intermediate Municipal Bond ETF (MNBD).

In any environment, muni bonds offer tax benefits. And those perks could be amplified should various TJCA provisions be eliminated next year.

Muni bonds, including those held by MNBD, could be further supported by additional interest rate cuts by the Federal Reserve. That's expected to happen over the course of 2025. Plus, state- and city-level tax collections should remain sturdy, further bolstering the case for munis.

Politics Could Benefit MNBD
Bonds have disappointed following the Fed's September rate cuts as Treasury yields remained stubbornly high,. But MNBD has traded mostly sideways since then. And muni bonds may have found support from money managers looking to prepare for 2025 tax changes.

"Eric Golden, founder and CEO of fixed income-focused fintech Canopy Capital Group, says advisors on his platform are likely to increase their allocations to municipal bonds as the TCJA approaches its sunset in 2025. The rationale behind this shift is rooted in the potential for higher taxes, which would turn up the spotlight on the tax-exempt nature of municipal bonds," reported Gregg Greenberg for Investment News.

Some advisors are already boosting exposure to munis. And that buying, particularly if it increases, could boost passive muni ETFs and active funds such as MNBD. Additionally, some advisors are hinting their pre-election buying of muni bonds and funds won't stop after Election Day. Rather, they expect to continue embracing the asset class over the course of next year.

"Similarly, Stash Graham, managing director & chief investment officer of Graham Capital Wealth Management, foresees increasing his allocation to tax-free municipal bonds. Still, he is waiting on a host of factors before making a [move. Those include] the result of the Presidential Election, the yield curve's shape, credit quality, and the direction of interest rates are in general," added Greenberg in his Investment News piece.

**etftrends.com**

by Todd Shriber

November 1, 2024

## When to Consider Munis From Outside Your Home State.

A major benefit of municipal bonds, or “munis,” is that the interest they pay is generally exempt from federal income taxes. They’re also generally exempt from state income taxes if the issuer is from the investor’s home state. That may seem like a compelling argument for sticking with in-state munis. However, many muni investors may benefit by diversifying outside of their home state, even if it results in a higher state tax bill.

We’ve identified five factors when it could make sense to consider munis from other states. After considering all five, we think that muni investors in all states, with the exception of two high-tax states—California and New York—could benefit from investing in a national, not state-specific, portfolio of muni bonds. Even investors in California who are not in a high state tax bracket could achieve higher after-tax yields by diversifying nationally.

**1. You live in a state with low or no state income tax.**

If you live in a state with low or no state income tax, you will likely benefit from diversifying your muni portfolio with munis from issuers outside your home state.

Continue reading.

**advisorperspectives.com**

by Cooper Howard of Charles Schwab, 10/31/24

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## Bloomberg: JPMorgan, Baird Keen on Muni Bonds Ahead of Election Sale Dip.

- **Munis are attractive as yields have climbed after a selloff**
- **Supply expected to drop in the first two weeks of November**

Some investors are eager to buy municipal bonds before supply tapers off because of the elections.

Supply is expected to drop next month: JPMorgan Chase & Co. strategists see tax-exempt issuance declining 70% to $7 billion in the first two weeks of November from the last two weeks of October.

Since muni bonds have been offering higher yields after a recent selloff, investors may want to take advantage of the elevated issuance this week, the strategists led by Peter DeGroot said. Municipal benchmark bond yields inched up again on Tuesday, rising as much as four basis points. The JPMorgan strategists expect yields to drop by the end of 2024 — making this week a good time to buy.

Continue reading.

**Bloomberg Markets**

By Lily Meier

October 29, 2024

## Passive Indexing Takes a Backset to Active: Bloomberg Masters of the Muniverse

Not a new theme but a continual one in that passive strategy start ups seem to be taking a back seat to sexier active strategies. In the latest Masters of the Muniverse episode of our FICC Focus podcast, Eric Kazatsky and Karen Altamirano are joined by Alex Petrone, Managing Director and Director of Fixed Income for Rockefeller Asset Management. We discuss Rockefellers views on the municipal marketpkace, how quickly the fixed income asset management space is changing and what 2025 may bring us.

Watch video.

**Bloomberg**

Oct 29, 2024

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## NLC City Fiscal Conditions 2024.

In its 39th year, City Fiscal Conditions provides a comprehensive analysis of the financial health of municipalities across the United States. This year's report underscores the adaptability of cities during significant economic shifts. Explore how cities shifted during the pandemic, strengthening their resilience to major economic disruptions, and emerging strong and ready for the post-pandemic economy.

**Executive Summary**

This year's report reveals that municipalities are making the necessary shifts to continue to meet the fiscal needs of their community. This includes maintaining historical investments and managing revenue streams.

Local governments are ensuring that their communities remain resilient, even in the face of declining federal aid through the American Rescue Plan Act. Analysis shows strong growth in revenues and reliable expenditures resulted in a 6.7 percent increase in spending and a 4.9 percent increase in general fund revenues.

**Revenue & Spending Trends**

In reviewing fiscal trends, compared to FY 2022, average spending by cities in 2023 saw a 6.7 percent increase. FY2024 spending levels continue to increase but at a lower level than between 2022 and 2023.

Continue reading.

**National League of Cities**

October 17, 2024

## GFOA Disaster Finance Resource Center.

Responding to emergencies and disasters might not be part of a financial professional's official job description, but many GFOA members find themselves playing this type of role for the communities they serve, especially right now in the aftermath of hurricanes Helene and Milton. GFOA is in the early stages of compiling resources, including best practices, relevant research, and ways you can volunteer to help.

Read more

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## S&P U.S. Brief: Hurricane Milton And Extraordinary Optional Municipal Bond Redemptions

**Florida municipal bonds face risks from recent hurricanes.** Municipal bonds backed by Florida-based obligors are facing optional redemption risk following two recent Category 3 and above hurricanes in the state.

### What's Happening

Within the span of two weeks, two hurricanes, Helene and Milton, struck Florida's coast as Category 4 and Category 3 storms, respectively. S&P Global Ratings currently rates 90 variable-rate municipal bonds that are supported by Florida-based obligors (see chart). Although the damages are still being assessed, some issuers have early redemption options for projects that were severely affected by the hurricanes.

### Why It Matters

### Severe damages could lead to early redemptions

- Municipal bond issuers have the option to redeem bonds if the projects that support them have been severely damaged or destroyed, according to extraordinary optional redemption.
- Bonds are subject to extraordinary optional redemption in whole at a redemption price of 100% of the outstanding principal plus accrued interest to the redemption date.
- The variable-rate bonds are supported by credit facilities provided by rated financial institutions. On the redemption dates, the bond trustees will draw on these facilities for the amounts due.
- Our ratings on the bonds reflect the likelihood that the credit facility will honor a draw upon an extraordinary optional redemption.

### What Comes Next

Downgrades may affect jointly applied ratings. We currently rate nine Florida-based variable-rate municipal bonds that benefit from joint support between the bond obligor and the credit facility. We will continue to monitor the credit impact the hurricanes have had on these obligors, including the jointly applied ratings on the variable-rate municipal bonds, and take rating actions as we deem necessary, which may include downgrades.

21 Oct, 2024

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## Public Finance Impact of Hurricanes' One-Two Punch is Still Taking Shape.

As the people in the path of Hurricanes Helene and Milton continue to dig out from the damage, the municipal bond market continues to assess the storms' impact on public finance in the Southeast.

Hurricane Helene made landfall on the Florida Panhandle Sept. 26 and tracked north, where it did its worst damage in the Appalachian Mountains of western North Carolina and eastern Tennessee.

Milton hit Florida Oct. 9 in Sarasota County on Florida's Gulf coast, moving east across the peninsula. It spawned tornadoes far from the center of the storm itself, doing extensive damage on the state's Atlantic seaboard.

S&P Global Ratings put three utilities' ratings on credit watch negative Tuesday citing Helene's impact. The action affects Asheville, North Carolina's AA-plus-rated water system bonds; Greeneville, Tennessee's A-rated water system revenue and sewer system revenue bonds; and Erwin Utilities Authority, Tennessee's A-rated water and sewer system revenue bonds.

"We will resolve the CreditWatch placement when there is greater clarity regarding the extent of the utilities' infrastructure damage, how federal and state support is deployed, the projected pace of the rebuild, and the influence of these factors on each utility's operational integrity and financial health," said S&P Global Ratings Credit Analyst Jenny Poree.

"While FEMA and other agencies are doing the best they can with the resources they have, multiple co-occurring disasters are straining resources and increasing program debt," said Sadie Frank, co-founder and CEO of ENES, which develops and uses prediction models for solutions to climate risks to supply.

"Local governments in Hurricane Milton's path, despite having considerable financial resources, will face significant credit challenges because of the heavy reliance on state and federal disaster recovery assistance and the high costs of public infrastructure repairs," said Moody's Senior Analyst Valentina Gomez.

"The issue of flooding becomes even more prominent," said Joseph Krist, publisher of Muni Credit News. "The lack of flood insurance in the case of these storms is likely the biggest obstacle to rebuilding ? Will it drive people away?"

"Clearly there will be short term pressures but much of the work done to clear roads and remove debris will be reimbursable," Krist said.

"I would anticipate that few ratings will change barring some catastrophic impacts from the events," said John Hallacy, president of John Hallacy Consulting LLC, in a LinkedIn post.

In a just-released report, S&P said the North Carolina state government had set aside $273 million to help recovery from Helene. The agency says the government, which it rates AAA, had been projected to increase its rainy-day fund to $4.88 billion in fiscal 2025. The state has a "consistent record of replenishing reserves after one-time use."

Asheville and the surrounding area still feel the impacts of Helene almost three weeks later. The city

utility is still working to restore water to its entire service area, and most customers who are getting water are under orders or advisories to boil it before drinking.

“In the short term, ironically, the hurricanes will generate some economic boosts – from rebuilding and the flood of disaster relief funds,” said David Victor, professor of innovation and public policy at the University of California, San Diego.

The inflow of federal and private relief funds after disasters can cause municipal revenues to spike, Frank said.

Moody’s RMS Event Response, a catastrophe modeling firm, estimated U.S. private market insured losses from the two hurricanes to be $35 billion to $55 billion. Morningstar DBRS said insured losses range from $45 billion to $60 billion and Fitch Ratings put Milton’s insured losses alone from $30 billion to $50 billion.

These impacts would make the combined storms’ insured property damage somewhere from the seventh, if $35 billion, to the second, if $60 billion, largest in U.S. hurricane history, adjusted for inflation, according to Insurance Business and J.P.Morgan.

The inflow of “private relief funds” means private insurance money, and this can have negative as well as positive impacts on local municipal bonds in the short and long term.

In the short term some of these losses will be picked up by reinsurers, Morningstar (MORN) said. Since one of those reinsurers is Florida Hurricane Catastrophe Fund, which is partly funded through municipal catastrophe bonds, this could hypothetically hit bondholders in the near term. However, Florida Division of Bond Finance Director Ben Watkins said Oct. 10 the fund was in a “very good position.”

Watkins said he thought Helene might cost the fund about $100 million. He expects to have a preliminary estimate of Milton’s draw on the fund in the next few days. But the hurricanes’ impact on the fund would have to exceed $6 billion before any municipal bondholders would lose any money and as of last week, he thought that very unlikely.

“Extensive damage to transportation and utility infrastructure from Hurricane Helene could complicate local government’s recovery efforts in some of the hardest-hit area, potentially delaying the restoration of services and recovery of economic activity. This creates uncertainty about the storm’s impact on long-term credit quality for some local governments,”
S&P said in a report.

“Helene and Milton are another wake-up call for Southeast states that climate change is and will radically reshape individual lives and the economy of the entire region,” Frank said. “We’re currently seeing the impacts of this most acutely on insurance markets.”

Victor said the storms’ most important long-term impact on Florida would be their potentially negative impact on property values, particularly because of increasing property and casualty insurance costs. These insurance “markets are already driving costs higher; a big loss year will amplify that trend.”

Such a prospective decline in property values, and/or declines in the tax base and emigration from the state potentially “adds up to a public finance problem since debt repayment is variously linked to tax revenue potential,” Victor said.

As yet that has not materialized; Florida’s population rose 4.7% from 2020 to 2023, reaching 22.6

million according to the U.S. Census, as the nation's population grew 1%.

"Stress in the home insurance market ? which is particularly acute in Florida, is already becoming a national issue," Frank said. "If insurance markets are forced to full price risk, which the National Flood Insurance Program has made baby steps towards, this will likely lead to (1) individuals dropping coverage and therefore requiring additional post-hoc assistance and/or (2) negative impacts to city and county finances as tax bases are hollowed out from climate mitigation."

S&P said less than 1% of households in path of Helene had flood insurance through the National Flood Insurance Program.

In the long run, climate change means Florida communities will face higher costs, which will lead residents to debate whether money should be used for infrastructure or operating expenses, Victor said.

The hurricanes will convince participants in the municipal bond market to pay closer attention to climate change, Victor said.

Helene was unusual in wreaking substantial damage well away from the Atlantic Ocean or the Gulf of Mexico, S&P said in a report. "A shift to inland damage from where the storms make landfall could require greater storm preparedness in such areas, adding to the region's need for storm hardening." That could bring additional debt and pressure issuers' fixed costs, the rating agency said.

"Where damage to infrastructure and core services is catastrophic, or where property insurance becomes unaffordable or unavailable, some entities could see lasting declines in population and economic activity that impact revenue generation," S&P continued in the report.

While FEMA has historically provided 75% to 90% of the coverage for disaster-related costs, this may change in the future because of the federal government's "ongoing budget issues and the escalating costs of disaster relief," S&P said.

FEMA's post-disaster aid is one of the factors that "prevent municipal bond markets from fully internalizing the impacts of climate change on cities and counties, which can ? leave communities actually more vulnerable to future risk," Frank said.

"Over the long term, this pattern of destroy, rebuild, repeat will become unsustainable, from a human and a financial cost perspective. We're already seeing cracks that indicate this cycle is breaking," Frank said.

"Over the course of the past 50 years, the tendency of Americans to move from the coldest places ("snow belt"), which have become warmer, to the hottest places ("sun belt"), which have become hotter, has steadily declined," the Federal Reserve Bank of San Francisco said in a working paper published in July.

"The first question that needs to be asked is whether building should be permitted in flood zones or in areas where natural hazards are likely to have a greater incidence of adverse events," Hallacy said.

"Changes in the composition of the municipal market, the more modest use of bond insurance, and more frequent and severe climate related events suggest that climate-related bond impairments and defaults are likely to rise," Municipal Market Analytics said in its Weekly Outlook Monday. "In the near-to-medium term, bonds reliant upon the revenues of a single-site project or a narrow revenue

stream are more likely to face longer lasting stress and an increase in impairments and defaults."

Issuance of debt backed by single-site projects and other complex structures has increased in 2024 compared to 2005, MMA said.

By Robert Slavin

BY SourceMedia | MUNICIPAL | 10/17/24 08:27 AM EDT

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## Climate Change Reshapes Cities, Both Environmentally and Financially.

In thousands of U.S. towns and cities, worsening climate threats — largely due to fossil fuels — trap cities in a paradox.

Big cities like Houston and Tampa, Fla., and smaller ones like Port Arthur, Texas, and New Bedford, Mass., require proactive, ambitious investment to survive rising seas and temperatures.

But just as adaptation becomes urgent, climate change is undermining the financial and built infrastructure needed for such changes, risking a financial death spiral for communities housing tens of millions of Americans.

Continue reading.

**thehill.com**

by Saul Elbein

10/25/24

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## Catastrophe-Bond Funds Suffered Virtually No Losses From Hurricane Milton.

- **The bonds continue to deliver market-beating returns**
- **Performance follows big insured losses from two US hurricanes**

After two weeks of number-crunching, it now seems clear that investors in catastrophe bonds emerged from Hurricane Milton relatively unscathed.

In fact, holders of the bonds may be looking at returns of as much as 12%, according to Zurich-based asset manager and catastrophe-bond specialist Plenum Investments AG.

Before Milton struck just south of Tampa on Oct. 9 as a Category 3 hurricane, the market for catastrophe bonds had been bracing for losses as steep as 15%, dwarfing those triggered by Hurricane Ian two years earlier. In the event, losses from Milton will likely be closer to 1%, possibly even less.

"The underlying dynamic means that spreads stay at high levels," said Dirk Schmelzer, managing partner at Plenum, which oversees more than $1.2 billion in insurance-linked securities and

insurance debt, including about $900 million of catastrophe bonds.

And with this year's hurricane season now unlikely to deliver more losses, the outlook is for "very attractive returns over the next 12 months," he said during a webinar on Thursday. November hurricanes tend to hit in the lower latitudes and the chances of a major storm making landfall in the US "is next to zero," Schmelzer said.

Catastrophe bonds, or cat bonds as they're often called, are issued by insurers and reinsurers in order to hand some of their risk over to the capital markets. Investors in the bonds make money if a predefined disaster doesn't occur, but can lose much of their capital if it does.

So far this year, the Swiss Re global cat-bond index is up more than 13%, as investors emerge largely unscathed after what meteorologists had warned would be one of the most active hurricane seasons in recent memory.

Market-beating returns are a recurring theme in the market for cat bonds. Last year, the instruments underpinned the most profitable hedge fund strategy of them all, namely insurance-linked securities, according to Preqin, which provides data on the alternative-asset management industry.

The parameters that determine cat-bond payouts are unlikely to become softer in the future, according to analysts monitoring the market. Morgan Stanley analysts said earlier this year that they expect cat bonds "to adjust the triggering criteria for a payout to cover only the most severe types of storms."

**Bloomberg Green**

by Gautam Naik

Thu, October 24, 2024

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## S&P U.S. Not-For-Profit Health Care Outstanding Ratings and Outlooks as of Sept. 30, 2024

View the S&P Ratings and Outlooks.

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## S&P U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension And OPEB Funding Trending Favorably

**Key Takeaways**

- Based on our 50-state survey, total U.S. state net direct debt decreased 1.3% in fiscal 2023, while the combined state share of net pension and OPEB liabilities declined 8.8% compared with fiscal 2022.
- On average, state debt metrics remain low to moderate compared with most economic and state budgetary measures and will likely remain so as states took advantage of federal funding and pursue paygo funding for capital needs that have traditionally been debt-funded.

- Pension funded ratios improved slightly in fiscal 2023 relative to fiscal 2022 and we expect continued improvement in fiscal years 2024 and 2025.

Continue reading.

23 Oct, 2024 | 17:51

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## More States are Planning for the Coming Retirement Surge.

**Increasingly, states are turning to automated savings programs to help their constituents—and budgets.**

A record number of Americans are reaching retirement age this year, marking the start of an unprecedented surge in Americans turning 65 that will last through roughly 2027, and bringing issues related to life after work to the forefront for individuals and policymakers. Financial security is of particular concern. Although the retirement savings gap—the difference between what workers have set aside for retirement and what they will need—has improved in recent years, studies have consistently found that most Baby Boomers haven't saved enough and will probably have to rely primarily on Social Security and Medicare as they age.

The wave of people leaving the workforce also affects the public sector, with the associated fiscal and policy strains increasingly viewed as a present-day crisis. The Pew Charitable Trusts estimates that by the end of 2040, insufficient retirement savings will have cost states and the federal government a combined $1.3 trillion since 2021 in increased public assistance spending, administrative costs and reduced tax revenue. Meanwhile, the working-age population, which provides most of the tax revenue needed to pay for such costs, is unlikely to keep pace with the workforce losses, growing only modestly over time.

Continue reading.

**Route Fifty**

By Alexandre Fall

October 23, 2024

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## Fitch: Reversal of Pension Benefit Actions Could Pressure State Liabilities

Fitch Ratings-New York-21 October 2024: Recently adopted and proposed modifications to state pension benefits could slow pension funding progress and pressure long-term liability burdens over time, according to Fitch Ratings. Enacted and proposed actions that offer more generous benefits will lead to higher required contributions and liabilities in the short term and could affect long-term credit stability if states adopt additional rollbacks to the early 2010s pension benefit revisions over the next few years.

Many states revised government pension benefits following the Global Financial Crisis, which saw average state pension fund returns plummet 7.7% in 2008 and 17.9% in 2009. Changes included higher employee contributions, increased retirement eligibility age and service requirements,

modifications to benefit calculations, shifts to defined-contribution or hybrid plans, and reductions or suspensions of cost-of-living adjustments (COLAs). These measures have resulted in compounded savings, improving pension funded ratios and reducing growth of actuarially determined employer contributions.

Recent events prompted the reconsideration of these decade-old pension actions. Pandemic disruptions and an aging workforce led to a surge in public sector retirements, and a sharp rise in inflation in 2021 and 2022 eroded retirees' purchasing power, particularly for plans that had curtailed COLA-linked automatic benefit increases. A tight labor market and flexible remote and hybrid working arrangements in the private sector have challenged public sector job recruitment and retention. Pension funded statuses have improved due in part to healthy long-term investment returns and, in some states, substantial supplemental pension contributions.

New York rolled back several changes over the past three budgets for workers hired after April 1, 2012, known as Tier 6. The legislature reduced the minimum vesting period from 10 years to five, costing the state and local governments $61 million annually, and changed the final average salary calculation period from five years to three, increasing annual contributions by $377 million. These changes increase the net present value of state and local pension benefits by over $4.3 billion, but Fitch expects that New York's long-term liability burden will remain low due to the state's history of conservative pension funding practices.

Rhode Island's fiscal 2025 budget included enhancements to retiree benefits to counteract inflation. Pension benefits are now based on the highest three consecutive years of earnings instead of five. The state also repealed the suspension of full annual COLAs for state employees who retired before 2012 and lowered the funding threshold for reinstating COLAs to 75% from 80% for those who retired after July 1, 2012. These changes will increase Rhode Island's required state pension contributions by $27.5 million in fiscal 2025 and add about $434 million to the state and local unfunded pension liability, increasing the state's long-term liability metrics in the near term. However, we expect the long-term liability burden to resume a general downward trend, absent additional legislative actions.

In Illinois, pension changes have been proposed over concerns about whether Tier 2 benefits meet IRS safe harbor requirements for a Federal Insurance Contributions Act tax exemption. While policies addressing this issue might not affect Illinois' credit quality, broader enhancements to Tier 2 benefits, applicable to employees hired after Jan. 1, 2011, could raise liabilities and negatively affect the state's credit rating.

Benefit enhancements have been proposed in at least two states where past reforms have meaningfully supported credit quality. New Jersey's legislature has repeatedly introduced bills in recent years that would revisit the 2011 suspension of COLAs until an 80% funded ratio is achieved. In Alaska, legislative proposals would reopen its long-closed pension plans. Both states have elevated pension liability burdens relative to state medians, but credit concerns have been partly mitigated by state policy actions to curtail liability growth.

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## Municipal Bond Infrastructure Sales Near $250 Billion to Smash Record.

- **New money municipal-bond sales surged so far this year**
- **Economic confidence, interest-rate stability help boost sales**

A new bridge in Lake Charles, Louisiana, a 26-story patient tower for the Children's Hospital of

Philadelphia and two high schools in the heart of Texas' oil country are just a handful of projects financed by what's poised to be a record year of municipal bond sales.

Since January, state and local government borrowers have tapped investors for nearly $250 billion of debt sold exclusively for new infrastructure developments, the most since at least 2013, according to data compiled by Bloomberg. The sum is up 30% over the same period last year, the data shows.

"We have major infrastructure repair needs and growth needs," said Elaine Brennan, executive vice president of the public finance department at Roosevelt & Cross Inc., a broker-dealer specializing in municipal finance. Governments have more confidence in the economy and the trajectory of interest rates these days, she said.

Continue reading

**Bloomberg Markets**

By Lily Meier

October 21, 2024

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## Municipal Utilities and the Persistent Push to Privatize.

**Given tax-exempt financing and other advantages, continued municipal ownership would seem the way to go. But other pressing public needs can make cashing out these valuable assets seem attractive. A new wave of privatization efforts will give localities a lot to think about.**

Economics textbooks always have a subchapter on "natural monopolies," situations where the owner of a business or a service has essentially captured the market and nobody else can effectively compete. In local government, these are most commonly associated with utility operations that were set up long ago to provide water, sewerage and electric service. Some of these operations are run better than others, but in general they reliably provide essential services at a fair cost, and often the lowest possible sustainable cost.

Nevertheless, there have always been advocates for privatizing these assets. Sometimes the motives involve local politics, sometimes operating efficiency, and sometimes financial desperation. Putting aside sheer anti-government ideology that private owners are inherently better operators, the most common justifications for private ownership are economies of scale — spreading fixed and overhead costs over a large customer base — or raising cash to pay for replacement facilities or unrelated costs like unfunded pensions. Look for these arguments to come up time and time again.

Continue reading.

**governing.com**

by Girard Miller

Oct. 22, 2024

## Biden Administration Doles Out $4.2 Billion for Big-Ticket Infrastructure Projects.

**A new Boston rail bridge, a California high-speed rail station, electric dock equipment in Miami and a safer highway interchange in Iowa are among the 44 projects selected for funding.**

Boston's transit agency will receive $472 million from the federal government to replace a century-old rail bridge, as part of $4.2 billion for 44 major infrastructure improvements announced by the Biden administration Monday.

Other projects that received awards include replacing a two-mile bridge in the Florida Keys, untangling a busy intersection in Arizona, electrifying port equipment in Miami, and replacing a highway bridge that collapsed in Providence, Rhode Island.

The federal money, which comes as a result of the 2021 infrastructure funding law, comes from two grant programs that fund large projects, the so-called "Mega" grants for outsized projects that are too complex for most federal grant programs, and the INFRA program, which go to highway and multimodal projects that speed freight delivery and promote other economic benefits.

Continue reading.

**Route Fifty**

By Daniel C. Vock,
Senior Reporter,

October 21, 2024

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## Muni Bankers Shrug Off Citi's Exit and Celebrate Deal Bonanza.

In San Francisco this week, municipal-bond bankers weren't fretting about industry concerns or the departure of giant Citigroup Inc. earlier this year.

Instead, they were celebrating the deals they've picked up amid a record pace of new state and local government bond sales this year.

"We have new players coming into the industry with fresh eyes and fresh ideas," said Leonard Jones, head of public finance at Blaylock Van LLC, in a panel discussion at the Bond Buyer's California Public Finance Conference in San Francisco on Friday. "We have a lot of regional and minority firms that are growing, and I don't see much to be negative about."

Issuers have sold $423 billion of long-term municipal bonds so far this year, a more than 40% increase from the same period in 2023, according to data compiled by Bloomberg. If that pace holds for the rest of the year, the market would post an annual record, the data shows.

The tone was upbeat throughout the conference. At a panel Thursday, some panelists estimated more than $500 billion worth of muni-bond sales in 2025.

The surge in supply indicates Citigroup may have pulled out of the market at the wrong time, said Cameron Parks, managing director at Truist Financial Corp. and a former Citi banker. “Citi exits and this becomes a record volume year. Their timing on that part wasn’t that great,” he said on the panel.

Smaller firms have been making inroads in the muni market after Citigroup and UBS Group AG largely pulled out of the market. Truist, for example, has surged in the muni underwriting rankings this year.

Jones said the remaining firms in the industry have increased resources to help bridge the gap. He detailed that Blaylock doubled the size of its sales and trading desk after Citi left, increasing the bank’s secondary market trading and competitive bidding capacity from “pretty much zero.”

“That’s us stepping up and trying to provide some liquidity to the market,” Jones said.

Still, borrowers remain concerned about fewer liquidity providers and banking relationships. Bankers often pitch issuers on potential financings or new structures.

“As an issuer, this has been an area of concern, we’re concerned about liquidity,” said Nikolai Sklaroff, capital finance director at the San Francisco Public Utilities Commission. “My most important concern is the liquidity of ideas.”

**Bloomberg Markets**

By Danielle Moran and Maxwell Adler

October 25, 2024

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## Jefferies, Truist Surge on Competitive Muni Bond Deals.

- **Jefferies reaches third in competitive sales from 12th in 2021**
- **Truist ranks seventh after winning 37 muni auctions this year**

Jefferies Financial Group Inc. and Truist Financial Corp. are winning a larger number of muni bond sales up for auction this year, the latest evidence of the shake up in the market after large banks like Citigroup Inc. pulled back.

So far this year, Jefferies was third among competitive managers, up from twelfth three years ago, according to data compiled by Bloomberg. Truist has jumped to seventh after winning more than three dozen deals this year.

In competitive auctions, state and local governments sell their bonds to the lowest bidder. That’s in contrast to so-called negotiated transactions where a manager is selected ahead of time. In an era of shrinking margins, underwriters are scrutinizing which types of deals to manage.

Continue reading.

**Bloomberg Markets**

By Shruti Singh

October 23, 2024

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## Barclays, JPMorgan Say Munis' Worst Week in 2024 Is Time to Buy.

This week's muni market selloff has opened a window to buy, according to strategists at Wall Street firms.

Muni yields surged dramatically earlier this week, following a selloff in US Treasuries as signs of a strong economy caused investors to pare back expectations for interest-rate cuts. On Thursday, muni bonds rallied.

But as of Friday morning, the 10-year benchmark yield was still 26 basis points higher than where it started this week. Muni bonds are poised for their worst week of performance in a year, according to Bloomberg indexes.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

October 25, 2024

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## Muni Rout Sends Prices Plunging With Worst Day in Two Years.

Municipal bonds are dropping for a fourth straight day as bets on less aggressive Federal Reserve rate cuts are causing a rout that is reverberating throughout fixed income markets.

Top-rated 10-year municipal bond yields climbed 18 basis points on Wednesday, their worst day in over two years. The unusually strong selloff in the typically staid state and local government debt market comes after rates on 10-year benchmark debt climbed 8 basis points on Tuesday. That index now stands at 3.02%, the highest since June, according to data compiled by Bloomberg.

Ryan Henry, a municipal strategist at FHN Financial, said that buyers stepped away in the last few days as muni bonds became expensive compared to Treasuries. "I think everyone was a bit blindsided by the treasury move," he said. "Munis were outperforming and today was the tipping point."

Continue reading.

**Bloomberg Markets**

By Aashna Shah and Amanda Albright

October 23, 2024

## Barclays, JPMorgan Say Munis' Worst Week in 2024 Is Time to Buy.

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But as of Friday morning, the 10-year benchmark yield was still 26 basis points higher than where it started this week. Muni bonds are poised for their worst week of performance in a year, according to Bloomberg indexes.

"Similar to last October, and obviously influenced by election year dynamics, we believe that investors can find value at current adjusted market levels this week and next, particularly given strong market technicals in November and through the new year," JPMorgan Chase & Co. strategists led by Peter DeGroot wrote in a note on Friday.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

October 25, 2024

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## Why Muni Bond ETFs Make Sense in 2025.

The Internal Revenue Service has announced new tax brackets for 2025. This makes now an ideal time to revisit the benefits of muni bond ETFs.

The IRS on Tuesday announced it raised the income thresholds for each bracket, which applies to returns filed in 2026 for tax year 2025. Additionally, the IRS increased figures for other provisions including long-term capital gains brackets and eligibility for the earned income tax credit.

Investors in high tax brackets are positioned to benefit most from the tax advantages of muni bond ETFs. However, investors in lower tax brackets may also benefit from an allocation to muni bonds. The primary reason that people invest in munis is for tax-free income.

As their name suggests, muni bonds are issued by municipalities. Their interest payments are generally exempt from federal taxes and potentially state and local income taxes too.

It's important to note that muni bonds generally come with a low risk of default. Additionally, they tend to have less volatility than corporate bonds, which may be considered riskier.

**Muni Bond ETFs**

The five largest muni bond ETFs, as measured by assets under management, include the $39.2 billion iShares National Muni Bond ETF (MUB), the $34.9 billion Vanguard Tax-Exempt Bond ETF

(VTEB), the $8.7 billion iShares Short-Term National Muni Bond ETF (SUB), the $3.7 billion SPDR Nuveen Bloomberg Short Term Municipal Bond ETF (SHM), and the $3.6 billion SPDR Nuveen Bloomberg Municipal Bond ETF (TFI).

Muni bond ETFs have seen strong flows in 2024. VTEB and MUB have taken in $3.2 billion and $2.3 billion, respectively, in net flows in 2024 through Oct. 22. VTEB and MUB's success in garnering significant investor assets may be due to the fact that the funds are the cheapest offerings in the category. Each fund charges just 5 basis points.

In comparison, SUB charges 7 basis points, SHM charges 20, and TFI charges 23.

For more news, information, and analysis, visit VettaFi | ETF Trends.

**etftrends.com**

by Elle Caruso

October 23, 2024

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## The Fed Is Cutting Rates: It's Bonds' Time To Shine - J.P. Morgan

Investors often employ bonds to play the role of income generators and diversifiers against equity market volatility. After more than a decade of low base rates that kept all-in yields fairly uninspiring following the Global Financial Crisis, many investors have renewed their interest in the asset class following the pandemic-era rate hiking cycle. But now that central banks are embarking on rate cutting paths, here are three reasons to consider core bonds today:

- **All-in yields look attractive.** Yields on bonds with duration of one year or longer have bounced off of their lows over the past month, refreshing bond investors' entry point for the better. The investment grade corporate bond Index and municipal bond index (on a tax-equivalent basis) have starting yields that beat that of 3-month Treasury Bills, which we use to proxy the yield on cash.
- **As an investment asset, bonds tend to beat cash.** Federal Reserve rate cuts are underway, and history suggests that core bonds tend to outperform cash when that's the case. Over the past 12 cutting cycles, core bonds have generated an average return of 17% versus 7% for cash. We have been advocating for investors to right-size their liquidity positions all year, and it's not too late – if you're holding onto more cash than you need to cover day-to-day expenses, three to six months' worth of emergency savings and expenditures expected over the next year or so, consider if it makes sense to extend duration on the excess.
- **If things go awry, the Fed might cut faster.** Given resilience in economic data, markets are currently pricing in a gradual path of rate cuts (i.e., just about 1% point of rate cuts over the next four meetings, or less than 25 basis points per meeting). It's important to note, however, that the Fed's focus has started to shift away from inflation and towards keeping the labor market healthy. Therefore, if employment data comes in weaker than expected going forward due to disruptions from recent hurricanes and labor strikes, the Fed is likely to cut faster. Decreases in yields translate to increases in prices of bonds, supporting a bond investor's total return.

Continue reading.

**J.P. Morgan**

Elyse Ausenbaugh
*Head of Investment Strategy, J.P. Morgan Wealth Management*

Published Oct 16, 2024

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## Maximizing Returns With Long-Dated Municipal Bonds in a Normalizing Yield Curve.

After what feels like forever, the yield curve has reverted to its normal direction, with longer-dated bonds now yielding more than shorter-dated ones. For income seekers, this is significant, as it means the days of finding 5%+ yields in short-term securities are now.

But that doesn't mean that there aren't good income opportunities out there — especially when you factor in taxes.

Right now, and thanks to the yield curve returning to normal, long-dated municipal securities could offer some of the best total return elements of any fixed-income asset class around. The ability to generate high tax-free yields alongside capital gains makes them a compelling choice for investors.

Continue reading.

**dividend.com**

by Aaron Levitt

Oct 28, 2024

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## NASBO: Key Differences Between State and Federal Fiscal Processes

What are the key characteristics of state budgeting and how do they contrast with federal budget practices? How do the fiscal roles of federal, state, and local governments vary and interact in our federalism system, and what are the implications for budget processes? Why is it important for the federal government to understand how state governments manage their finances and what can they learn from states? These questions and others are addressed in a recently released paper, Fiscal Contrast: An Analysis of State and Federal Fiscal Processes, a joint project of the Kem C. Gardner Policy Institute and NASBO published this month in the Gardner Business Review.

### State and Federal Practices Differ

Under the U.S. Constitution, states and the federal government both hold sovereign fiscal powers to spend, tax, and borrow. However, the processes they follow for employing these powers differ in fundamental ways. States typically balance their budgets over a one- or two-year cycle, adopt budgets on a predictable schedule with most spending subject to standard appropriation processes, and practice proactive planning to prepare for an economic downturn or other contingencies, such as building up rainy day funds and conducting stress testing. States' use of debt is generally limited to capital purposes. Meanwhile, the federal government practices routine annual deficit spending using a ten-year budget window, with most spending happening outside of a regular annual

appropriations process, and primarily relies on debt as its contingency management tool.

Continue reading

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## Going into 2025, Cities Plan for Leaner Budgets.

**A survey of city finance officials found that at least half are wary of the coming year and are forecasting more conservative revenue estimates.**

A new report from the National League of Cities shows that city officials are preparing for a tougher budget situation, despite many indicators that local governments are in good financial health.

Nearly two-thirds of city finance officials surveyed by the group last year said they were in better shape going into 2024 than they had been entering 2023. But going into 2025, only half of the financial officers surveyed reported a similar improvement.

That wariness has led cities to use more conservative revenue estimates for the coming year, as inflation-adjusted revenue increases have started to level off after booming in the immediate aftermath of the COVID-induced recession.

Continue reading.

**Route Fifty**

by Daniel C. Vock

October 18, 2024

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## Fitch Community Development Financial Institution Sector Monitor.

Fitch Ratings' second annual Community Development Financial Institution (CDFI) Sector Monitor summarizes the results of comparative financial information and ratios for a group of 40 CDFI loan funds (see the Participating CDFIs section for the full list). This report covers financial information for fiscal 2023 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.

Access Report

Wed 16 Oct, 2024

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## Fitch: U.S. CDFIs Set for Headwinds as Pandemic Aid Fades Away

Fitch Ratings-Chicago/San Francisco/New York-16 October 2024: Balance sheets for U.S. community development financial institutions (CDFIs) will continue to grow while leverage is kept largely in check as sources of funding change and pandemic stimulus runs out, according to Fitch Ratings in

its latest annual report for the sector.

CDFI balance sheets have demonstrated substantial growth in equity over the past five years, with an average annual increase of 8.8% in loans outstanding outpacing the smaller increase in outstanding debt. Pandemic-related aid has helped keep growth strong, though Senior Director Karen Fitzgerald expects the trajectory to slow. “The end of federal stimulus programs, higher interest rates, and reduced private funding will cause growth to slow, though the solid financial profiles of CDFIs equip them to handle current economic pressures,” said Fitzgerald.

Similar to last year’s update, Fitch anticipates that CDFIs will increasingly turn to bond markets to raise capital as philanthropic funds are less readily available and interest rates remain high for private sources of funding. What is likely to change is sources of funding, which have shifted following the end of pandemic aid. Additionally, federal regulators issued a final ruling to modernize Community Reinvestment Act (CRA) regulations, which, once it goes into effect, could result in more favorable treatment of loans to and investments in CDFI loan funds by banks.

CDFIs’ balance sheets will change as the sector works through the impacts of diminishing stimulus funding and higher interest rates. “While loan performance may deteriorate from current levels, loan losses will remain manageable as CDFIs maintain strong asset quality,” said Fitzgerald.

Fitch’s latest ‘CDFI Sector Monitor’ is available at www.fitchratings.com.

Wed 16 Oct, 2024

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## Fitch: 2024 Election’s Impact on U.S. Healthcare Ratings

Fitch Ratings does not foresee immediate credit implications from the November 2024 elections despite the wide-reaching nature of federal policy within healthcare. The policies being discussed are less dramatic than those in 2016 when Republicans were focused on repealing the Affordable Care Act (ACA) and in 2020 when Democrats focused on universal healthcare. Social Policies’ Important First-Order Effects Healthcare could be affected by potential social policy reforms, though meaningful changes are less likely absent Republicans sweeping Congress. More Republican control increases the chance of changes to entitlement programs, the ACA and the Inflation Reduction Act (IRA). The latter would be a moderate credit positive for pharmaceutical manufacturers should the drug price elements be repealed whereas changes to Medicaid and the ACA could pressure provider margins. Protectionism’s Second-Order Effects Loom Fitch believes the responses by countries adversely affected by heightened protectionist policies could have a larger impact on the credit profiles of U.S. healthcare companies than the direct effects. Insurers and providers are the most insulated from geopolitical disputes whereas pharmaceutical manufacturers, medical device manufacturers, diagnostics companies and the healthcare supply chain have significant upstream and downstream exposure. Fitch believes companies in these sectors could be adversely affected by countries’ responses to tariffs and legislation.

Access Report

Wed 16 Oct, 2024

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## Fitch: U.S. Healthcare Credits Likely Unaffected by Upcoming Elections

Fitch Ratings-Austin/New York/Toronto/Chicago-16 October 2024: Fitch Ratings expects limited immediate credit implications for the U.S. healthcare sector from the outcome of the November 2024 elections, as proposed healthcare policies are narrower in scope than those in 2016 and 2020. Longer-term changes are incrementally more likely if either party sweeps the White House and Congress.

The policies of and leadership at agencies such as the Federal Trade Commission (FTC), Food and Drug Administration, and Centers for Medicare and Medicaid Services will influence near-term credit fundamentals more than legislative changes. For example, the FTC has been focused on competition in healthcare. This could shift in the event of a leadership change, reducing the time and uncertainty currently associated with mergers and acquisitions.

The most important legislative items impacting U.S. healthcare credit profiles that will result from the election are protectionism, immigration, expiring subsidies related to the Affordable Care Act, and potential changes to the Inflation Reduction Act.

Pharmaceutical and medical device manufacturers and the associated supply chain are exposed to trade protectionism and potential retaliation by affected countries, given certain markets' importance upstream and downstream. Healthcare providers are also exposed to immigration policies that would affect availability of foreign-educated nurses.

Healthcare providers' volumes and margins could be negatively affected should expanded insurance subsidy premiums expire at the end of 2025. Fitch views this risk to be material, given the size of the expenditure and limited bipartisan efforts in the past, unless there is a Democratic sweep.

If the Inflation Reduction Act were repealed in its entirety, this would be a modest credit positive for pharmaceutical manufacturers given the first cohort of drugs subject to the price negotiations are set to go into effect in 2026. However, drug pricing has bipartisan voter support, making significant changes to this element of the law less likely.

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## Fitch U.S. and Canadian Ports - Peer Review (Attribute Assessments, Metrics and Ratings)

This Fitch Ratings report highlights the operating and financial performance of Fitch-rated ports in the U.S. and Canada. This is an annual, point-in-time assessment of these ports. Ratios for each issuer are determined using audited information or additional information received from the issuer and circumstances unique to the credit.

Access Report

Fri 18 Oct, 2024

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## Fitch: US and Canadian Ports Able to Withstand Recent Disruptions

Fitch Ratings-New York-18 October 2024: Ratings and medians for U.S. & Canadian ports remain

steady heading into next year despite sector disruptions, according to Fitch Ratings in its latest sector peer review.

As cargo volumes began to revert to more normalized levels relative to pandemic highs, East Coast ports were hit by the March 2024 collapse of Baltimore's Francis Scott Key Bridge. The collapse triggered an uptick in volumes and short-term rerouting congestion for neighboring ports. However, the ports withstood fallout from the bridge crash with little impact on their ratings or operating performance.

The outcome of ongoing labor contract negotiations between the International Longshoremen's Association and United States Maritime Alliance remains to be seen. The January 2025 deadline for extended negotiations is approaching, raising the possibility of resumed port strikes.

"Despite a few months of breathing room, East and Gulf Coast ports will face increased focus. A resumption of the strike could slow volume growth or force shippers to reroute cargo to West Coast ports," said Associate Director Jennie Mu.

Fitch's latest medians show continued stability for the sector. During its 2024 review cycle, Fitch upgraded two ports (Florida's Port Canaveral and Port Tampa Bay), revised the Rating Outlook for one to Positive from Stable (Texas' Port of Galveston) and did not take any negative rating actions. Fitch also affirmed the rating for Canada's Montreal Gateway Terminals with a Stable Outlook. This is good news for the Quebec and Ontario markets serviced by the terminal operator at the Port of Montreal.

The report summarizes the operating and financial performance of Fitch-rated ports in the U.S. and Canada, as well as an overview of rating changes since the last publication of the peer study in 2023. Fitch has also released a corresponding data comparator tool for standalone U.S. and Canadian port credits. Both are available at www.fitchratings.com.

Fri 18 Oct, 2024

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## S&P: Hurricanes Helene And Milton Add To U.S. Public Finance Issuers' Climate And Financial Challenges

Why this matters.  Less than two weeks after Hurricane Helene made landfall along Florida's Big Bend as a Category 4 storm, Hurricane Milton came ashore near Sarasota, Fla., on Oct. 9, 2024, as a Category 3. While coastal residents in the Southeastern U.S. are accustomed to major storms during hurricane season, Helene in particular resulted in inland devastation that was significantly different. In some parts of Western North Carolina and Eastern Tennessee the effects of Helene from damaging winds and flooding are still being assessed weeks after the storm, and some local governments remain unable to quantify both the damage and repairs necessary. Hurricane Milton continued across Florida, leading to flooding and nearly 120 tornadoes that destroyed properties along the state's east coast.

What we think and why.  In S&P Global Ratings' view, a shift to inland damage from where the storms make landfall could require greater storm preparedness in such areas, adding to the region's need for storm hardening. Although federal and state disaster relief funds may partly offset the expenditures, costs for infrastructure investments could require additional debt and pressure

issuers' fixed costs. Furthermore, where damage to infrastructure and core services is catastrophic, or where property insurance becomes unaffordable or unavailable, some entities could see lasting declines in population and economic activity that impact revenue generation.

Continue reading.

[Free registration required]

15 Oct, 2024 | United States of America

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## Is Flooding Protection Infrastructure Worth It?

**When Hurricane Francine hit Louisiana last month, much of Terrebonne Parish lost power and some roads and houses flooded, but most flood-protection measures held strong.**

When Hurricane Francine hit Louisiana last month, about 60,000 homes and businesses in Terrebonne Parish lost power.

But other damage was far less than anticipated — largely because of flood-protection projects.

Francine struck with 100-mile-per-hour winds and an 11-foot storm surge. Some roads flooded but few houses did, according to officials. The only overtopped levee in Terrebonne was near Montegut, a town on a narrow road that strings into the coastal marshes, separating land from the Gulf of Mexico.

Continue reading.

**governing.com**

Oct. 18, 2024 • Mark Ballard, The Advocate, TNS

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## Ensuring Resilient Water Infrastructure Requires Creative Financing.

Meeting the water challenges of today and the future will require federal spending as well as new financial models and revenue streams to ensure equity, climate change adaptation and sustainability.

Lawmakers in Congress are currently negotiating spending levels on water systems, and some proposals would include significant cuts. As communities around the U.S. confront aging drinking water infrastructure often unprepared for climate change and population growth, federal sources of financing are more critical than ever.

Building and maintaining water infrastructure, including pipelines, treatment plants, and stormwater and wastewater systems, require substantial financial outlays. Emerging contaminants like per- and polyfluoroalkyl substances, also known as forever chemicals, present additional burdens. Addressing these pollutants requires advanced treatment technologies and comprehensive monitoring, which are expensive to implement and maintain.

Continue reading.

**Route Fifty**

By Chelsea Kolb, Sara Stullken and Sara Hughes

October 18, 2024

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## Muni-Bond Sales Surge by the Most Since Last US Election Rush.

- **Activity driven by borrowers avoiding post-election volatility**
- **Sales this year at a record-setting pace at about $400 billion**

With the US elections less than three weeks away, the sale of local and state government debt is surging.

The 30-day supply of municipal bonds rose to about $22.9 billion as of Wednesday, the highest since October 2020, another period when sales was elevated due to looming elections, according to a Bloomberg index of scheduled sales over the next month.

That figure could be even higher since the data represents a fraction of what comes to market. Many muni-bond sales are announced with less than a month's notice.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

October 16, 2024

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## Brave New World of Active Muni ETFs: Bloomberg Masters of the Muniverse

While muni ETFs still only make up a small portion of the overall muni market holdings, record growth in the muni-focused funds and more specifically, actively managed ETFs, has led to more innovative alternative strategies. In the latest Masters of the Muniverse episode of our FICC Focus podcast, Eric Kazatsky and Karen Altamirano are joined by Harley Bassman, Managing Partner at Simplify Asset Management. We discuss Simplify's alternative strategies in ETFs and how option selling can improve portfolio risk-adjusted returns.

Continue reading.

**Bloomberg MuniMoments**

Oct 18, 2024

## Corporate and Municipal CUSIP Request Volumes Slow in September.

NORWALK, Conn., Oct. 11, 2024 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for September 2024. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a decrease in request volume for new corporate and municipal identifiers.

North American corporate CUSIP requests totaled 7,160 in September, which is down 5.8% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month up 4.3%. The monthly decline in volume was driven by a 7.7% decrease in request volume for U.S. corporate equity identifiers and a 10.0% decrease in request volume for Canadian corporate identifiers. Request volumes for short-term certificates of deposit (-5.4%) and longer-term certificates of deposit (-19.1%) also fell in September.

The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 10.2% versus August totals. On a year-over-year basis, overall municipal volumes are up 7.2%. Texas led state-level municipal request volume with a total of 167 new CUSIP requests in September, followed by New York (134) and California (69).

“While CUSIP request volume is down across most asset classes, this month, that is largely a reflection of difficult comparisons to last month, where we saw a significant surge in new issuance activity,” said Gerard Faulkner, Director of Operations for CGS. “On an annualized basis, we’re seeing a positive trend in CUSIP request volume as we turn the corner to the fourth quarter.”

Requests for international equity CUSIPs fell 9.5% in September and international debt CUSIP requests rose 13.2%. On an annualized basis, international equity CUSIP requests are down 2.4% and international debt CUSIP requests are up 100.3%.

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

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## GFOA: Stand-Alone Financial Reporting for Government Departments

Recent GFR articles have examined primary government reporting, including component units. However, stand-alone departmental reports can improve transparency by providing detailed insights into specific services and resource use. This article explores the factors influencing these reports’ selection and content.

Read more.

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## Fitch: Pressure Mounts for U.S. Colleges As Students Head Back to School

Fitch Ratings-Chicago-11 October 2024: A modest uptick in fall enrollment will not be enough to stem intensifying pressure for many U.S. colleges heading into next year and likely beyond, according to Fitch Ratings analysts during a webinar yesterday.

A closer look at overall steady enrollment expectations for 2024-2025 reveals clears winners and losers, according to Senior Director Emily Wadhwani and Head of Fitch's U.S. Public Finance Higher Education and Nonprofit group. "For example, some flagship public institutions, selective private institutions, and HBCUs are achieving record enrollment numbers," said Wadhwani. "Conversely, many smaller, less selective colleges continue to see their enrollment decline."

Demand for college is pressured from a rising number of high school and traditional college students questioning the value of pursuing a four-year college degree. Lower demand will also keep tuition increases in check, with more colleges carefully weighing the pros and cons of raising prices. Of note, institutional discounting levels have ticked up. "Discounting is at its steepest for every incoming freshman class, which then becomes a trailing reference point as those students head towards gradutation," said Wadhwani.

Institutions are also devoting more attention to recruiting non-traditional college populations, such as older adults and international students, who have different cost and value expectations. These schools are also shoring up retention of existing students.

Macroeconomic factors are also at play. Fitch forecasts that consumer spending growth is likely to slow next year, while noting that debt levels are on the rise. This environment has mixed implications for the sector, according to Wadhwani. The most acute of the sector's expense challenges continue to center around labor cost pressures. While cooling wage and employment growth could be a plus, slowing consumer spending and rising debt-to-income levels could squeeze household tolerance and capacity for additional student loans. Investment portfolio performance, and energy cost volatility in an era of increasing energy needs and geopolitical instability are other macroeconomic pressures the sector faces.

While most Fitch-rated colleges maintain Stable Outlooks, downward Outlook revisions have risen over the last several quarters. This could indicate more downgrades are ahead, particularly for colleges unable to maintain positive operating performance, as well as erode financial resources. Rating Outlooks vary by geographic region, with far less stress evident in the South compared to the Midwest and Northeast.

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## A Recipe for Getting the Finances Right.

**COMMENTARY | Cities across the country are currently finalizing their budgets. But budgeting is just one ingredient in a city's financial success.**

In a 1957 speech, Dwight D. Eisenhower shared a lesson he'd learned in the Army that he said worked for the whole of government. "Plans are worthless," the president said, "but planning is everything."

Like so much about Ike, there was a lightness to what he was saying that made the central paradox a little easier to digest. The fact is governments often have to change their plans on the fly. And that means long-range plans tend to fall by the wayside, putting leaders in a reactive position rather than the driver's seat.

You can see this indirectly in the way arguments over city budgets seem to suck up all the oxygen in the room. For the past several months, mayors and city councils have been going back and forth over budgets. Right now, in Minneapolis, Mayor Jacob Frey and the city council are butting heads over a $1.5 million grant for a homeless advocacy group. In Houston, policymakers are debating

whether to raise property taxes to help close a $129 million deficit. And in Seattle, Mayor Bruce Harrell has released his proposed budget to close a $250 million budget gap.

Continue reading.

**Route Fifty**

By Mark Funkhouser

October 9, 2024

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## S&P: Interconnection Queue Backlog Adds Risks For U.S. Not-For-Profit Power Sector

**Key Takeaways**

- The not-for-profit power sector is currently in flux as a result of the phasing out of fossil-fuel-based generation, changing demand, and growing delays in interconnection approvals as small-scale renewable generators seek to enter the market.
- Growing credit risks for not-for-profit electric utilities related to approval and buildout delays compound escalating costs, including capital plan investments, which could pressure rate-making flexibility, cost recovery, and financial metrics.
- Delays also complicate power-supply planning for load-serving not-for-profit electric utilities and challenge their ability to achieve timely decarbonization goals and meet their obligations of energy reliability.
- Replacing generation retirement to meet demand growth is uniquely challenging to the not-fo--profit power sector, which maintains heightened responsibility to procure sufficient power for the end-use customers.
- S&P Global Ratings believes that reliability will remain a prominent concern for policymakers, who have already shown an inclination to extend the operating lives of aging units slated for retirement.

Continue reading.

8 Oct, 2024

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## Short-Dated Muni Bonds Swoon as Fed Rate-Cut Bets Revised.

- **State-, local-debt market usually takes its cues from US bonds**
- **Uptick in muni supply expected ahead of presidential election**

The shortest-dated municipal bonds sold off after a blowout jobs report caused investors to recalibrate the odds of another big interest-rate cut from the Federal Reserve.

On Friday, yields on three-month AAA municipals shot up 29 basis points — the biggest one-day jump since 2022 — after labor data showed a still strong US economy. That puts yields on the ultra-short securities higher than AAA municipal bonds maturing in 16 years — deepening once again, an already pronounced inversion of the muni curve.

Short-term state and local debt yields have been elevated compared to longer term debt for over two years. The muni curve inverted after the Federal Reserve started on its rate hiking regime in 2022. That relationship was just starting to return to normal — until the too hot jobs data shook traders' conviction in the scope of the Fed's future policy easing.

Continue reading.

**Bloomberg Markets**

By Lily Meier and Sri Taylor

October 7, 2024

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## Municipal Revenue Bonds Offer Low Cost Way to Fund Fiber Networks.

- **Incumbents don't like municipal networks and claim they shouldn't use taxpayer money to compete**
- **But municipal revenue bonds don't require any taxpayer investment**
- **And they offer a low-cost way to fund new fiber broadband networks**

At this week's Broadband Nation Expo, a panel will discuss financing fiber networks. And Fletcher Kittredge, chief strategy officer at the service provider GWI, plans to share his expertise, more specifically, on financing public networks with municipal revenue bonds.

"No taxpayer money is involved in municipal revenue bonds, and it's a really low-cost way for munis to fund networks," he said.

Whereas a general obligation bond is secured by and paid for by taxes, a municipal revenue bond is secured by and paid for by the revenue of the network. And while incumbents may complain and even sue towns and cities that try to fund a broadband network with taxpayer money, incumbents don't have that argument when it comes to municipal revenue bonds.

Continue reading.

**fierce-network.com**

By Linda Hardesty

Oct 9, 2024

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## Munis on the Rise: Better State Finances and High Yields Offer a Bond Market Win

Municipal bonds have long been seen as a safe haven in the bond market. After all, their credit quality and repayment are driven by the state's and the local government's ability to raise taxes and/or support from the underwritten projects. This cash flow pays investors and provides the steady returns of muni bonds.

And it looks like municipal bond investors have something to cheer about heading into next year.

State tax revenues are set to increase, while rainy day funds remain plump. At the same time, budget and spending cuts even in the worst-off states have less cash flow risks for many municipalities. For investors, it's just another sign that munis are a top bond variety for their portfolios.

**Taxes, Taxes, Taxes**

Municipal bonds are issued by state and local governments to fund their operations, launch special projects, and provide their citizens with various programs. To pay for those bonds, it's often taxes–payroll, sales, and property–that help pay the interest and pay off debt. This is where some problems have emerged over the last year.

Continue reading.

**dividend.com**

by Aaron Levitt

Oct 08, 2024

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## Morgan Stanley On How Natural Disasters Could Impact the US Municipal Bond Market.

**Craig Brandon of Morgan Stanley discusses the U.S. municipal bond market as the market is experiencing a record issuance year and the natural disasters are adding uncertainties to the market.**

Watch video.

**cnbc.com**

Wed, Oct 9 2024

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## SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

- Issuance (as of August) $381.2 billion, +35.5% Y/Y
- Trading (as of August) $13.0 billion ADV, +3.6% Y/Y
- Outstanding (as of 2Q24) $4.1 trillion, +1.8% Y/Y

Download xls

October 2, 2024

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## Obligate It or Lose It! Preparing for the Upcoming ARPA SLFRF Obligation Deadline.

The passage of the American Rescue Plan Act (ARPA) in 2021 provided a lifeline for local governments through its State and Local Fiscal Recovery Funds (SLFRF) program, which awarded every municipality a portion of $65.1 billion in funding. June 2024 marked three years since initial disbursement, and the next three months are the home stretch for cities, towns and villages to obligate the funding they received under the SLFRF program. ARPA regulations require local governments to return grant funding that remains unobligated beyond the end-of-year deadline to the U.S. Department of Treasury, rendering this deadline one of the most important for cities, towns and villages. With three months left until the Dec. 31, 2024 obligation deadline, local governments must obligate funding now or risk potential clawbacks of these funds.

To assist municipal government with remaining unobligated fiscal recovery funds, NLC and the U.S. Treasury hosted a webinar to clarify and answer questions related to the obligation deadline. Local leaders and grant administrators can watch the webinar here. Other resources include the Obligation Interim Final Rule (IFR), the U.S. Treasury's FAQ with updated obligation answers and Obligation IFR Quick Reference Guide.

**How do you know if you've obligated your funds?**

The US Code of Federal Regulations defines "obligation" as "an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment." The U.S. Treasury has further clarified that "similar transactions that require payment" may include certain interagency agreements and, under certain circumstances, payroll expenses for recipients' employees. Consequently, municipalities must do more than budget their SLFRF dollars — they must allow extra time to place orders and negotiate contracts. Finalizing obligations, including funds used for revenue replacement, includes reporting the obligation through the normal reporting process. Subrecipients are not subject to the Dec. 31, 2024 obligation deadline. Subrecipients and contractors do not need to take additional steps to obligate funds after entering a subaward or contract with the recipient.

Continue reading.

**National League of Cities**

By: Patrick Rochford, Julia Bauer & Michael Wallace

October 1, 2024

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

Fitch Ratings-New York/Chicago-04 October 2024: Fitch Ratings has published an updated criteria

report titled “U.S. Public Finance Prerefunded Bonds Rating Criteria.” It updates the prior report published on Dec. 14, 2020.

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

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

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## Fitch: US Public Finance Credits Resilient Amid Hurricane Helene Recovery

Fitch Ratings-New York-03 October 2024: U.S. public finance issuers affected by Hurricane Helene will require time to recover from severe flooding, substantial property damage and the tragic loss of life, Fitch Ratings says. However, these issuers’ ratings should largely remain stable amid challenges posed by the devastation. While the full extent of property damage in the Southeast will not be known for weeks, Fitch is monitoring various U.S. public finance credits affected by the hurricane, which was one of the largest storms to ever hit the U.S.

Federal relief funds, state support, insurance claims and private resources will help rebuild and drive post-disaster economic activity. We expect the pace of recovery to be slow due to the extensive devastation, compounded by uncertainty related to uninsured homeowners and businesses. Standard homeowners’ insurance does not typically cover flood damage.

We expect state and local government ratings to remain stable throughout the recovery. Timely federal intervention, primarily through the Federal Emergency Management Agency (FEMA), is key to supporting fiscal stability for governments affected by the storm. The most affected states (Florida, Georgia, Tennessee, North and South Carolina) all have ample dedicated operating reserves totalling over several billion dollars each, as well substantial additional resources to cover short-term recovery and rebuilding costs.

Most Fitch-rated local municipalities have a high degree of fiscal resilience and robust reserves to manage storm expenses as they await reimbursement from federal and state disaster aid programs. Certain issuers will be more challenged as recovery costs could weaken reserves, and extensive property damage could lead to higher property tax delinquencies. Tax bases could also be affected if hurricane damage leads to permanent relocations or if increased insurance costs or insurance unavailability discourage homeowners and businesses from rebuilding.

Our insurance team has initially estimated an insured loss range from $5 billion to $10 billion. Florida’s state-owned property insurer Citizens Property Insurance Corporation (AA/Stable), the insurer of last resort, has leading market share in both personal and commercial lines. Both Citizens and the Florida Hurricane Catastrophe Fund (AA/Stable), the state-sponsored reinsurer, have ample liquidity to address initial claims or reimbursements. They can also issue debt and levy emergency assessments on nearly every property and casualty insurance policy in the state for as long as debt is outstanding to cover claims volume. However, the potential for significant leverage on the assessed base could weigh on residents and businesses.

Power utility lines were heavily damaged in areas across the Southeast, and there are still nearly one million customers without power. Extensive mutual aid agreements among utilities outline the framework for assistance and cooperation to get power restored as quickly and safely as possible, but it will likely take time in areas with extensive damage. Power utilities typically manage costs associated with extreme weather events through robust cash reserves and liquidity facilities

designed to bridge the timing between restoration costs and reimbursement by FEMA. FEMA typically reimburses around 75% of restoration costs.

Most Fitch-rated water and sewer utilities affected by the hurricane have robust liquidity and should be able to absorb initial storm costs. However, storm surges and flooding can overwhelm systems, causing sewer overflows that may result in water quality issues. Fitch is still assessing the full impact of the storm on utilities.

While we are still monitoring our rated not-for-profit hospital and life plan community (LPC) portfolio, most facilities appear to have avoided significant damage. Nevertheless, necessary repairs or clean up could cause business interruption. Hospitals and LPCs will benefit from FEMA aid and business interruption insurance, although receipt of these funds could take time.

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## S&P U.S. And Canadian Public Port Facilities Ratings And Outlooks As Of Oct. 1, 2024

View the S&P Ratings and Outlooks.

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## S&P U.S. Community College District Fiscal 2023 Medians: A Reason For Optimism As A New School Year Gets Under Way

**Key Takeaways**

- U.S. community college demand metrics are showing signs of rebounding following material declines in recent years, spurred by the impact of the pandemic.
- Despite the exhaustion of federal relief funds, community colleges posted relatively consistent margins for fiscal 2023 compared with pre-pandemic levels, while strengthening liquidity in the same year due to improved state funding and prudent management.
- Financial resource ratios have remained relatively consistent over the past three years while debt levels and leverage ratios indicated modest increases likely due to higher construction costs and market conditions over the same time horizon.

Continue reading.

1 Oct, 2024

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## Small Water Utilities Cannot Achieve PFAS Cleanup On Their Own.

**COMMENTARY | Limited budgets, smaller customer bases and skeleton crews put a heavier PFAS burden on rural systems; polluters should be held accountable.**

In the United States, 95% of all public water systems have less than 10,000 customers (79% serve fewer than 500 people), and nearly 85% of those systems have three or fewer full-time employees. With such small staffs, many historically have suffered from “management limitations, lack of long-term planning, and difficulty understanding current and future regulations.”

The Environmental Protection Agency has now released final Maximum Contaminant Levels (MCLs) for PFAS (per- and polyfluoroalkyl substances, aka “forever chemicals”) in drinking water. The regulation targets six specific compounds and has two key deadlines: initial monitoring for these PFAS by April 2027 and mitigation of these PFAS, if detected above the MCLs, by April 2029.

The costs of meeting these two deadlines may include: monitoring and testing; piloting, designing and installing a treatment system; operator training; operation and maintenance of the treatment system; disposal and/or destruction of PFAS-contaminated filter media; and public notification regarding PFAS levels and violations. The EPA has estimated that the costs of monitoring, communication and treatment alone could reach as high as $1.5 billion per year. The costs of not meeting these deadlines may include penalties and liability.

Continue reading.

**Route Fifty**

By Mike DiGiannantonio,
SL Environmental Law Group

September 30, 2024

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## WSJ: Why Investors Are Putting More Money in State-Specific Muni ETFs

**These exchange-traded funds could be especially attractive if tax cuts aren’t extended at the end of 2025**

Against a backdrop of falling interest rates and tax uncertainty with 2017’s tax law set to expire next year, individual investors are turning to state-specific muni ETFs.

ETFs offer investors lower taxes than mutual funds or individual munis because they rebalance and reinvest with the goal of keeping taxable events at a minimum. ETFs also allow investors to get started in municipal bonds at a low cost and exit relatively easily if they wish. Mutual funds, by contrast, tend to have higher minimum investments and trade only once a day.

“We are seeing a significant shift in preference among investors,” says Alex Petrone, director of fixed income for Rockefeller Asset Management, which issues state-specific muni ETFs.

**State-specific ETFs**

ETFs’ tax efficiency and investment flexibility could come in handy if certain provisions of 2017’s Tax Cuts and Jobs Act expire at the end of 2025, as is currently set.

Historically, tax-exempt municipal bonds become more popular if personal income taxes increase. If the current tax cuts fully expire at the end of 2025 and personal income-tax rates revert to pre-2017 levels, taxes will increase across all tax brackets. Interest payments from tax-exempt municipal bonds are tax-free at the federal level, which can help offset increases in income tax.

What’s more, the fate of the $10,000 cap on state and local tax deductions—the so-called SALT deduction—could stoke more demand for state-specific muni ETFs. Democrats have indicated they will let the cap expire if it can be offset by increases in other tax revenue. The Republican position is

less clear; former President Donald Trump said recently he is open to eliminating the cap, marking a shift from his previous position to keep it. Congressional Republicans have supported keeping the cap in place in the past as well.

If the SALT cap is retained or lowered, muni pros say that could make in-state bond investments more attractive over the long term as interest payments from in-state bonds are generally tax-exempt if the investor is local. The cap is already giving a boost to these bonds, but they could look better on a relative basis if personal income-tax rates rise but the SALT cap is retained.

While passive state-specific muni ETFs have been around since at least 2007, issuers have been launching more of them thanks to increased investor interest. Since 2023, at least eight new funds have launched, bringing in more than $500 million in investments.

So far these funds focus on California and New York, which along with Texas, are the largest issuers of municipal bonds, accounting for about 40% of total issuance.

These funds are actively managed, which tends to make them more expensive than passive funds. They have expense ratios ranging from 0.35% to 0.55% compared with 0.05% to 0.10% for passive funds.

**Timeline matters**

Investing in state-specific ETFs may also be one way to diversify a municipal-bond portfolio. These ETFs have bonds that when considered together are of intermediate time to maturity—about 10 years. Longer-term bonds have different risk profiles than short-term bonds. If interest rates continue to go down and bond prices rise, investing in bonds with a longer time to maturity means that investors could lock in the higher prices for longer if they start to adjust their portfolios now.

Matthew Hage, municipal-bonds portfolio manager at investment manager MacKay Shields, says that as interest rates rose in recent years, both taxable and tax-exempt bonds had higher yields with shorter maturities because they were trading at a higher price. Now that interest rates are falling again, it may be time for investors to change how they invest in bonds. Hage says if investors are willing to invest in longer-term bonds, those bonds will have higher yields, which means higher income.

“The reinvestment window sneaks up on you pretty quickly if you are reaching it every three to six months with short-dated maturities,” he says. “There is an opportunity now to lock in higher yields for a longer duration and protect against downside risk.”

**The Wall Street Journal**

By Bailey McCann

Oct. 4, 2024 10:00 am ET

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## What State Hiring Trends, Fed Rate Cuts Mean for Munis.

Cooper Howard, Schwab Center for Financial Research’s director of fixed income strategy, discusses recent trends in state and local government hiring and what Federal Reserve rate cuts means for municipal bond issuance in 2025. He speaks on “Bloomberg The Close.”

Watch video.

**Bloomberg Markets: The Close – Muni Moment**

October 4th, 2024, 10:19 AM PDT

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## Examining the Rally in Both the Treasury and Municipal Bond Markets.

The third quarter of 2024 saw a rally in both the Treasury bond market and the municipal bond market.

The Treasury bond market saw the 10-year U.S. Treasury bond yield move from 4.479 at the beginning of the quarter to 3.797 on Sept. 26. The move in munis was more muted, with 10-year AAA munis going from 2.84 to 2.63 over the course of the quarter.

To wit, the end of the second quarter saw the 10-year bond yield move from a 4.28% on the eve of the June 27 Biden-Trump debate to 4.47% by July 1. We believe this change was a direct result of President Biden's poor debate performance and a market assumption that we were looking at a sweep of both houses of Congress as well as the White House by Republicans. The thought process is that undivided government tends to produce unchecked spending and that the markets view this outcome as potentially inflationary.

Continue reading.

**Cumberland Advisors**

by John R. Mousseau

Mon, October 7, 2024

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## Fidelity Plans Latest Mutual Fund-to-ETF Flip in Muni Market.

- **The Boston-based asset manager isn't new to this trend**
- **Conversion shows the growing popularity of muni ETFs**

Fidelity Investments is looking to convert two of its municipal-bond mutual funds into exchange-traded funds, a move that underscores the popularity of the $10 trillion US arena.

The two funds impacted are the $170 million Fidelity Municipal Bond Index Fund and the Fidelity Municipal Core Plus Bond Fund, which has less than $70 million in assets. Both are expected to be converted next year, according to two separate regulatory filings.

"These conversions can deliver new opportunities and value for our existing shareholders, while also expanding our solutions to help meet demand for access to innovative strategies in an ETF wrapper," said Greg Friedman, Fidelity's head of ETF management and strategy, in an emailed statement.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

October 3, 2024

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## S&P U.S. Not-For-Profit Transportation Infrastructure 2023 Medians: Demand And Revenue Growth Improved Financial Medians To Post-Pandemic Highs

**Key Takeaways**

- U.S. not-for-profit transportation infrastructure enterprise (TIE) financial medians improved in fiscal 2023 across the asset classes given continued revenue and activity growth (passengers, tolled transactions, and tonnage) and a combination of management actions such as increasing rates, fees, and charges and reserves.
- S&P Global Ratings expects that stable-to-improving demand and revenue trends and proactive management practices will continue to mitigate the impact of higher debt for larger issuers and of rising operations-and-maintenance (O&M) costs to support financial medians into fiscal 2024.
- Despite 14% median growth in operating expenses attributable to inflationary pressures combined with higher debt outstanding, virtually all TIE medians improved as S&P Global Ratings-calculated median net revenue available for debt service increased, resulting in improved overall coverage, debt capacity, and cash reserves.
- Improved financial metrics contributed to overwhelmingly positive rating actions with 32 upgrades and one downgrade from Sept. 1, 2023, through Sept. 1, 2024.

Continue reading.

25 Sep, 2024

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## Fitch State Housing Finance Agencies Sector Monitor: 2024

Fitch Ratings' State Housing Finance Agencies Sector Monitor provides annual comparative financial information and ratios for state housing finance agencies (HFAs). This report, covering 51 HFAs, contains aggregated financial ratios for fiscal year (FY) 2023 and the previous four fiscal years and is an update to Fitch's October 2023 publication, "State Housing Finance Agencies — Peer Review," which provided updated FY 2022 financial information for 51 HFAs. Also provided are survey results from the HFAs and a full comparison of individual financial results across the sector.

Access Report

Thu 26 Sep, 2024

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## The New "New Normal": Trends In U.S. Higher Education Post-Pandemic Versus Post-Recession - S&P

**Key Takeaways**

- The U.S. higher education sector is struggling with student demographic pressures and affordability considerations on one hand and rising expenses on the other, though ample financial resources and brand recognition buoy the top institutions.
- In a trend reversal, inflation outpaced tuition increases in the past five years, while instruction expenses lagged even further behind as universities cut costs.
- Although interest rate trends inform debt issuance across the sector, we see the greatest correlation at the lowest-rated private schools.

Continue reading.

25 Sep, 2024

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## Fitch: Fed Rate Cut Primes U.S. State Housing Agencies to Build Off Resurgent 2023

Fitch Ratings-New York/Chicago/San Francisco-26 September 2024: The Federal Reserve's 50-bp rate cut last week will help to spur stronger asset growth for U.S. state housing finance agencies (HFAs) after a year of renewed activity, according to a new Fitch Ratings report.

In fiscal year 2023, HFAs significantly increased their aggregate assets and debt. The rebound in debt issuance for affordable housing lending, coupled with competitive mortgage rates and down payment assistance, led to a notable 10.4% rise in total loans.

"Despite pressures from heightened operating expenses and bond rates, HFAs maintained stable net operating revenues and leveraged their strong financial positions to support ongoing affordable housing needs," said Senior Director Karen Fitzgerald. "The trend towards fixed-rate debt issuance over variable-rate debt further highlights their prudent financial management, demonstrating stability and profitability in a fluctuating economic landscape."

More restrictive bank lending standards has also helped precipitate stronger demand for loans as HFAs are able to underwrite loans to borrowers who may not currently qualify for loans from conventional lenders. However, the increase in demand for HFA loan products is somewhat tempered by the continued deterioration in housing affordability, especially for first-time homebuyers, according to Fitch Director, Kasia Reed.

"While lower rates make home purchases more affordable, supply remains an issue and constrains the demand unless more sellers enter the market in a lower rate environment," said Reed. "Additionally, lower rates may begin to increase prepayment speeds under more recent HFA bond programs as homeowners with higher mortgage rates look to refinance at lower rates."

Fitch's "State HFAs Sector Monitor: 2024" is available at www.fitchratings.com.

## NFMA Releases Final State Revolving Fund Paper.

The Disclosure Committee is pleased to announce that it has released the final version of the Best Practices in Disclosure for State Revolving Fund Revenue Bonds.

Click here for the press release. Click here to read the paper.

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## Muni Bond Refinancing Wave Bolstered by Fed Interest Rate Cuts.

- **Muni refunding bond volume is up more than 70% since 2023**
- **MTA, Chicago have plans to refinance debt in the coming months**

States and local governments are refinancing more debt than in years, seizing on lower borrowing costs and signaling a wave of such bond sales as the Federal Reserve prepares to cut interest rates even further.

Municipal bonds sold only to refund existing debt have topped $66 billion so far this year, an increase of nearly three-quarters from the same pace in 2023. Those deals represent nearly 20% of all state and local government debt sales, the largest share since 2021 — a year when 10-year municipal bond yields dropped below 1%, according to data compiled by Bloomberg.

“The refunding surge started around the beginning of the summer when there were more clear indications of where the interest-rate direction is going,” said Alice Cheng, vice president and municipal credit analyst at Janney Montgomery Scott. “Working with issuers and bankers, I know that everybody is looking at any opportunities for refunding.”

The reopened window is a win for governments who have had limited refinancing opportunities since the Fed started raising interest rates in 2022. And such sales can save cities, states and towns major cash. Chicago, for example, estimates it can reclaim about $70 million of debt-service costs through a proposed $1.5 billion refunding sale to help close its budget deficit.

**Refunding Sales Increase on Rate Picture**
Share of muni bond sales sold to refinance existing debt

Some of the biggest issuers in the $4 trillion municipal bond market are taking advantage of the window to refinance. The Metropolitan Transportation Authority plans to sell $872 million of new bonds to raise funds to retire and refund existing debt in a competitive sale on Oct. 1, according to preliminary offering documents dated Wednesday.

The Chicago Transit Authority — which runs bus and train service in the Windy City — is also among issuers looking to refinance for savings. The agency is considering issuing a new deal in the next several months to refund $555 million of bonds sold in 2014, said Tom McKone, chief financial officer of the CTA. Most municipal transactions have a 10-year call option, meaning debt sold a decade ago is now able to be refinanced.

“We do see rates coming down and rates are attractive,” McKone said.

Despite the elevated amount of refinancing sales this year, issuance is expected to continue climbing

into 2025, said Drew Gurley, managing director of municipal underwriting at Siebert Williams Shank.

“There’s a lot of callable bonds that are available, so I’m expecting a lot of refundings,” he said. “I don’t see that issuance will fall off a cliff.”

**Bloomberg Markets**

By Shruti Singh and Lily Meier

September 26, 2024

— *With assistance from Erin Hudson*

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## Muni Bonds Set for Best Third Quarter Since 2011 on Surprise Rally.

- **Record new issue supply continues as investor demand keeps up**
- **Muni market is set for a gain of 0.9% during September**

The municipal market is set for its best third quarter since 2011, with a return of about 2.6% during the three-month period.

As the Federal Reserve begins cutting interest rates, investors are snapping up the bonds to lock in the higher yields offered by the securities while they still last.

The rally comes despite a surge in new bond sales, an instance that would typically pressure prices. Issuance in September totaled nearly $46 billion, the second-highest total for the month since at least 2013, according to data compiled by Bloomberg. Despite that, the muni market is poised to see a gain of 0.9% during the month, marking the best performance for a September since 2013.

Continue reading.

**Bloomberg Markets**

By Erin Hudson and Amanda Albright

September 27, 2024

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## The Coming Policy Backwash from the COVID Revenue Wave.

**As a recent study documents, federal fiscal stimulus created a budget windfall for states. Most cut taxes, and some now must scramble to make up for shortfalls. Congress is likely to impose tighter restrictions on future countercyclical aid, so it’s a time for all levels of government to get their acts together.**

Those of us who live near the ocean understand wave action. A surging wall of water approaches the shore, then crests and retreats. Often there’s an undertow that follows. That’s pretty much the story for state revenues over the period from 2020, when the COVID-19 pandemic began, to the present.

States received massive amounts of federal countercyclical aid from Congress, while at the same time their sales tax receipts surged as homebound residents spent a substantial portion of their own federal helicopter money on everything from Pelotons to designer handbags.

In ways never seen before in the annals of public finance, a good number of states actually made money on the pandemic — for a year, anyway. Flush with this unanticipated windfall, 48 states and the District of Columbia cut taxes or issued one-time rebates. Even though Congress had enacted rules to discourage use of the federal money for state-level tax cuts, governors and legislators quickly found ways around that by pointing to their good fortune from locally collected revenues.

Now that the economy has normalized and their federal money has largely been spent, a number of states are struggling to make ends meet. Three dozen of them experienced a revenue drop in the past year, and at least five now have serious budget shortfalls. Nonetheless, most states reportedly met their fiscal 2024 budget projections, which had anticipated lower revenues. For most, the problem now is what to do to balance their budgets after all those high-tide tax cuts.

Continue reading.

**governing.com**

OPINION | Sept. 24, 2024 • Girard Miller

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## Vanguard, AllianceBernstein Sue Over Sports Park That Failed.

- **Vanguard, AllianceBernstein accuse BC Ziegler of fraud**
- **Phoenix-area venue collapsed 17 months after opening**

Municipal bond funds that lost more than $200 million after a sprawling Arizona sports complex collapsed into bankruptcy sued the investment bank that underwrote the debt for the project and the father-and-son team that developed and managed it.

The Vanguard Group Inc., AllianceBernstein Holding LP and Macquarie Group's Delaware Funds allege in a lawsuit filed earlier this month that they were defrauded by Chicago-based bond dealer BC Ziegler, the underwriter of $280 million of municipal securities for the project, and by Randy and Chad Miller.

The lawsuit in Arizona Superior Court in Maricopa County also named law firm Gust Rosenfeld, which acted as counsel on the securities that were issued through the Arizona Industrial Development Authority in 2020 and 2021. The three asset management companies owned about 70% of the debt.

The bond offerings for the Phoenix-area complex, known as Legacy Park, were based on sham financial projections and failed to inform investors that millions of dollars of bond proceeds were diverted to pay the Millers and support operations, the funds alleged.

**Contracts**

At least seven organizations the Millers said were lined up to use the park, including English soccer giants Manchester United and a youth affiliate of Major League Soccer's Real Salt Lake, have said they never signed "pre-contracts" or "letters of intent" cited in the bond prospectus circulated

among investors who purchased the bonds, Bloomberg previously reported.

Related Story: Muni Bond Blowup Exposes Flaws in $600 Billion Corner of Market

“Defendants falsely inflated the purported demand for Legacy Sports Park, evidenced by so-called letters of intent, many of which turned out to be fabricated,” the funds said in the complaint. The mutual funds “relied on the materially false and misleading information in the offering memorandum, including the materially false financial projections and the risks related to to the project.”

Michael Grimm, a spokesman for Ziegler, said the allegations in the suit had no merit and the investment bank intends to vigorously defend itself. Randy Miller declined to comment as did his attorney. An attorney for Chad Miller didn’t respond to a request and neither did Gust Rosenfeld.

Representatives for AllianceBernstein and Delaware Funds didn’t provide a comment. A spokesperson for Vanguard declined to comment.

Ziegler was paid about $5.7 million to underwrite the two bond offerings. Gust made about $340,000. The lawsuit is the second brought by bondholders against Ziegler. An entity formed by Saybrook Fund Advisors, an investor in distressed municipal debt, sued the bank in November 2023.

Legacy Cares, a nonprofit set up by the Millers to own the 320-acre complex, filed bankruptcy in May 2023, saying construction setbacks, labor shortages and supply-chain delays amid the pandemic delayed the park’s opening, resulting in lost revenue. The facility, with a set of fields and courts for soccer, football, baseball, basketball and other sports, was sold last October for $26 million. Bondholders received $2.4 million in cash and an 11% equity stake in the new owners.

While offering documents for the bonds said the complex would bring in $100 million in its first year, by the time the park opened it generated about $30 million and operated at a $15 million loss.

**Financial Projections**

In addition to basing their financial projections, in part, on allegedly fraudulent commitments to use Legacy Sports Park, the bond offering said that the Oak View Group, a firm hired to manage non-sport operations like food and beverage and parking, would contribute $10 million to the development. OVG never made the investment, according to the lawsuit.

“Defendants never updated the offering memorandum or otherwise informed investors about the material change in cash flows,” the lawsuit said.

Ziegler and the Millers also failed to update their initial financial projections for a June 2021 bond sale even though numerous teams canceled their booking because of the Covid-19 pandemic.

The more than 1,000-page offering prospectus for the 2020 bond offering characterized Randy Miller, a former minor—league baseball player, as a successful businessman with wide-ranging connections to the sports industry, citing his associations with the United States Football League’s Arizona Outlaws and the Phoenix Giants, which last played in the ’80s.

But it omitted the elder Miller’s three personal bankruptcy filings and connections to a Texas investment fraud involving a business entity he controlled. Miller was never charged in the Texas case.

Randy Miller was paid $1 million when the 2020 bond issue closed and both he and Chad Miller

received $40,000 per month as operators of the park, the funds' lawsuit alleged. The Millers used more than $7 million of bond proceeds to pay "exorbitant" salaries to themselves, family and friends, the suit said. None of these payments were disclosed to bond investors, the complaint said.

Another $1.2 million of bond proceeds was used to settle a securities fraud lawsuit against the Millers.

"These omissions were highly material given that they improperly diverted proceeds form the bond offering, and concealed facts that impugned the integrity and credibility of the Millers," the lawsuit said.

**Bloomberg Industries**

By Martin Z Braun

September 23, 2024

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## Influx of Air Travelers Fuels Muni Borrowing Boom.

Watch video.

**Muni Moment – Bloomberg Markets: The Close**

September 26th, 2024

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## WSJ: Extreme Weather Is Hitting Americans in the Wallet

**Cities and counties are selling bonds to cover costs from storms and drought**

Extreme weather is pressuring local budgets, sticking Americans with the bill and putting the $4 trillion market for state and local bonds at the center of the climate-change fight.

Clyde, Texas, will likely face increased borrowing costs after the city defaulted on debt last month during a drought. Higher parking fees at the beach in Naples, Fla., are helping repay bonds sold to rebuild the city's hurricane-damaged pier. Residents of Texas, Louisiana and Oklahoma will spend the next two decades chipping away at the multibillion-dollar cost of maintaining power during a 2021 winter storm.

"We'll be paying off the bond for the four days of electricity for years to come," said Georgetown, Texas, Mayor Josh Schroeder.

Continue reading.

**The Wall Street Journal**

By Heather Gillers

Sept. 26, 2024

## One Cost of Extreme Weather: Decades of Payments for a Week-Long Storm

Americans often foot the bill for the increasing demands that heat, water and wind are putting on local communities. Frequently, they are paying interest, too.

When winter storm Uri brought a week of freezing weather in 2021, infrastructure built for warmer temperatures broke down. Energy prices skyrocketed, making it costly for energy companies to maintain electricity and gas for homes and businesses.

In 2022 and 2023, amid some of the highest rates in recent years, Texas, Louisiana and Oklahoma sold municipal bonds to reimburse the companies for the resulting costs. (The Louisiana bonds also paid for some hurricane-related energy costs.)

Continue reading.

**The Wall Street Journal**

by Heather Gillers

Sept 27, 2024

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## This Piece of the Tax-Exempt Bond Market is a Hot One - If You Manage the Risk.

High-yield municipal bonds have more price volatility and credit risk, but they have outperformed investment-grade munis dramatically over the past 15 years

Some investors focus on growth while others are interested in current income. For that second group, broader horizons within the bond market can lead to better returns over the long haul. You might be surprised to see that diversified high-yield (or junk) bond portfolios can be the best performers, as long as the portfolio managers do a good job analyzing credit risk.

John Miller is the head and chief investment officer of the High Yield Municipal Credit Team at First Eagle Investments in New York. He oversees the First Eagle High Yield Municipal Fund and the First Eagle Short Duration High Yield Municipal Fund. He is based in Chicago and joined First Eagle in January, after leaving Nuveen last April.

Continue reading.

**morningstar.com**

By Philip van Doorn

Sep 24, 2024

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## Fundamentals Remain Strong For Muni Bond ETF Strategies.

It's no secret that the commercial real estate market has been struggling for a while now. However, muni bond fundamentals remain strong.

Ever since hybrid and remote schedules became more popular work practices, commercial real estate has struggled. According to a Q2 2024 report from Moody's, the office sector vacancy rate sits at 20.1%. Moody's adds that this is the first time in history that the office sector vacancy rate surpassed 20%.

While some investors may worry about how office vacancies could affect municipal bonds, experts say there is no need to be concerned. In recent insights, the Eaton Vance team notes that the major cities have "significant time to address the potential budget shortfalls", adding that cities have plenty of options to rebalance their budgets.

Continue reading.

**etftrends.com**

by Nick Wodeshick

September 24, 2024

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## Wealth and Taxes: The Potential Benefits of Municipal Bond Investing.

"Once you reach a certain level of wealth, the conversation shifts. We aren't talking about accumulating anymore; we're talking about preserving."

This is how Nick Goetze, managing director of Fixed Income Solutions at Raymond James, frames things when he talks about bonds. And when it comes to preserving your wealth, some bonds are built differently.

"The first priority with bonds is principal preservation," says Nick. "In certain high-tax situations, individual investment-grade municipal bonds can be one of the better options to accomplish that goal."

**Tax appeal**

Issued by city, local and state governments, municipal bonds are loans used to build infrastructure – road expansions, new hospitals, school improvements, water and sewer maintenance, etc. What makes them an attractive opportunity for high-net-worth investors is how they are – or aren't – taxed.

Continue reading.

**advisorperspectives.com**

by Team of Raymond James, 9/27/24

## Corporate and Municipal CUSIP Request Volumes Surge in August.

NORWALK, Conn., Sept. 20, 2024 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for August 2024. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a sharp increase in request volume for new corporate and municipal identifiers.

North American corporate CUSIP requests totaled 7,602 in August, which is up 18.9% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month up 11.5%. The monthly volume surge was driven by a 19.2% increase in request volume for U.S. corporate debt and a 13.6% increase in volume for U.S. corporate equities. Request volumes for short-term certificates of deposit (22.2%) and longer-term certificates of deposit (60.0%) also rose sharply in August.

The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 20.8% versus July totals. On a year-over-year basis, overall municipal volumes are up 8.8%. Texas led state-level municipal request volume with a total of 305 new CUSIP requests in August, followed by New York (119) and California (59).

Continue reading.

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## What the Federal Reserve's Policy Shift Means for State and Local Budgets.

**The Federal Reserve intended for its first rate cut in four years to stimulate the broader economy, but the decision will also gradually effect state and local budgets.**

The Federal Reserve intended for today's interest rate cut of 0.5 percentage points to stimulate the broader economy, but this shift in monetary policy also represents a subtle but important change in the operating environment for state budgets. Interest rates affect every aspect of government finance, from revenue to infrastructure projects, and although the effects on state and local budgets will be gradual, the first rate cut in four years sends a message.

"This decision reflects our growing confidence that, with an appropriate recalibration of our policy stance, strength in the labor market can be maintained," Federal Reserve Chair Jerome Powell said at a press conference after announcing the cut. He also cautioned that the Fed is "not on any preset course—we will continue to make our decisions meeting by meeting."

One of the most immediate impacts of lower rates will be lower borrowing costs for state and local governments seeking to finance critical projects, particularly infrastructure, and make other long-term investments. The higher interest rates of recent years have discouraged borrowing and, as Utah Legislative Fiscal Analyst Jonathan Ball noted during an interview with The Pew Charitable Trusts, this has led some lawmakers to tap historically large general fund and other cash balances to pay for capital projects.

Continue reading

**Route Fifty**

By Justin Theal and Liz Farmer

September 18, 2024

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## Fitch: US State Budgets Poised for Slower Growth After Fed Rate Cuts

Fitch Ratings-New York-19 September 2024: U.S. states are settling into a new normal of slower revenue growth after the Federal Reserve's first interest rate cut in four years, according to Fitch Ratings analysts during a webinar yesterday. Fitch economists project a sizeable slowdown in growth for 2025 and a series of interest rate cuts through 2026. The labor market and job growth are already slowing down, and the same trend appears likely for for state budgets.

"Managing expenditures to revenues is nothing new to states, but the pandemic was an extraordinary outlier that states had to adjust to in the moment," said Senior Director Karen Krop. "States had already learned the importance of building fiscal resilience during good times from the global financial crisis, and this lesson helped them weather the pandemic."

By adding to their coffers in recent years, states have been able to head off negative peformance pressure and smoothly downshift from what Krop called "first booming, then slowing, then normal growth."

After cresting in 2023, the wave of new state tax cuts appears to be ending. Senior Director and U.S. state government group head Eric Kim pointed to California, Illinois and New Jersey as states that have recently raised taxes in part to address budget gaps.

Time will tell how the direction of the broader economy post-rate cuts will affect the state labor picture. Kim noted a wide range of disparity in terms of non-farm payrolls growth across the states; through July, Idaho and Utah grew over 10% growth above pre-pandemic levels, while Hawaii, Louisiana and Maryland were stalled below pre-pandemic employment levels.

Additional information is available in Fitch's state budget report at www.fitchratings.com.

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## S&P U.S. Mortgage Revenue Bond Program Medians: Solid Foundations Underpin Strong Credit Quality

**Key Takeaways**

- S&P Global Ratings' median rating for all U.S. housing finance agency (HFA) mortgage revenue bond (MRB) programs is 'AA+' with a stable outlook.
- The median minimum asset-to-liability (A/L) parity for all MRB programs was stable at 123% (compared with 122% in 2023) while median credit losses declined.
- Credit quality for single-family and multifamily MRB programs generally remained stable or slightly improved as prepayments slowed, loan quality stabilized, and A/L parity remained largely unchanged.
- HFA management teams continue to meet their mission by balancing the provision of affordable

housing solutions through a measured debt issuance plan, which we believe will result in ongoing rating stability for MRB programs.

Continue reading.

19 Sep, 2024

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## Cramped Airports Fuel Muni Borrowing Boom as Travel Surges.

- **US airports have sold more than $12 billion of debt this year**
- **Facilities in Charleston, Fort Myers to issue in coming weeks**

An influx of travelers passing through US airports has created a frenzied borrowing boom to raise cash for expansion projects.

Facilities in South Carolina, California, New York and Florida have plans to tap the municipal bond market in the coming weeks, adding to the $12.3 billion of airport debt already sold this year, according to data compiled by Bloomberg. That volume marks a more than 100% increase from the same period a year ago. Proceeds from the sales will be used to finance new renovation projects designed to improve passengers' experiences.

"Airports are congested, there's a lot more flights and we just need more improvements," said Mikhail Foux, head of municipal strategy at Barclays Plc. "Traffic through airports is through the roof right now."

Continue reading.

**Bloomberg Markets**

By Lily Meier

September 19, 2024

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## Fitch: No Labor Shortage Quick Fix in Sight for U.S. Life Plan Communities

Fitch Ratings-Austin/New York-17 September 2024: U.S. senior care facilities face an uphill battle in trying to retain staff over time as a pivotal milestone around baby boomers inches closer, according to Fitch Ratings in its latest labor tracker for the sector.

Labor shortages, increased costs and a gradual shift toward home-based care are all contributing to keep employment at life plan communities (LPCs) and skilled nursing facilities (SNFs) below pre-pandemic levels. Conversely, assisted living facilities (ALFs) and the private sector have surpassed their pre-pandemic employment figures. Fitch's latest findings confirm an ongoing labor shortage that will take time to address, according to Director Richard Park.

"Demographic trends favor long-term demand growth for senior services with the last of the Baby Boomer Generation turning 65 by 2030," said Park. "However, service providers will need enhanced strategies to boost their workforce pipeline amid weak payroll recovery."

The health care and social assistance job openings rate continues to decline steadily, from 7.9% in January to 6% as of July. However, quit rates are still elevated compared to the 4.2% average rate between 2010-2019.

Elsewhere, LPCs payrolls are up by approximately 0.17% from January to July of this year. Additionally, ALFs have grown by around 2.15% while SNFs, where workforce challenges are still quite acute compared to pre-pandemic, have seen payrolls rise by 1.43%. Average hourly earnings are also showing signs of leveling off and stabilizing.

Fitch's latest "Life Plan Communities Labor Tracker: September 2024" is available at www.fitchratings.com.

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## EPA Announces $7.5 Billion in Water Infrastructure Loans: Holland & Knight

**Highlights**

- The U.S. Environmental Protection Agency (EPA) on Sept. 6, 2024, announced the availability of $6.5 billion in Water Infrastructure Finance and Innovation Act (WIFIA) funding and $1 billion in State Infrastructure Financing Authority (SWIFIA) funding.
- WIFIA funds long-term loans to finance critical water infrastructure projects to address public health, replace lead service lines, improve climate resilience improvements, improve infrastructure in disadvantaged communities and address emerging contaminants such as per- and polyfluoroalkyl substances (PFAS).
- Given the increased attention to emerging contaminants and regulations setting limits on the presence of PFAS in water systems, this funding is expected to alleviate compliance costs.

The U.S. Environmental Protection Agency (EPA) on Sept. 6, 2024, announced the availability of $6.5 billion in Water Infrastructure Finance and Innovation Act (WIFIA) funding and $1 billion in State Infrastructure Financing Authority (SWIFIA) funding.

Continue reading.

**Holland & Knight LLP** – Dianne R. Phillips, Meaghan A Colligan, Amy L. Edwards, Michael Galano , Lauri A Hettinger and Molly Broughton

September 19 2024

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## Water-Challenged State Uses AI, Satellites to Find Leaks.

**New Mexico will use artificial intelligence to monitor satellite images to identify leaks before they become major problems.**

In 2022, residents in Chama, New Mexico, a Rocky Mountain village with less than 1,000 people near the Colorado border, seemingly overnight found their water taps had stopped working.

The state responded by sending in gallons of bottled water to prevent catastrophe. A subsequent investigation revealed that an unaddressed leak in the village's water system caused the disruption. New Mexico sent Chama $800,000 in capital funds to fix it and other water infrastructure needs. But

it wouldn’t be the last time the village suffered a water-related incident, this summer residents had to restrict their water use after a plant shutdown.

The fragility of the water supply statewide has been on display for a while now, a dam near Albuquerque, its largest city, has been out of commission for three years. That and the other water-related incidents prompted New Mexico to unveil a 50-year action plan in January to address water scarcity.

Continue reading.

**Route Fifty**

By Chris Teale

September 18, 2024

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## Green Bonds Aren’t Driving Climate Action in US, Study Says.

- **Only 2% of proceeds initiate entirely unique green projects**
- **Global market for the bonds has grown to more than $3 trillion**

Almost all green bonds issued in the US fail to drive real action to tackle climate change, undermining the merits of a global market that’s grown to more than $3 trillion, according to a study.

An analysis of the first green bonds sold by corporate and municipal issuers between 2013 to 2022 found that about 2% of proceeds were used to fund projects that are genuinely unique or don’t replicate existing work, Pauline Lam and Jeffrey Wurgler said in a working paper published this month by the National Bureau of Economic Research.

Roughly 30% of proceeds from corporate green bonds and 45% in the case of municipal bonds were used to refinance ordinary debt, while in many other instances funds were directed to expanding existing projects or to new developments that were similar to previous work.

Continue reading.

**Bloomberg Green**

By Ishika Mookerjee

September 19, 2024

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## How the Fed’s 50 Bps Rate Cut Impacts Muni Bonds.

Watch video.

**Bloomberg Markets: The Close – Muni Moment**

September 20th, 2024

## Muni Bonds to Stay Cheap After Rate Cuts.

- **Ongoing wave of new issue deals will keep muni values cheap**
- **Strategists advise positioning portfolios now before election**

Municipal bonds are looking attractive compared to taxable debt, with valuations at or close to their cheapest levels this year.

State and local government securities are poised to get even cheaper in coming months following the Federal Reserve's 50 basis point cut this week, according to strategists at Bank of America Corp., as well as Goldman Sachs Asset Management and Barclays Plc, who are advising investors that it might be a good time to buy.

According to Bank of America strategists led by Yingchen Li, the current cheapening doesn't reflect weakness in the tax-exempt market but rather richness in the taxable space. Those valuations could shift if muni supply wavers.

"If the new issuance calendar shows any signs of slowing off the torrid pace when Election Day approaches, we believe significant ratio richening should be expected," wrote Li in a Friday note. "We continue to advise investors to take positions while the muni market rally remains slow and ratios are somewhat cheap."

The 10-year muni-Treasury ratio — a key measure of relative value — hit its highest level of the year earlier this week. The greater that figure, the cheaper municipal bonds appear on a relative basis.

So far in 2024, investors have piled into municipal bonds. Inflows into muni funds exceeded $700 million for the week ending Sept 18, marking 12 straight weeks of expansion, according to LSEG Lipper Global Fund Flows data.

Joseph Wenzel, head of municipal funds and institutional accounts platform at Goldman Sachs Asset Management, said he expects tax-exempt securities to cheapen as record-setting new issue supply continues to pick up, speaking in a webinar Wednesday.

Barclays' municipal strategists Mikhail Foux and Clare Pickering highlighted a similar sentiment in a Friday research note, saying that the "challenging" technicals of the muni market — namely record levels of supply — could buck the historical pattern of muni ratios declining after the first rate cut in an easing cycle.

"Even though investors should keep in mind the risk of 'red wave' in November, we would consider adding in October if valuations become more attractive," the group wrote.

**Bloomberg Markets**

By Erin Hudson and Maxwell Adler

September 20, 2024

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## Delayed Vacations, Long Hours Are Reasons to Be Cheerful for Muni Bond

## Pros.

- **New bond sales head for record year as pace quickens 38%**
- **Bankers, buyers happy for opportunity after lackluster years**

For Beth Coolidge, the record pace of municipal bond sales this year means only an occasional day off rather than week-long vacations. The head of public finance at Oppenheimer & Co. isn't complaining.

"You have to be available when the work is available, because we did see a drop in issuance the last few years," she said. "You don't want to take a week off because you feel like you are going to miss something."

Most bankers and investors say the crush of new deals is unlikely to ebb until after Election Day on Nov. 5. State and local governments are motivated to complete borrowing for infrastructure and other projects before a new president and Congress add the potential for market volatility.

Continue reading.

**Bloomberg Markets**

By Shruti Singh

September 18, 2024

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## Muni Buyers Pounce on Profusion of Bond Sales Ahead of Fed Cut.

- **Fed is expected to lower interest rates later this week**
- **Muni sales topped $14 billion in the week ended Friday**

Municipal bond buyers scooped up an abundance of debt sales last week, eager to lock in higher yields before the Federal Reserve is widely expected to lower interest rates for the first time in more than four years.

States and local governments sold more than $14 billion of debt in the week ended Friday, one of the largest weekly amounts of the year and 79% more than the five-year weekly average, according to data compiled by Bloomberg. Borrowers are rushing to market ahead of potential volatility before the US presidential election in November. Long-term municipal bond issuance is up more than one-third over 2023's pace.

"These next couple of weeks are basically the last chance to stock up on decent yields," said Dora Lee, research director at Belle Haven Investments. She said that recent transactions, including one by New York City, garnered healthy demand from investors.

Continue reading.

**Bloomberg Markets**

By Danielle Moran and Martin Z Braun

September 16, 2024

## Muni Bond Enthusiasm Rises Ahead of Fed Rate Cuts.

The Federal Reserve nearing its first interest rate cut since 2020. So enthusiasm for fixed income assets is increasing, and muni bonds are part of that trend. That could be good news for exchange traded funds such as the ALPS Intermediate Municipal Bond ETF (MNBD).

The actively managed ETF has been a steady performer over the course of this year. And it hit a new 52-week high on Monday. That confirms it has ample leverage to the concept of lower interest rates. That's to be expected. But it's still encouraging to see MNBD and other municipal bonds behave accordingly in advance of monetary easing.

MNBD's recently encouraging price action is noteworthy for another reason. It's also reflective of buyers proving receptive to a spate of new issuance in the municipal bond market. City and state governments have recently sold a significant amount of bonds. Those new issues have easily absorbed, indicating there's increasing appetite for munis ahead of monetary easing.

**MNBD Tailwinds Emerging**

Municipal bonds, including MNBD holdings, are being boosted by the notion of lower borrowing costs. But the asset class is also catching a bid. That's because some experts believe volatility for risk assets will increase as Election Day nears.

"States and local governments sold more than $14 billion of debt in the week ended Friday, one of the largest weekly amounts of the year and 79% more than the five-year weekly average, according to data compiled by Bloomberg. Borrowers are rushing to market ahead of potential volatility before the US presidential election in November. Long-term municipal bond issuance is up more than one-third over 2023's pace," reported Bloomberg.

Owing to its status as an actively managed ETF with a trailing 12-month yield of 3.38%, MNBD could be an ideal avenue for investors looking to skirt equity market turbulence while accruing benefits delivered by Fed rate cuts.

MNBD is relevant for other reasons. Its 3.38% trailing 12-month yield is well in excess of the average 2.61% found on the highest-rated munis with 10-year maturities. Additionally, municipal bonds are seen as attractively valued relative to Treasurys. As for the supply issue, it could fall in the coming days before rebounding.

"Sales are expected to drop off this week as governments generally avoid coming to market when the Federal Open Market Committee meets. However, issuance is likely to inch back up with about six weeks until the election. Borrowers have already lined up about $15.5 billion of sales over the next 30 days," according to Bloomberg.

**etftrends.com**

by Todd Shriber

September 17, 2024

## Don’t Shy Away From Munis to Avoid Election Volatility.

Forthcoming market volatility from an election year may have fixed income investors shying away from bonds. However, it’s an ideal time to get municipal debt exposure, especially in the current market environment.

“In the current environment, which includes a too-close-to-call U.S. election and trillions of investable assets parked in cash, there’s opportunity in municipal bonds,” noted James M. D’Arcy, an active municipal fixed income portfolio manager at Vanguard.

At the start of 2024, private and public entities have issued bonds with the expectation of coming rate cuts. Now, municipalities are issuing bonds at increased pace. That’s providing a plethora of opportunities for fixed income investors to scoop up these debt issues.

“Usually, we see an annual increase in new municipal bond issues around October and November. However, this year, we’re seeing that increase now, particularly as issuers rush to complete new deals before Election Day,” added D’arcy. “At the same time, municipalities are issuing more bonds than they have for years.”

**Underpinned by Strong Fundamentals**

Situated between safe haven Treasury notes and investment-grade corporate bonds are munis. Currently, strong fundamentals currently underpin these local government debt issues. And that makes funds like the Vanguard Tax-Exempt Bond ETF (VTEB) an ideal option.

“In many ways, the fundamentals that support local governments are stronger today than we’ve seen for a long time,” D’Arcy said. State reserves and rainy-day funds are the highest we’ve seen in decades.

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index. That index measures the performance of the investment-grade segment of the U.S. municipal bond market. With volatility ahead in the election year, this getting quality is ideal to weather any market fluctuation storms.

“Munis are a high-quality asset class—more than 85% of the market is rated A or higher—with a strong fundamental risk profile,” D’Arcy added. “That’s particularly true when compared to corporate bonds. Even the amount investors are compensated for going down in credit quality—credit spreads—remains attractive in the muni space, even in the current yield environment.”

VTEB is an ideal solution for investors wanting muni exposure but not wanting to sift through the mass of options available to them. The fund tracks an index including municipal bonds from issuers. Those issuers are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax.

**etftrends.com**

by Ben Hernandez

September 20, 2024

## What's Missing from Passive Muni ETFs?

**Some of the largest municipal bond ETFs are passively managed, but did you know that these index-tracking funds exclude a significant portion of the muni bond market?**

Notably, the two largest ETFs in this category are passively managed and account for nearly 75% of overall municipal bond ETF assets.1 While passive ETFs, including these giants, are attractive due to their low fees, these funds miss out on some compelling areas of the municipal bond market due to the rules that define their construction.

**What sectors are often excluded from passive muni ETFs?**

By design, a passive ETF's portfolio is tied to its underlying benchmark. Examining the rules governing these benchmarks can shed light on which segments of the municipal bond market aren't represented within their associated ETFs.

Commonly excluded areas of the market include housing bonds, tobacco bonds, and bonds that are subject to the alternative minimum tax. Conduit bonds, which are a specific type of municipal bond issued by a governmental entity but primarily for the benefit of for-profit institutions like hospitals and universities, can also be excluded from the index. Due to these exclusions, it's estimated that the largest passive municipal bond ETFs lack exposure to around one-fifth of the municipal bond market.

Continue reading.

**jhinvestments.com**

September 20, 2024

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## BlackRock Reshapes Two Muni Bond Funds for ETF Market.

BlackRock Inc., the world's largest asset manager, is converting a municipal bond mutual fund into an ETF and revamping another, following a trend among issuers seeking to capitalize on growing demand for exchange-traded funds.

The New York-based firm plans to convert its $1.7 billion BlackRock High Yield Municipal Fund into an ETF and revamp its existing $195.84 million BlackRock High Yield Muni Income Bond ETF (HYMU) into an iShares-branded product. The mutual fund conversion, set to close on Feb. 7, will result in the creation of the iShares High Yield Muni Active ETF, according to a filing with the Securities and Exchange Commission.

ETFs are snatching an ever-increasing market share from mutual funds—so far this year ETFs raked in $588.1 billion and mutual funds bled $217 billion, Morningstar said recently. To accommodate demand issuers have converted dozens of mutual funds to ETFs since the first transition from Guinness Atkinson in March 2021, and Bloomberg ETF analyst Eric Balchunas has said that $1 trillion worth of mutual funds may convert to ETFs, which are easier to trade, by 2033.

Continue reading.

**etf.com**

by DJ Shaw
*Finance Reporter*

Sep 20, 2024

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## NASBO Summaries of Fiscal Year 2025 Enacted Budgets.

View the NASBO summaries.

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## Fitch: US State Budgets Downshift Into a Slower New Normal

Fitch Ratings-New York-09 September 2024: U.S. states are taking a slow and steady approach to their fiscal 2025 budgets, according to Fitch Ratings in its latest annual report.

State budgets are in fiscally sound positions with extraordinary post-pandemic revenue performance buying them time to strengthen their financial operations. This prudent approach is proving useful, says Senior Director Karen Krop.

“States have returned to more typical budgeting practices for fiscal 2025, with modest revenue growth expectations and a need to address some expenditure pressure,” said Krop. “The end result is still robust dedicated operating reserves, with some states dipping into accumulated balances for one-time spending and others tapping rainy day funds to help balance their budgets.”

The wave of significant tax policy changes seems to have peaked. Fewer states are incorporating tax cuts into their budgets, with some notable exceptions. Few states are raising revenues, although California did so on a temporary basis to address its revenue gap. New Jersey and Illinois similarly raised revenues.

Slower revenue growth means states are moderating spending expectations after relatively high budget growth during and after the pandemic. They continue to fund high-priority initiatives, including addressing homelessness and housing affordability. Several states, including Massachusetts, New York, Utah, Vermont, and Oregon, are investing in programs. “States are also allocating resources for natural disaster response, such as wildfire recovery in California and Hawaii, flood damage response in Vermont, and adding funds for emergency preparedness in Florida,” said Krop.

‘2025 U.S. State Budgets Back to Normal’ is available at www.fitchratings.com.

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## S&P U.S. Public Finance: Methodology For Rating U.S. Governments

This criteria article presents S&P Global Ratings’ new methodology for rating U.S. governments.

Download.

**[Free Registration Required.]**

## S&P Institutional Framework Assessments For U.S. Local Government Portfolios.

In this article, S&P Global Ratings provides the institutional framework (IF) assessments it derives from the application of the criteria "Methodology For Rating U.S. Governments," published Sept. 9, 2024. This commentary is intended to be read in conjunction with those criteria.

**Key Publication Information**

- This article is related to "Methodology For Rating U.S. Governments," Sept. 9, 2024.
- We will update this publication periodically to summarize our latest institutional framework assessments for U.S. local government portfolios.

**Institutional Framework Assessments**

The IF is the set of formal rules and laws–as well as practices, customs, and precedents–that shape the environment in which U.S. governments operate. Our assessment is mostly qualitative and considers the historical track record as well as changes that are likely to shape the framework. As stated in the U.S. governments criteria, factors in our assessment are:

- Predictability;
- Revenue and expenditure balance and system support; and
- Transparency and accountability.

State constitutions and state laws broadly dictate the terms under which U.S. governments operate. Therefore, we assess the institutional framework by state and type of government. When the legal or practical environment for a specific local government differs from the norm in its state, we assess that specific government accordingly. Special districts generally receive the same IF assessment as municipalities in that state.

The table shows our assessments for 136 institutional frameworks in the U.S.

Continue reading.

**[Free Registration Required.]**

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## S&P U.S. Public Finance RFC: Methodology For Rating U.S. Governments

On Jan. 11, 2024, S&P Global Ratings published a request for comment (RFC) on its proposed revisions to the approach it uses to rate U.S. governments. Following feedback from the market, we finalized and published our criteria, titled "Methodology For Rating U.S. Governments," on Sept. 9, 2024.

We'd like to thank investors, issuers, and other intermediaries who provided feedback. This RFC process summary provides an overview of the changes between the RFC and the final criteria as well as the rationale behind those changes.

**External Written Comments Received From Market Participants That Led To Significant Analytical Changes To The Final Criteria**

Comment: One commenter recommended that the methodology reflect whether state or local governments assess the need for capital investments and measure and report liabilities for current and future deferred maintenance and preservation needs. They suggested this could be assessed as part of the Management: Long-term planning subfactor or as an adjustment to the Management factor. The commenter also recommended we assess a government's pension stress testing and risk reporting as an adjustment within the Debt and liabilities, Management, or Institutional framework sections of the criteria.

Continue reading.

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## Posh Real Estate Deals Boom in High-Flying Junk Muni Market.

- **Risky muni returns are beating US corporate high-yield debt**
- **Atlanta and Miami projects sold high-yield muni debt this year**

High-end real estate developments are tapping the municipal-bond market, leading to a slew of so-called luxury dirt deals and fueling returns for investors willing to take on the risk.

This year, state and local debt buyers have helped finance a vacation-home golf enclave in Florida, a resort near Zion National Park and a $4.2 billion redevelopment in Atlanta's downtown. The deals — all high-yield and sold exclusively to sophisticated investors — represent a niche corner of a market that typically raises money to build schools, roads and bridges.

Some of these offerings have been oversubscribed and repriced tighter, helping to boost returns for junk-rated muni-bonds to a 7.2% gain this year, outpacing their investment-grade counterparts by more than 5 percentage points, according to data compiled by Bloomberg. The risky state and local debt is also beating US high-yield corporate debt.

Continue reading.

**Bloomberg Markets**

By Sri Taylor

September 11, 2024

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## Planning for a Daunting New Normal of Flood Risk.

**Rainfall patterns are changing. What can local leaders do to curb the growing risks?**

**In Brief:**

- Floods are the most common and expensive weather-related disaster.
- Changing rain patterns are increasing their frequency.
- A study by a Virginia sanitation district offers an example of infrastructure planning that takes climate into account.

The 10 warmest years since record-keeping began 150 years ago were all in the last decade.

Warmer air absorbs more moisture, and this moisture is now more and more likely to come down in buckets, increasing the frequency and scale of flood risks to communities.

Climate impacts are making an already-bad situation worse, says Mami Hara, CEO of the nonprofit US Water Alliance. “We were already in a deep hole from underinvestment and systemic inequities of infrastructure investment and services,” Hara says.

Continue reading.

**governing.com**

by Carl Smith

Sept. 12, 2024

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## The Potential for Increased Municipal Debt Activity as Interest Rates Decline in CY 25-26.

The prospect of declining interest rates presents a significant opportunity for municipal debt issuance and capital project activity among local governments.

For sophisticated investors, understanding the dynamics at play is crucial. Lower interest rates reduce the cost of borrowing, which can incentivize municipalities to issue new debt or refinance existing obligations. As the yield curve slowly normalizes, issuers can secure long-term financing at more favorable rates, thereby lowering the overall debt service costs. This environment often encourages local governments to accelerate capital projects that were previously shelved due to higher borrowing costs.

In this article, we will take a closer look at the interest rate forecast and how it may foster an attractive issuance timeframe for municipal governments.

Continue reading.

**dividend.com**

by Jayden Sangha

Sep 12, 2024

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## The Case for Long-Term Munis: Positioning for Rate Cuts

With potential rate cuts on the horizon, long-term municipal bonds are emerging as an attractive option due to their higher yields, tax benefits, and potential for price appreciation.

**The Case for Long-Term Munis: Positioning for Rate Cuts**

The Federal Funds rate has held steady at 5.33% for over a year, but the Federal Reserve (Fed) is now signaling that this period may be coming to an end. With potential rate cuts on the horizon in

September, long-term municipal bonds are becoming more attractive. This blog will explore why now could be the ideal time to consider reallocating into long-term munis.

Continue reading.

**VanEck**

by Drew Anderson
*Product Analyst*

September 13, 2024

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## Don’t Let an Election Year Keep You From Munis.

A forthcoming presidential election might create some angst among prospective investors in municipal bonds. However, history typically shows that election years don’t produce major volatility swings.

Because presidential candidates can bring differing policy agendas to the table, the implications on municipal bonds could cause a degree of worry. However, historically speaking, they don’t make much of an impact.

“Historically, presidential elections have generally had limited bearing on muni market returns,” noted AllianceBernstein, confirming that powerful economic events had more of an impact on munis than elections.

If recent history is an indicator, a presidential election year should actually be a good time to invest in munis.

“Republicans and Democrats each won three elections since 2000, and muni bond returns were positive for each election calendar year and the year after in four of the six periods,” AllianceBernstein added.

If that helps to quell any anxiety, one fund investors will want to consider for muni exposure is the Vanguard Tax-Exempt Bond ETF (VTEB). The ETF cracked the list of top muni bond funds to consider in U.S. News.

“These are debt instruments issued by states, cities, counties and other governmental entities to raise funds to pay for public projects such as roads, bridges and schools,” noted Nathan Will, principal and head of municipal credit research at Vanguard.

If investors are concerned about credit quality, they shouldn’t be, as most munis are situated between its safe haven Treasury and investment-grade corporate bond peers.

“Municipal bonds are generally a high-quality asset class with a very low historical default rate,” Will added. “What sets them apart is the combination of strong credit fundamentals and the opportunity to earn tax-exempt income.”

**Diversification and Liquidity**

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the

performance of the investment-grade segment of the U.S. municipal bond market. Overall, this index includes municipal bonds from issuers, primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax.

Overall, muni funds can offer distinct advantages to fixed income investors. Aside from their tax exempt income distributions are their diversification and liquidity.

“There are several advantages to using a fund structure for investing in municipal bonds,” said Stuart Gillin, assistant vice president and investment advisor at Baker Boyer Bank. “Municipal bond funds provide diversification that can be difficult for investors to achieve on their own and are more liquid than individual bonds.”

**etftrends.com**

by Ben Hernandez

September 11, 2024

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## It's a Great Time to Invest in Munis: Franklin Templeton's Johnston

“You don’t want to be late to this party,” Jennifer Johnston, director of research at Franklin Templeton’s Municipal Department, says while explaining why it’s a great time to invest in the municipal bond market on “Bloomberg The Close.”

Watch video.

**Bloomberg Markets: The Close – Muni Moment**

September 12th, 2024, 1:57 PM PDT

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## SIFMA US Municipal Bonds Statistics.

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

**YTD statistics include:**

- Issuance (as of August) $335.5 billion, +34.0% Y/Y
- Trading (as of August) $13.0 billion ADV, +4.1% Y/Y
- Outstanding (as of 1Q24) $4.1 trillion, +1.0% Y/Y

Download xls

September 3, 2024

## How City Governments Can Navigate the Fiscal Cliff.

In my experience working with city governments, I've seen firsthand cities like Los Angeles, Chicago, Sacramento, and St. Louis struggle with resource constraints and grapple with the significant challenges cities face in balancing budgets, maintaining public services and managing infrastructure needs. Today's situation has become increasingly dire for many municipalities that once relied on robust federal funding and a strong market. Recent economic shifts have intensified these issues.

**What is a fiscal cliff?**

A fiscal cliff, a term that underscores the urgency and potential abruptness of the financial crisis, occurs when local governments experience a sudden and severe economic downturn due to declining revenues and increasing expenditures. This can be triggered by various factors, including reduced tax revenues during economic slumps, decreased state and federal aid, and rising costs for public services, infrastructure, pensions and health care. It means that immediate action is needed to prevent severe repercussions.

The fiscal crisis facing cities is a result of a perfect storm: the reduction of federal grant dollars, reduced tax revenues, increased demands, especially in urban areas, and rising inflation. These factors mean that governments must do more with less. It's why all city leaders, not just those in finance, must be well-versed in the different types of budgetary concerns and how to navigate them.

Continue reading.

**americancityandcounty.com**

Written by Abhi Nemani

28th August 2024

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## Muni Debt Sales Set to Surge to Four-Year High Ahead of Election.

- **Visible supply totals $21 billion for the next 30 days**
- **Muni-Treasury ratio has cheapened on influx of new sales**

States and local governments are poised to sell debt at the fastest clip in four years as borrowers aim to get ahead potential volatility from the US presidential election in November.

Municipal bond issuers like cities and school districts have already teed up $21 billion of debt sales over the next 30 days, the highest visible supply since October 2020, according to data compiled by Bloomberg. That index represents a fraction of what actually comes to market, given that deals are often announced with less than one-month's notice.

"This is all in response to the election this year," said Kyle Javes, head of municipal fixed income at Piper Sandler Cos. He said that borrowers remember the market disruption that followed prior presidential elections and are eager to avoid any major swings. "We have been advising all of our clients to make sure that they get their transactions in ahead of the election if they have needs to borrow," he said.

Continue reading.

**Bloomberg Markets**

By Erin Hudson and Sri Taylor

September 5, 2024

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## Municipal-Bond Market Boom in Mega-Deals Shows No Sign of Stopping.

- **This year has seen the most muni deals of $1 billion or more**
- **Los Angeles school district, Illinois plan large bond sales**

It's already a record-setting year for muni-bond sales, and the relentless pace of mega-deals — those over $1 billion — is displaying little signs of slowing.

State and local governments rushing to raise cash ahead of the presidential election in November have driven sales to $325 billion so far this year, an all-time high for the period, according to data compiled by Bloomberg going back to 2013. Some $65 billion of those offerings are mega-deals, the most in at least a decade.

And more jumbo debt sales are planned for September. The pipeline of scheduled deals rose to about $20 billion as of Wednesday, the highest in more than two years, according to a Bloomberg index of scheduled sales over the next 30 days. That figure typically represents a fraction of what comes to market as many deals are announced with less than a month's notice.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

September 4, 2024

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## Muni-Bond Market Faces September Slump as Supply Outpaces Demand.

- **CreditSights sees $22.8 billion muni bond redemptions in month**
- **Fed rate cut could alter September muni losing streak**

September is already shaping up to be a tough month for investors in the municipal debt market, with a supply-demand mismatch threatening to squeeze performance.

The total amount of redemptions to be paid out by local governments this month totals $22.8 billion, less than half of what was paid out in August and roughly 21% less than 2024's monthly average, according to data from CreditSights Inc. That drop is set to reduce the baked-in demand that has supported the market for much of the summer.

At the same time, roughly $19.3 billion of new issuance is expected over the next 30 days — the most since June — according to data compiled by Bloomberg.

Continue reading.

**Bloomberg Markets**

By Nic Querolo

September 3, 2024

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## Current Market Conditions Bode Well For Munis, Nuveen Says.

Continuing market uncertainty bodes well for municipal bonds now and in the near future, according to Dan Close, the head of municipals for Nuveen, a global asset management firm.

With their tax-free status on the federal level and in some states, municipal bonds remain in demand by investors and benefit from current market conditions, Close said. The debt products can be issued by municipalities, counties, states or special purpose districts.

“A lot of the favorable position of munis is driven by the federal tax code,” Close said. “And if the highest bracket for income tax reverts to 39.6% from 37%, the tax break for munis will be even more valuable.” Unless Congress acts to keep the rate at 37%, it will return to the higher level at the end of 2025,

In addition, the current yield on some munis of just under 5% is the highest it has been in recent history, Close said.

“Looking at all industry sectors, municipal bonds for essential services, like water and sewer projects, are particularly in demand and should continue to perform well to the benefit of investors’ portfolios,” he added.

Healthcare, software and insurance brokers, as well as public and private infrastructure, also are well positioned to withstand economic downturns, which should lead investors to secure attractive returns, Close said. A long-anticipated recession is still a possibility, according to economists.

“High-quality municipal bonds with entities that have good credit ratings are a good income source for any portfolio and are especially beneficial for residents of high-tax states such as New York and California,” he said.

**Financial Advisor**

by Karen DeMasters

August 30, 2024

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## Quick Shot: Municipal Ratios are Close to the Highest Level of 2024.

Municipal bonds are issued by state and local municipalities, and as such, can provide investors with federal tax-free income. The bonds are backed by taxes, revenues linked to the projects they are funding or as a general obligation of the municipality itself.

Because of their tax-advantaged characteristics, municipal bonds often have yields lower than U.S. Treasury bonds, which are backed by the U.S. government. As such, municipal bonds are often evaluated as a percent of the yield you get on a comparable U.S. Treasury. This is often used by investors as a valuation metric for the asset class: The higher the figure, the "more discounted" municipal bonds are relative to Treasuries.

Recently, municipal ratios have risen to their highest levels of 2024, indicating potential value for U.S. taxpayers. Yields as percent of 10-year Treasuries reached 70% from their tights of 57% in March. Municipal yields get more attractive as supply is increased (more supply = higher yields to entice investors to fund sales). So far this year, municipalities have issued $315 billion, which marks the highest sales at this point of the year in a decade.

Continue reading.

**J.P. Morgan**

Alan Wynne
Global Investment Strategist

Published Aug 29, 2024

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## 4 Reasons to Snap Up Muni Bonds Amid Flashing Recession Signals, According to Charles Schwab.

- **Two recession indicators are currently flashing, which has some investors on edge.**
- **Charles Schwab offers four reasons why anxious investors should consider buying municipal bonds.**
- **These assets offer high credit ratings, and typically perform well at the start of a recession.**

While economists remain split on whether the US is rolling toward a recession, at least two notable gauges are flashing clear-cut warnings that a downturn is imminent. For those uncomfortable with this, municipal bonds could offer some relief, Charles Schwab suggested.

The Sahm Rule says the US is in a recession when the three-month moving average in the unemployment average rate moves 0.5% from a 12-month low. This occurred in July.

Continue reading.

**businessinsider.com**

by Filip De Mott

Aug 27, 2024

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## Raymond James Climbs Muni Manager Rankings After Hiring Spree.

- **It hired about a dozen people from Citigroup's closed unit**

- **Company replaced Citi as bookrunner on Alabama county deal**

Raymond James Financial Inc. is scaling the rankings of municipal-bond underwriters after large banks withdrew from the business.

The St. Petersburg, Florida-based company has jumped to seventh place so far this year, its highest position in at least a decade. That's while it was on a hiring spree, adding nearly 60 people to its public-finance division over three years.

Following the exit of Citigroup Inc. and UBS Group AG from the muni market, Raymond James, Janney Montgomery Scott and other shops have scooped up talent to gain market share. Much of the hiring came when sales contracted after a period of aggressive interest rate hikes, a bet that the market would eventually rebound.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

August 28, 2024

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## Fitch Places 18 U.S. Life Plan Communities Under Criteria Observation.

Fitch Ratings – New York – 22 Aug 2024: Fitch Ratings has placed 18 U.S. Life Plan Communities (LPCs) Under Criteria Observation (UCO), following the publication of Fitch's revised 'U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria' on Aug. 19, 2024.

The ratings placed on UCO will require additional information and analysis to fully assess the effect of the criteria on the ratings. While these ratings may be affected by the criteria changes, not all of the ratings designated as UCO will necessarily change. Placement on the UCO list does not indicate a change in the issuer's underlying credit profile, nor does it affect existing Rating Outlooks or Rating Watch statuses. Fitch will review all the ratings designated as UCO as soon as practicable, but no later than six months following the date of the criteria release.

Continue reading.

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## Fitch Feedback Report: U.S. Public Finance Not-for-Profit Life Plan Community Rating Criteria

View the Report.

Mon 19 Aug, 2024

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## S&P Sustainability Insights Research: No Quick Fix For The U.S. Affordable Housing Shortage

Due to high mortgage interest rates and persistently high real estate prices, a median priced home is now unaffordable for a median income American household. Conditions are most acute for households in highly populated areas and earning less than the U.S. median income, over 63% of which now spend greater than 30% of household income on housing. Demand for assistance from U.S. affordable housing issuers has risen, leading to a 32% year-to-date increase in debt issuance over 2023 highs. At some point, not-for-profit housing issuers, particularly multifamily lenders, may struggle to preserve credit quality by deploying reserves to meet affordable housing needs.

Download

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## How Two States Have Spent Their Share of the $1B in Cybersecurity Grants.

**With little precedent for such a big federal investment in cybersecurity, states have largely had to write their own playbooks on how to distribute the funds to local governments.**

More than two years ago, the federal government began handing out millions of dollars to states to shore up their cybersecurity amid a growing threat of ransomware attacks and data breaches.

The much-needed investment will ultimately pay out an unprecedented $1 billion over four years. The State and Local Cybersecurity Grant Program under the 2021 infrastructure law is a first-of-i-s-kind investment, which has meant states have largely had to create their own playbooks.

At an event hosted this week by Route Fifty, those different approaches were highlighted as two states on opposite coasts detailed how they've gone about shoring up their cyber defenses under the historic grant program.

Continue reading.

**Route Fifty**

by Chris Teale

August 20, 2024

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## Climate Change is messing with City Sewers — And the Solutions are Even Messier

**As heavy rains overwhelm aging pipes, Boston and New York City are choosing very different paths forward.**

At the end of July 2023, 3.07 inches of rain fell on Boston in a single day. The city's sewer systems were overwhelmed, resulting in a discharge of sewage into Boston Harbor that prompted a public health warning. The summer of 2023 would turn out to be Boston's second-rainiest on record.

About two months later, 8.65 inches of rain fell on New York City — higher than any September day since Hurricane Donna in 1960. The city's low-lying areas were deluged, and half of its subway lines were suspended as water inundated underground stations.

East Coast cities are increasingly susceptible to flooding due to climate change. But changing weather patterns are only half of the problem — the other is inadequate infrastructure. In particular, these recent flood events were made worse by Boston and New York's combined sewer systems, which carry both stormwater and sewage in the same pipes. When such a system reaches capacity during heavy rainfall or storm surge events, it backs up, sending a mixture of stormwater and raw sewage into waterways (and sometimes also into streets and homes).

Continue reading.

**Route Fifty**

By Angelica Ang,
Grist

August 22, 2024

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## Credit Work Takes Front Seat: Bloomberg Masters of the Muniverse

As we inch closer to a Fed rate decision and a Presidential election, focusing on municipal credit will take on a heavier emphasis. Hosts Eric Kazatsky and Karen Altamirano are joined by Jennifer Johnston, Director of Research for Franklin Templeton Fixed Income. Bringing over three decades of experience, Jennifer is responsible for leading the group's credit research efforts across all municipal bond sectors. She gives us her perspective on how technology enhances the credit research role and some areas of concern during the back portion of this year and beyond.

Listen to the Podcast.

Aug 20, 2024

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## Investing in Aging: Senior Living Bonds as a High-Risk, High-Reward Strategy

When investors think about municipal bonds, safety and stability often come to mind. Afterall, a city or state government has the ability to tax their citizens to help pay for the bonds. As a result, munis often form the cornerstone of many conservative fixed-income investor's portfolios. But not all munis are safe and steady, some are a tad on the risky side. But for investors looking to pick up extra yields, these bonds could be a real opportunity.

Today, that opportunity lies within munis tied to senior living and nursing homes.

The senior living sector has long been one of the riskiest in the high-yield muni space — skewing default rates higher for all muni bonds. Those issues have only gotten worse since the pandemic. But with an aging population and increased elderly care needed, the sector could provide an interesting blend of risk and reward for some income seekers.

Continue reading.

**dividend.com**

by Aaron Levitt

Aug 26, 2024

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## Active Muni ETFs Are Rapidly Gaining Traction.

In terms of population, the universe of actively managed municipal bond exchange traded funds is growing at a prodigious pace. That makes sense because there are multiple reasons why the combination of municipal bonds and active management can reward investors.

The ALPS Intermediate Municipal Bond ETF (MNBD) is one of the established names in the active muni ETF patch. MNBD, which turned two years old in May, attempts to beat the Bloomberg Municipal Bond 1-15 Year Blend Index. Admittedly, year-to-date isn't the best measuring stick of muni bond ETF performance. That's because this is a long-term asset class. Still, that doesn't diminish the point that MNBD is beating the widely followed ICE AMT-Free US National Municipal Index by a 2-to-1 margin this year.

Advisors know some perks can be accrued when munis meet active management. These include superior flexibility when it comes to managing credit and interest rate risk as well as the ability of active managers to more readily identify valuation opportunities than can muni indexes. Some other points in favor of MNBD should be considered.

MNBD Hidden Advantages

While municipal bonds are a massive corner of the broader fixed income market, some issues with this form of debt make indexing challenging.

"Municipal bonds are a highly illiquid and fragmented market. This makes indexing difficult and creates more opportunities for active managers than more liquid markets. This favorable arena is reflected in assets; 87% of all muni fund assets are in funds where managers choose the bonds rather than mimic and index," notes Morningstar's Gabe Alpert.

That's not to say passive muni ETFs are "bad" products. Instead, municipal bonds' liquidity, or lack thereof, highlights potential advantages with actively managed funds such as MNBD.

Another reason active management makes sense with municipal debt is because these bonds take various forms. This includes general obligation, revenue, and enhancement program bonds, among others. Each subsection of the muni space brings with it opportunities and risks. That can be viewed as further confirmation of the potency of active management. It could also bode well for the long-term adoption of ETFs such as MNBD.

"As demand for ETFs grew, firms launched muni-bond ETFs. Due to the difficulty of launching active ETFs until a regulatory change in 2019, before then, there were only 19 of these funds. Between 2019 and 2024, an average of 7.5 active muni ETFs were listed each year. This is compared with an average of 3.5 index muni ETFs. Flows have followed, with 60% of 2024 flows to muni ETFs going to active funds despite making up only 15% of assets," concludes Alpert.

**etftrends.com**

by Todd Shriber

August 26, 2024

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## Corporate and Municipal CUSIP Request Volumes Fall for Second Consecutive Month in July.

NORWALK, Conn., Aug. 14, 2024 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for July 2024. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a slowdown in request volume for new corporate and municipal identifiers for a second consecutive month.

North American corporate requests totaled 6,391 in July, which is down 2.6% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month up 7.9%. The monthly volume decline was driven by a 15.6% decrease in request volume for U.S. corporate debt and a 21.1% decrease in volume for Canadian corporate securities. Request volumes for short-term certificates of deposit (-10.1%) and longer-term certificates of deposit (-10.2%) also slowed in July.

The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 18.1% versus June totals. On a year-over-year basis, overall municipal volumes are up 7.6%. Texas led state-level municipal request volume with a total of 180 new CUSIP requests in July, followed by New York (161) and California (67).

Continue reading.

**CUSIP Global Services**

Wed, Aug 14, 2024

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## Citi, UBS Leave Behind $50 Billion Muni Opportunity for Rivals.

- **Huntington leads Chicago sale as senior manager for first time**
- **San Antonio Water System picks Truist to underwrite, remarket**

From San Antonio to Chicago, US municipalities are inviting in new rosters of banks to manage borrowings after two big players' exits opened up a roughly $50 billion opportunity for firms that are still in the business.

Market heavyweight Citigroup Inc. and UBS Group AG began pulling away from munis over the last year, marking the biggest retreat in the sector since the financial crisis. While shrinking profit margins in the muni industry contributed to their decisions, other bulge-bracket firms and up-an--coming regional underwriters remain committed.

These muni players are eager to fill any gaps, and there's a big incentive: The shift is happening just

as US state and local borrowers flood the market with record amounts of debt.

Continue reading.

**Bloomberg Markets**

By Shruti Singh

August 15, 2024

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## Shelved Muni Sales Return to Market After Volatility Eases.

- **Chicago originally planned to sell $643 million in debt Aug. 7**
- **Tennessee hospital system that delayed bond deal also priced**

Two municipal bond sales that were previously delayed during a particularly volatile stretch in fixed income markets were offered to investors Wednesday.

Chicago returned to the $4 trillion state and local government debt market one week later than planned, as did Erlanger Health, a hospital system based in Chattanooga, Tennessee. The sales come after two key economic data releases showed inflation easing — increasing confidence among investors that the Federal Reserve will cut interest rates in September.

The Windy City had originally planned to issue $643 million in tax-exempt bonds on Aug. 7 but moved the deal to day-to-day status to await a more stable market. Erlanger Health had delayed a roughly $316 million deal on Aug. 8, citing “recent market volatility and yield expectations falling short” of their targets.

Continue reading.

**Bloomberg Markets**

By Shruti Singh

August 14, 2024

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## Record Hiatus of Muni Bankruptcies Cheers Market — for Now

- **US pandemic aid, even inflation, propped up municipal coffers**
- **Strong credit cycle likely challenged by waning federal money**

Municipal bankruptcies are becoming a distant memory for tax-exempt bond investors thanks to the strength of US state and city balance sheets. Some strategists warn the sunsetting of federal aid may ratchet up credit fears.

Wednesday will mark a record 449 days since Hazel Hawkins Memorial Hospital filed for Chapter 9 protection on May 23, 2023, surpassing the previous longest stretch from June 2021 through September 2022, Bank of America Corp. analysts advised in a note last week. And it’s been seven years since a bankruptcy-like filing for Puerto Rico rocked the market, as similar events by Jefferson

County, Alabama, Detroit and Orange County, California, had in past decades.

Investors continue to flock to the muni market, helped by solid returns and improved issuer creditworthiness. State and local governments for the past few years have been buoyed by hundreds of billions in federal dollars allocated to provide financial stability during the pandemic era.

Continue reading.

**Bloomberg Markets**

By Erin Hudson

August 13, 2024

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## Rare Zoo Bond Joins Muni Bond Sales Surge to Fund Expansion.

- **The $40 million sale marks biggest ever for Riverbanks Zoo**
- **Zoo expects to return to the muni market again in a few years**

In a summer that's shaping up to be one of the busiest ever for municipal bond sales, investors have snapped up deals financing everything from airport projects and public transit systems to school districts. This week, they lent $40 million to spruce up one of largest zoos on the East Coast.

The Riverbanks Zoo and Garden located in Columbia, South Carolina, raised the cash to finance a gondola, hillside primate forest and observation deck plus other enhancements. The facility, which spans 170 acres and houses thousands of animals, receives more than 1 million visitors each year.

Zoo bonds are a rarity in the municipal bond market, which has seen issuance surge this year and typically finances more traditional infrastructure like roads and schools. Riverbanks, for example, comes to market roughly once a decade to finance upgrades of its facilities, said the zoo's Chief Executive Officer and President Tommy Stringfellow. It can take years to construct and populate new exhibits, he said.

Continue reading.

**Bloomberg Markets**

By Erin Hudson

August 16, 2024

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## Fitch: U.S. NFP Hospitals May Be Nearing Return to 'Neutral'

Fitch Ratings-Austin/New York-15 August 2024: Despite ongoing challenges, recent positive developments could help U.S. Not For Profit hospitals achieve a 'Neutral' sector outlook sooner, according to Fitch Ratings analysts in a sector webinar yesterday.

According to sector head Kevin Holloran and senior director Mark Pascaris, hospital operations have

stabilized, while the chasm between revenue growth and expense growth has leveled out. Fitch's 2023 statistics reveal 7.6% expense growth for hospitals versus 7% revenue growth, a more favorable comparison following the 9.5% expense growth against 5.8% revenue growth of 2022. However, credit 'trifurcation' remains an issue and will remain so well into 2025, according to Holloran, at which point the environment should start to normalize, with a credit 'bifurcation' emerging soon after.

According to Pascaris, the vast majority of NFP hospitals (65%-75%) will be somewhere in the middle, steadily working to improve operating margins. Additionally, struggles will intensify and may accelerate for 5%-10% of health systems, while an equal number on the opposite end of the spectrum will thrive in stronger markets.

Countering the recent moderate upswing are ongoing struggles for hospitals. Median days cash on hand continues to decline, dropping to 211.3 in 2023 from 216.2 in 2022, and down from a high of 260.3 in 2021. The imbalance between revenues and expenses remains a structural issue for the sector. Although the labor situation is improving, it still falls short of pre-pandemic levels. However, Holloran noted that the labor environment is stabilizing overall.

Improving labor productivity remains a high priority for NFP hospitals, with the advent of AI offering intriguing possibilities over time. Hospitals may need to redesign standard processes and partially incorporate AI advancements, although the significant cost of AI will be a limiting factor for many health systems.

Fitch's webinar follows the release of the agency's latest NFP hospital medians report, available at www.fitchratings.com.

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## Fitch: US Not for Profit Hospitals and Health Systems on a Slow Mend

Fitch Ratings-Austin/New York-15 August 2024: Fitch Ratings' medians for U.S. not-for-profit (NFP) hospitals and health systems indicate the sector is slowly beginning to recover following seismic post-pandemic revenue declines. Fitch addresses this trend in its latest Fitch Analytical Comparative Tool (FACT) for the sector.

"Liquidity has held steady for NFP hospitals over the last several months while median operating incomes are beginning to stabilize," said Fitch Senior Director Kevin Holloran. "However, the sector is grappling with stubborn inflation and formidable labor challenges. We are unlikely to achieve any degree of predictive normalcy for at least another year."

The FACT contains financial data for 218 hospitals and health systems that can be benchmarked against peers, medians and self-defined peer groups along with historical statistics and metrics going back to 2011. This report follows Fitch's latest medians for U.S. NFP hospitals published earlier this week.

The FACT includes a dashboard feature to graphically plot annual issuer metrics and median performance, a peer analysis tool that allows users to review and compare metrics of two issuers, and a charting tool that generates a comparison of issuer metrics against rating category medians.

'Not-for-Profit Hospitals and Healthcare Systems FACT' is available at 'www.fitchratings.com'.

## Fitch: US NFP Children's Hospital Medians Hold Steady Even as Profits Fall Again

Fitch Ratings-Austin-14 August 2024: Medians for U.S. not-for-profit children's hospitals are still solid, although 2023 marked the lowest profitability level for the sector in a decade, according to Fitch Ratings in its latest annual medians report.

The operating environment for children's hospitals continues to be challenging as a result of increased staffing costs and year-to-year volume fluctuations from respiratory virus cases. Despite this, the standalone children's hospitals' median rating remains strong at 'AA-'. Even with a positive median operating margin, profitability is at the lowest level in 10 years with no easy to implement solutions available to generate a "v-shaped" recovery.

"Elevated labor expenses are an unavoidable reality for NFP children's hospitals," said Director Richard Park. "They must continue to seek creative solutions for this issue, as rate increases will not make up the gap on their own."

In the long term, children's hospitals will also face the effects of declining birth rates. Meanwhile, traditional adult acute care hospitals are looking to improve profitability by becoming full-service providers across all ages and care continuums. This includes the pursuit of growth in high acuity and margin service lines that are mainly provided at children's hospitals. Hospitals are also considering whether to incorporate AI into the daily operations of health care, with many likely to start adopting the technology to reduce administrative burden.

"Healthcare still remains a service industry centered around person-to-person interactions. Finding a way to augment a human's capabilities while improving the patient experience will be key to the industry's adoption of technology going forward," said Park.

Fitch's '2024 Median Ratios for Not-for-Profit Children's Hospitals' is available at 'www.fitchratings.com'.

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## Fitch 2024 Median Ratios for Not-for-Profit Children's Hospitals.

Fitch Ratings' 2024 children's hospital medians (using 2023 full-year audited data) show the industry working through a challenging period as the past two years have produced declining profitability, with 2023 exhibiting the lowest profitability level in 10 years. This is in contrast to the adult not-for-profit hospitals and healthcare systems sector, which is beginning to show signs of recovery after 2022 full-year audited results showed what was likely the worst year the sector has ever experienced as a whole. Despite the declines, median operating margins for 'AA' category children's and adult hospitals were both positive at 2.7% and 1.5%, respectively, in fiscal 2023. Fitch believes many highly rated organizations have relied upon robust balance sheets to navigate challenges and avoid layoffs/excessive cost-cutting measures to maintain patient safety/satisfaction and employee wellbeing.

Access Report

Wed 14 Aug, 2024

## S&P: What The Loper Decision May Mean For U.S. Public Finance

The recent United States Supreme Court decision in *Loper Bright Enterprises v. Raimondo and Relentless Inc. v. Dept. of Commerce* (the Loper decision) overturned a 40-year precedent commonly referred to as the Chevron Doctrine. While the magnitude of the ruling will take years to unfold, S&P Global Ratings believe the Loper decision will likely influence the regulatory and policy landscape for U.S. public finance issuers and has several potential credit implications.

**Decision Shifts Interpretation Of Ambiguous Statutes To Courts From Federal Agencies**

The now overturned 1984 Chevron Doctrine directed courts to defer to federal agency interpretation to address statutory ambiguity, effectively providing them with significant influence over regulation and policy. The Chevron Doctrine has underpinned thousands of regulations under the umbrella of numerous federal agencies. Overturning Chevron limits the deference to federal agencies and shifts responsibility to the judicial system. Prior cases that relied on Chevron are subject to stare decisis (the principle that courts should mostly adhere to their past cases) and are not automatically overruled; however, this doesn't preclude relitigating past cases or using the Loper decision to overturn or challenge regulations and statutes, which we believe may occur.

Continue reading. [Free Registration Required]

14 Aug, 2024

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## NaCo AI County Compass: A Comprehensive Toolkit for Local Governance and Implementation of Artificial Intelligence

The Artificial Intelligence (AI) Exploratory Committee was formed in May 2023 and tasked with analyzing the landscape of generative AI as it applies to counties.

Use the links below to download the AI Exploratory Committee's full report or jump to key sections of the report. In the navigation above, find an impact summary for your county role, as well as report highlights customized for you.

Continue reading.

**National Association of Counties**

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## New Tools Help Governments Tap Clean Energy Windfall.

**The Inflation Reduction Act includes tax credits that reimburse governments for clean energy investments. New online resources make the program more understandable and accessible.**

**In Brief:**

- The Inflation Reduction Act includes tax credits for tax-exempt entities that can repay costs for

clean energy projects.
- The program, which has not attracted the same level of attention as credits for private investment, is open to an unlimited number of applicants.
- The process for obtaining these credits is unlike that of any previous program, and online resources have recently been published to make it easier to navigate.

In the two years since the Inflation Reduction Act (IRA) was signed into law, IRA tax credits for private-sector clean energy projects have been widely celebrated and estimates of the investment they have sparked range from $125 billion to $265 billion. Credits that repay energy investments by public agencies and other tax-exempt organizations have received much less attention, but a new online tool aims to redress the imbalance.

Continue reading.

**governing.com**

by Carl Smith

Aug. 16, 2024

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## America Has a Hot Steel Problem.

**Railways, roads, power lines, batteries—the heat of climate change is making them all falter.**

A basic fact of thermodynamics is coming to haunt every foot of train track in the United States. Heat makes steel expand, moving its molecules farther apart, and as hot days become hotter and more frequent, rail lines are at risk of warping and buckling more often.

Any fix must deal with this fundamental truth of physics. Railroads can slow their trains down, which avoids adding more heat. Or they can leave gaps in a rail (or cut them as an emergency measure), which relieves pressure that causes track to bulge but means a potentially bumpier and slower ride. Painting tracks white would help deflect heat, but the paint would need to be reapplied frequently. Adapting to this reality will be expensive, and might ultimately just look as it does now: slow the trains, cut the track, issue a delay.

Our infrastructure is simply becoming too hot to function, or at least function well. High heat can also cause bridges to fail, for the same reason as with train tracks. Roads can buckle, thanks to the thermodynamics of concrete and asphalt. In Alaska, where permafrost is thawing into a substrate more akin to a waterbed, roads can resemble an undulating line of ribbon candy. Heat has two effects on power transmission, and “both of them are bad,” Bilal Ayyub, a civil-engineering professor at the University of Maryland, told me. One, heat reduces how much electricity power lines can deliver. Two, heat increases demand—everyone turns on their air conditioners in unison—further straining an already heat-strained grid, sometimes to its breaking point. (And those air conditioners need more power to run, because they’re also less efficient in high temperatures.) Phone and car batteries drain more easily when heat speeds up their internal chemical reactions.

According to the U.S. Census Bureau, this country currently builds more than $2 trillion worth of new construction a year. Each piece of it might have a life span of 50 to 100 years, Ayyub said. What we build now will face circumstances the world of modern infrastructure has never seen. To keep

up, engineers need to start designing for it now.

One obvious way forward would be to incorporate climate projections into building codes. Each time an engineer designs a piece of infrastructure, it must meet certain local codes meant to guard against the daily pressures of gravity and the vagaries of regional weather—ranges determined, until now, by looking at historical records. These codes are based on standards written by organizations including the American Society of Civil Engineers (ASCE) through a painstaking consensus process; incorporating the risks of rising heat counts as cutting-edge in this slow-moving world.

Right now, ASCE is in the midst of a six-year push to have building codes take future climate change into account, using research from the National Oceanic and Atmospheric Administration. (Ayyub, who helped incorporate flood risk into New Orleans's post-Katrina reconstruction plan, is part of that process.) But these codes are only recommendations; state and local governments decide whether to adopt them. And that choice can come down to political stances on climate change, in Ayyub's experience.

But building codes represent the bare-minimum level of safety and stability that a designer must adhere to. Another way to keep up with unprecedented changes is to build beyond that, in a way that embraces uncertainty and factors in failure, according to Mikhail Chester, the director of the Metis Center for Infrastructure and Sustainable Engineering at Arizona State University. Rather than assuming that systems built to withstand historical conditions are fail-safe, engineers and planners should focus on making them safe to fail, finding opportunities to minimize human harm. Power failures may be inevitable during a heat wave, but creating ancillary systems—such as community cooling centers and shade structures—can save lives in that situation.

Chester told me he has no doubt that engineers could design infrastructure to stand up to rising temperatures. To him, "the question is, at what cost?" Trying to "harden, strengthen, and armor" every piece of existing infrastructure to withstand climate hazards, including excessive heat, is economically impractical—and likely impossible. "You can't reengineer all of U.S. infrastructure as quickly as the climate is changing," Chester said.

The key, instead, will be to do triage. Some places need more attention than others: Chester pointed out that a newer city like Phoenix, where he lives, is actually more closely designed to withstand current conditions than a place like New York City, where many designs are based on older extremes. And some systems demand precedence: Water infrastructure and transportation systems are critical to life, for instance, but power systems supply them both. So designing resilient power systems ought to come first. But "the solution for it is costly," Ayyub said. It involves building more energy-storage capacity, updating a nation's worth of transmission lines (not to mention major permitting reform), and probably having a metering system in place to modulate how much power each user can access. "But it does require the users to agree to that," he added, and it may be a hard sell.

For now, the upward trajectory of heat is outpacing all construction ambitions, and forcing decisions about how best to balance affordability and risk. Energy is the biggest infrastructure challenge that both Ayyub and Chester foresee, but when it comes to things like train lines and other forms of built infrastructure, they're both hopeful that humanity will design ways to work around the heat. Humans are good at building things when they need to. But it's far easier for humans to fix their own machines than to fix large-scale biological systems; those are critical systems Ayyub is worried about more. Mass biodiversity loss concerns him first—that's unrecoverable once it's gone—along with food security and agriculture. Engineering can get us only so far.

**The Atlantic**

By Zoë Schlanger

August 14, 2024

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## Biden Administration Announces More Than $2 Billion in Grants to Boost US Power Grid.

**The grid is overburdened, under-resourced — and vital to the energy transition. New federal funding aims to increase capacity and get more clean energy built.**

The U.S. power grid is overburdened and under-resourced — and the Biden administration just announced a major investment aimed at helping solve those problems.

The Department of Energy has offered $2.2 billion to eight projects across 18 states that could expand and strengthen the grid. The projects range from deploying grid-enhancing technologies that boost the capacity of existing power lines to building brand-new high-voltage transmission cables that will enable wind farms in the Great Plains and off the coast of New England to plug into the grid.

Tuesday's announcement represents another significant federal investment in the U.S. transmission grid, which isn't growing fast enough to allow clean energy to come online at the pace needed to combat climate change. Energy experts warn that without a doubling or tripling of existing grid capacity, the country will fail to hit the Biden administration's goal of halving carbon emissions by 2030.

Continue reading.

**Route Fifty**

By Jeff St. John,
Canary Media

August 14, 2024

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## Airports to Get $566M More for Improvements.

**To date, nearly half of the nation's 3,000 airports have received federal funding to upgrade aging infrastructure and expand facilities amid record-breaking air travel.**

Nearly 300 grants were awarded to airports across the country Tuesday to revamp runways, terminals, security checkpoints, parking garages and other airport infrastructure, according to the Biden administration.

The Federal Aviation Administration handed out more than $566 million to facilities in 47 states as part of a grant program to modernize airports that was included under the 2021 infrastructure law. This is the ninth funding announcement by the FAA this year. In total, $2.89 billion will be allocated in 2024—the third year in a five-year, $15 billion grant program.

Most notably, about half the nation's 3,000 airports have received funding to date through the Airport Infrastructure Grants program, according to the administration. Some of those projects have even been completed, including a taxiway at San Diego International Airport in California.

Continue reading.

**Route Fifty**

By Elizabeth Daigneau,
Executive Editor, Route Fifty

August 13, 2024

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## Congress Could Ease Rules for Small Cities Seeking Transportation Money, Experts Say.

**Discretionary grants give the president's administration—and members of Congress—an opportunity to shape transportation policy. But applying for and administering them can be a challenge for local governments.**

One of the many changes that the 2021 federal infrastructure law made to transportation policy was giving local governments more opportunities to apply directly for federal grants, rather than depending on their state government.

But Congress is likely to scrutinize—and possibly change—those discretionary grant programs when they craft the next surface transportation bill, two transportation experts told a gathering at the National Conference of State Legislatures annual conference last week, in part to make the application process more user-friendly.

"We opened up grant opportunities more to local governments and to metropolitan planning organizations that have not always had the ability to directly apply for federal transportation dollars," said Jordan Baugh, the senior policy advisor for the Democratic members of the U.S. Senate Committee on Environment and Public Works. "That's created opportunities, but also a lot of challenges, particularly for smaller cities that don't have a large transportation or public works department."

Continue reading.

**Route Fifty**

By Daniel C. Vock,
Senior Reporter, Route Fifty

August 12, 2024

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## California Schedules $2.5 Billion Tax-Exempt Bond Offering.

California is planning to sell $2.5 billion of tax-exempt general obligation bonds later this month, the

state's second largest offering this year.

Proceeds from the sale will be used to finance voter-approved projects, pay down outstanding commercial paper and refund outstanding general obligation bonds, according to ratings documents provided by Fitch Ratings, which scores the debt AA.

The bonds will price in a negotiated sale on Aug. 27. Bank of America Corp. and Barclays PLC. are joint senior managers.

New sales of tax-exempt bonds in California have been gobbled up by buyers looking to shield income from the state's high taxes and to lock in yields before anticipated rate cuts by the Federal Reserve later this year. California, home to more billionaires than any other state and hundreds of thousands of millionaires, levies a rate of at least 13.3% on its highest earners.

The desire for tax-advantaged investments means California bond deals can sell at yields lower than AAA-rated benchmark muni securities. The Trustees of the California State University sold $671 million of tax-exempt bonds on Aug 5 with yields as much as 26 basis points below that benchmark, according to data compiled by Bloomberg.

California State Treasurer Fiona Ma is planning at least another six municipal bond offerings in 2024, including two in September intended to beef up services for veterans, according to a press release published by the treasurer's office.

**Bloomberg Markets**

By Maxwell Adler

August 16, 2024

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## Rockefeller Joins Muni ETF Boom With Three High-Yield Funds.

- **Muni funds investing in lower-rated bonds have been in demand**
- **ETFs will be managed by trio who were previously at Invesco**

Rockefeller Asset Management is the latest money manager to capitalize on the muni ETF boom.

The New York-based division of Rockefeller Capital Management is launching its first actively managed fixed income exchange-traded funds. The products, which will be managed by a trio of portfolio managers who joined earlier this year from Invesco Ltd., will focus on lower-rated bonds.

There are now more than 100 muni ETFs with a combined $131 billion as asset managers vie to capture money that's been flowing into the low-cost and easy-to-trade products. Goldman Sachs Asset Management and PGIM have both launched new funds this year.

Continue reading.

**Bloomberg Markets**

By Amanda Albright

August 14, 2024

## Vanguard is Joining the Active Muni ETF Fray.

**The Jack Bogle-founded fund giant is bolstering its fixed-income shelf with actively managed municipal bond strategies.**

Vanguard is joining the growing circle of asset managers venturing into an appealing corner of the fixed-income ETF space.

On Friday, the mutual fund behemoth announced plans to expand its lineup of actively managed fixed income products by introducing two new municipal bond ETFs later this year.

The firm said it intends to launch the Vanguard Core Tax-Exempt Bond ETF and the Vanguard Short Duration Tax-Exempt Bond ETF, which will be both managed by its fixed income group.

Continue reading.

**investmentnews.com**

by Leo Almazora

August 16, 2024

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## NASBO: Most States End Fiscal 2024 Near Revenue Forecast

Despite minimal growth in tax collections in fiscal 2024, most states ended the year near their revenue forecast based on newly released end-of-year revenue totals. Comparing actual collections to forecasts is a better indicator of state revenue performance than year-over-year growth figures which, in many states, have been considerably impacted by recently enacted tax cuts. Early indications are that the majority of states closed fiscal 2024 with revenues above original forecasts, with many also seeing revenues come in above revised forecasts. Most states that saw revenues come in lower than revised forecasts were below projections by less than one percent. Some states with revenues below forecast in fiscal 2024 noted spending was below forecast as well, resulting in an end-of-year budget surplus. While most states are reporting a fourth consecutive year of surpluses, their size in nearly all cases is smaller than the substantial surpluses experienced in fiscal 2021 and fiscal 2022. Similar to fiscal 2023, states are directing these smaller surpluses to a variety of purposes including further strengthening rainy day funds and other reserve funds, fulfilling previously identified spending priorities, and avoiding debt. For some states, this stronger-tha--expected growth will trigger phased-in tax cuts or may be directed toward tax reduction proposals.

Based on NASBO's Fall 2023 Fiscal Survey of States, enacted budgets for fiscal 2024 forecasted a 1.8 percent decline in general fund revenue compared to preliminary fiscal 2023 levels. This decline was from a high baseline after three consecutive years in which the vast majority of states recorded revenue surpluses and most states enacted tax reductions. Updated data from NASBO's Spring 2024 Fiscal Survey of States reported fiscal 2024 general fund revenues were on track to increase 0.6 percent compared to actual fiscal 2023 collections; on a median basis, general fund revenues were estimated to decline 1.1 percent in fiscal 2024.

Newly released end-of-year revenue data reveal most states ended fiscal 2024 above their revenue

forecasts, while year-over-year growth was more mixed, with some states seeing slow growth in tax collections compared to fiscal 2023, and other states recording modest declines. The reasons for the slow growth or modest declines in tax collections varied but included the impact of previously enacted tax cuts, slower growth in consumption, lower inflation, and higher tax refunds. On a positive note, several states highlighted in their revenue reports increased investment income resulting from higher interest rates.

Continue reading.

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## What Cyberattacks Do To Municipal Issuers' Borrowing Costs: Brookings

State and local governments are frequent targets of cyberattacks. In "City Hall Has Been Hacked! The Financial Costs of Lax Cybersecurity," a paper presented at the 2024 Municipal Finance Conference at Brookings, four economists find that municipal borrowing costs rise after a publicly reported cyberattack.

Filippo Curti (Federal Reserve Bank of Richmond), Ivan Ivanov (Federal Reserve Bank of Chicago), Marco Macchiavelli (University of Massachusetts, Amherst), and Tom Zimmermann (University of Cologne) use data breach and ransomware data on over 1,000 cyberattacks against public entities between 2004 and 2018 from Advisen, a data provider for insurers. They matched government victims of cyberattacks with data from the Census of Governments and from the Mergent Municipal Securities Database and the Municipal Rulemaking Standards Board.

After a data breach, they find, the bond prices of the target issuer in the secondary market decline between 15 to 22 basis points and primary market yields rise by 10 to 13 basis points, which is 5% higher than average bond yields in their sample. Governments hit by data breaches are much more likely to negotiate prices of new bond offerings, but they find no evidence that data breaches affect the size of bond offerings.

Curti and co-authors show that cyberattacks lead to roughly $1.77 billion in mark-to-market losses to municipal bond investors on the $870 billion in outstanding bonds of issuers hit by data breaches between 2010 and 2019. This estimate, they say, is likely a lower bound, because many bonds of issuers affected by cyberattacks may be illiquid and not trade in the 60-day window studied.

The authors also examine the effect of state data breach notification laws, which require targets of cyberattacks to notify residents, and data security laws, which mandate measures to strengthen cybersecurity. The authors find that both types of laws temporarily increase government expenditures to comply with new rules, but do not change the likelihood of future data breaches.

Since the laws are proven to not be enough to prevent future cyberattacks, Ivanov proposed at the conference that alternatives should be considered. One option is to give "a safe harbor against data breach lawsuits if the government entity complies with industry-recognized cybersecurity programs." Such an approach would incentivize upfront investment in cybersecurity, safeguarding personal and important information of the public, and potentially reduce the long-term financial losses from cyberattacks.

**The Brookings Institution**

by Tristan Loa and David Wessel

August 7, 2024

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## S&P U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios - 2023

**Rating And Outlook Overview**

**The number of rated children's hospitals remains stable.** Year over year, the number of children's hospitals rated by S&P Global Ratings has remained steady at 22 providers. Rating activity remains limited, as mergers and acquisitions are rare, business positions remain healthy, and financial performance has historically been stable. Most of our rated children's hospitals are considered stand-alone hospitals per our criteria, with the exception of Houston-based Texas Children's Hospital and Children's Hospital Colorado, which own multiple hospitals and are considered systems.

**Ratings distribution is skewed toward the 'AA' category.** Children's hospital ratings remain skewed toward higher rating categories relative to the broader group of not-for-profit acute care providers, with 91% rated in the 'AA' or 'A' categories reflecting the cohort's generally strong credit quality. The higher ratings are supported by the hospitals' institutional strengths and positions in their respective markets, as often they are the only provider of tertiary and quaternary pediatric services. The hospitals' generally healthy financial profiles, albeit with support from supplemental funds, and sound balance sheets also support our higher ratings and help offset higher Medicaid exposure.

**Downgrades are concentrated in lower-rated organizations.** We lowered the ratings on two children's hospitals, both in the 'BBB' category, with one falling to speculative-grade. The organizations had experienced multiple years of operating losses, diminishing unrestricted reserves, and weaker debt-related metrics.

**Outlooks remain predominantly stable.** The outlooks for the vast majority of ratings in this group are stable, speaking to the generally higher ratings and overall credit strength of the segment. However, one issuer has a positive outlook and two have negative outlooks. Of the negative outlooks, one reflects the intense rating pressure on our only speculative-grade rated issuer; the other entity has a higher rating, but has a negative outlook that reflects weakening performance in an expanding system. Overall, children's hospitals have been able to absorb industrywide expense pressures better than the sector at large; however, the spreads between children's hospital and stand-alone medians did narrow in 2023.

Continue reading.

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## S&P U.S. Not-For-Profit Acute Health Care Speculative-Grade Median Financial Ratios - 2023

**Rating And Outlook Overview**

**The number of rated entities remains stable, although downgrades have caused changes in distribution.** The total number of speculative-grade ratings has remained stable year-over-year, but some shifts in distribution have occurred primarily due to downgrades, either within the category or from the investment-grade categories. For example, the number of 'BB' and 'BB-' ratings has increased at the expense of low investment-grade and 'BB+' ratings. S&P Global Ratings believes negative shifts within the speculative-grade category could continue, given the very thin liquidity and continued operating losses for many speculative-grade rated issuers. Shifts at the lower end of the rating scale may be amplified by the very limited sample size and make trend analysis less meaningful. Although we took positive rating actions on a few speculative-grade providers, they were primarily the result of mergers with higher-rated organizations.

**Covenant violations continue but there were no payment defaults during the last year.** Due to their weaker debt service coverage and thin liquidity, speculative-grade issuers remain at a higher risk of breaching their financial covenants than investment-grade entities. Debt service coverage, in particular, is the most common covenant violation, followed by days' cash on hand and debt to capitalization. Although these violations often constitute a technical event of default, none of them have resulted in acceleration of the debt, as management teams have been proactive in successfully negotiating waivers or forbearance agreements with bondholders. In many cases, these agreements were remedied before maturity. Similarly, there have been no payment defaults during the last year.

**Favorable outlook changes reflect some mitigation efforts to offset operating pressures.** Relative to 2023, when almost half of speculative-grade providers had a negative outlook due to persistent operating difficulties, most recent data indicates just a third of organizations carry a negative outlook as of June 2024. Although negative outlooks are still high for this subset, the favorable shift is encouraging. We believe this improvement reflects some alleviation in sector pressures of the past few years, particularly in relation to labor and lower agency staff usage. Stable outlooks now represent close to two-thirds of rated providers, and therefore, we do not expect any significant increase in upgrades.

Continue reading.

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## S&P U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios - 2023

**Rating And Outlook Overview**

**Small hospitals, defined as having $150 million or less of total operating revenue, are a subset of stand-alone hospitals.** The limited number of small hospitals creates some difficulty in drawing conclusions from median trends, particularly as this cohort of providers has generally higher volatility than other larger and more diversified health care providers. There were 19 providers included in S&P Global Ratings' small hospital median calculations, down from 26 two years ago. The decrease is due to some providers increasing total operating revenue beyond $150 million, as well as some acquisition activity.

**The ratings distribution for small hospitals continues to skew toward speculative-grade.** Ongoing high labor costs and inflationary pressures continued to affect small hospitals and have

contributed to downgrades, especially when combined with reductions in liquidity and financial flexibility. A greater percentage of small hospitals are rated in lower rating categories compared with stand-alone hospitals, with no small hospitals garnering a rating above the 'A' category. This is consistent with historical rating distribution trends, given the inherent risks associated with small hospitals, including less operating diversity and flexibility, small medical staff sizes, and limited service area and economic growth characteristics, all lending to increased volatility.

**More small hospitals carry a negative outlook.** Industry performance pressure and generally weakened financial results have led to more small hospitals carrying negative outlooks this year (37%) than in the previous year (23%). Small hospitals have historically held an elevated proportion of nonstable outlooks compared with stand-alone hospitals due to the aforementioned inherent risks, which can lead to more rapid financial deterioration than larger providers and typically longer recovery periods.

**The small hospitals we rate are diverse.** Although the number of providers is limited, there are a variety of hospital types in this cohort, including specialty hospitals, tax-supported hospital districts, and critical access hospitals. The cohort is also geographically broad, representing 14 states, with many located in rural locations. This diversity within such a small sample size also might contribute to some median volatility year-to-year.

Continue reading.

7 Aug, 2024 | 13:16

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## S&P U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios - 2023

**Rating And Outlook Overview**

**We rate fewer rated stand-alone hospitals due to mergers and migration to systems.** The number of stand-alone hospitals rated by S&P Global Ratings dropped to 228 from 243 year over year, 94% of which are reflected in the 2023 medians. This continues the diminishing trend of rated stand-alone hospitals (15 in the past year) mostly due to mergers and acquisitions as well as a few stand-alone hospitals migrating to systems, which overall increased by 11 this year.

**There are fewer hospitals rated in the 'AA' category and more in the 'A' and 'BBB' categories.** The overall rating distribution of stand-alone hospitals remains relatively stable with some minor variations. In addition to a couple of stand-alone hospitals in the 'AA' category migrating to systems, there was also some movement down the rating scale as a couple of stand-alone providers have migrated out of the 'AA' category, and the percent of 'A' ratings has risen. The 'BBB' and speculative-grade categories are relatively stable.

**Stand-alone hospitals remain concentrated in the 'A' and 'BBB' categories.** About 70% of stand-alone hospital ratings are concentrated in the 'A' and 'BBB' rating categories, with an even split between 'AA' and speculative-grade for the remaining ratings. The distribution trends lower compared with system ratings, given stand-alone hospitals are more prone to disruption with narrower primary service areas and more limited revenue bases and therefore, generally need to have stronger ratios relative to systems to achieve the same rating. Although the bar is higher, this also provides stand-alone hospitals with greater financial flexibility to absorb some financial

stresses.

**Slightly favorable shift in outlook distribution between 2023 and mid-2024.** Given the larger sample size of stand-alone hospitals than for systems, small changes to the outlook distribution will be less pronounced in the percentages than they are for systems. The percent of stable outlooks increased from June 2023 to June of this year, although the percentages remain below historical levels. The percentage of negative outlooks remains slightly higher, accounting for almost one-quarter of rated providers, although slightly improved this year. Despite almost one-third of our outlooks being positive or negative, most ratings on stand-alone hospitals have a stable outlook.

Continue reading.

7 Aug, 2024 | 13:14

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## S&P U.S. Not-For-Profit Health Care System Median Financial Ratios - 2023

**Rating And Outlook Overview**

**The number of rated health care systems slightly increased.** The number of systems rated by S&P Global Ratings rose to 173, of which 161 (or 93%) are included in the 2023 medians. This increase, despite ongoing system consolidation, is mostly due to new issuers seeking ratings, as well as stand-alone hospitals transitioning to systems per our criteria, given revenue growth and added acute care facilities.

**System rating distribution has shifted from the 'AA' category, despite the inherent strength of systems.** Higher-rated systems are characterized by robust enterprise profiles, greater scale and diversity than stand-alone hospitals, and seasoned management teams. However, they also remain subject to persistent broad sector headwinds that continue to affect operating performance. The number of systems rated in the 'AA' category fell to 39% of total rated systems, from 44% in 2022, with concurrent increases in the 'A' and 'BBB' categories. Speculative-grade rated systems remain rare, encompassing only four organizations, and are therefore excluded from tables 2, 3A, 3B, and 3C.

**Rating distribution for systems generally skews toward higher rating categories than those for stand-alone hospitals.** About 87% of systems are rated in the 'AA' and 'A' categories, compared with just 56% of stand-alone hospitals despite several of their financial medians being more favorable than those of systems. The median system rating is 'A+' compared with the stand-alone median of 'A-'.

**Negative outlooks remain elevated.** The systems rating distribution in higher categories is accompanied by generally lower rating volatility, where nonstable outlooks account for 23% of the outlook distribution, generally consistent with 2022, but more favorable than outlook distribution for stand-alone hospitals at 27%. That said, the percentage of negative outlooks for systems in 2023 and year-to-date through June 2024, although unchanged, is about double 2022 levels, highlighting operational headwinds the sector faced. Positive outlooks have remained largely consistent in the past three years at less than 5%.

Continue reading.

7 Aug, 2024 | 13:12

## S&P U.S. Not-For-Profit Acute Health Care 2023 Medians: Remarkably Level With Prior Year, But Performance Remains Notably Below Historical Norms

**Key Takeaways**

- Operating performance remained weak, but virtually unchanged from fiscal 2022 medians. Margins and coverage ratios were consistent across fiscal 2023, with little movement up or down although with some underlying progress as indicated by adjusted operating margin improvement. That said, profitability measures remain well below the decade's historical baseline.
- Balance-sheet metrics were mostly stable, with continued pressure on days' cash on hand. Median absolute unrestricted reserves rose modestly, concurrent with a decline in median long-term debt and leverage. However, expense growth continued to pressure operating liquidity, with days' cash on hand now below 200 for the first time in a decade.
- The growth rate of total operating expenses moderated. Following a dramatic 17% rise in fiscal 2022, median total operating expenses in fiscal 2023 reflected a manageable 5% uptick, well below the rate of increase for revenues with staffing adjustments and stabilizing labor costs.
- Leverage remained sound ahead of heavy borrowing observed in 2024. Debt measures were stable or improved in fiscal 2023, with sustained strong funding levels for defined-benefit pension plans. We anticipate some worsening in this area over the coming year as providers increase borrowing activity.

Continue reading.

7 Aug, 2024 | 13:08

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## Brookings: Why Does Building and Maintaining Highways In the US Cost So Much?

Building infrastructure in the U.S. costs substantially more than in other countries. For example, on a per-mile basis, the U.S. spends three times as much as other upper- and middle-income countries on certain transportation infrastructure. In a paper presented at the 2024 Municipal Finance Conference at Brookings by Will Nober of Columbia University, Cailin Slattery of the University of California, Berkeley, and Zachary Liscow of Yale University surveyed infrastructure procurement practices and collected project-level data across the 50 states to help explain why U.S. costs are so high.

The authors identify two major factors. The first is the limited capacity of state departments of transportation (DOT). Survey respondents widely agreed that DOTs have become understaffed over time and that reliance on consultants drives up costs. A one standard deviation in increase in state capacity (measured by state DOT employment per capita) is correlated with 16% lower costs. One standard deviation in increased consultant use is associated with 20% ($70,000) higher costs per lane-mile of roadways on average.

The second factor is the limited competition in the market for government construction contracts. Most state DOTs report doing little bidder outreach, and there are fewer construction firms in most states than there were 10 years ago. A one standard deviation (12 percentage points) increase in outreach to bidders to increase the pool is correlated with 17.6% lower costs. This translates to a decrease of $65,000 per lane-mile and $1 million at the project level. Moreover, an additional bidder

on a project was associated with 8.3% lower costs, approximately $460,000 for the average project. The authors also found that state DOTs that provide more details at the time of the bid-letting have lower costs, while states with more change orders, which are often the result of poor planning, have higher costs.

To learn more about the role of state capacity in driving infrastructure costs, Liscow, Nober, and Slattery collect data on individual DOT engineers in California. They find that a substantial amount of the variation in the cost of a resurfacing project can be explained by which engineer is assigned to it. Specifically, replacing a construction engineer at the 95th percentile of the cost distribution with a median engineer would reduce costs by 5.3% on average: $24,000 per mile; $220,000 per average project.

**The Brookings Institution**

by Comfort Oshagbemi and David Wessel

August 5, 2024

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## The 5 Coastal States That Face the Most Devastating Flood Risk.

**Florida, Louisiana and New Jersey lead the list of states with critical infrastructure in the path of rising seas, a new study says.**

Flooding can disrupt communities not only by damaging homes and businesses, but also by knocking out facilities that provide essential services. When school buildings flood, students miss out on not only learning days but also access to subsidized meals. When hospitals get inundated, lifesaving treatments can get put on hold.

Storms like Hurricane Debby, which is set to saturate parts of Florida, Georgia and South Carolina with up to 30 inches of rainfall over this week, are becoming more frequent and severe in a warming world. But as sea levels rise, it doesn't necessarily take a major storm to bring high water: Since 2000, chronic tidal flooding — also known as sunny day flooding — surged 400% and 1,100% in the US Southeast Atlantic and Gulf Coast regions, respectively.

According to a recent report from the Union of Concerned Scientists, there are about 900 "critical infrastructure" sites along the US coastlines at risk of high-tide flooding at least twice a year. That figure can jump up to 1,600 by midcentury, affecting some 3 million people, largely in disadvantaged communities.

Continue CityLab.

**Bloomberg Markets**

By Linda Poon

August 5, 2024

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## Cyberattacks Still Ravage Schools, Defying White House Efforts Launched Last Year.

**Thousands of school districts have tapped into resources committed by the private sector to shore up their cyberdefenses.**

A year ago this week, First Lady Jill Biden entered the White House East Room, greeted by an audience of some 200 education technology stakeholders, to headline the launch of a Biden administration initiative to bolster school cybersecurity, following myriad incidents where hackers set their sights on school districts around the country. The digital intrusions have crippled schools' tech infrastructure and led to compromises of sensitive student data, forcing administrators to direct funds away from vital services toward costly and prolonged IT overhauls.

For the initiative, the White House brought in private sector executives who, behind closed doors, worked out discussions with the Biden administration's top cyber officials over the course of just a few weeks, agreeing to offer up free and subsidized cybersecurity resources for schools in need of added digital shielding.

Recent years have proven that cyber threats to schools could no longer be ignored. Schools are a key sub-sector housed under the umbrella of government facilities, one of 16 critical infrastructure sectors designated by U.S. cyber experts. In the 2022 to 2023 school year alone, officials made note of multiple cyberattacks that targeted American school districts, according to a senior administration official who spoke to reporters last year in the hours leading up to the White House event.

Continue reading.

**Route Fifty**

By David DiMolfetta,
Cybersecurity Reporter, Nextgov/FCW

August 7, 2024

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## US Colleges' Debt Strains Mount in One of Worst Years Since 2009.

- **15 schools have disclosed technical, payment defaults in 2024**
- **College impairment tally approaches 2023 total of 17: MMA**

The challenging economics of higher education in the US are squeezing the finances of colleges and universities, driving more of them to struggle to pay their debt.

Fifteen institutions have disclosed new technical or payment defaults this year, according to data from Municipal Market Analytics. That's already just shy of last year's total of 17, the largest number of impairments — as such events are called — since at least 2009, coming in at more than twice the previous record.

The strains highlight the widening gap between the sector's haves and have-nots, as stronger universities with large endowments and brand recognition thrive while more regional institutions contend with rising costs and a steep competition for students. Weaker schools recovering from the

stress of the pandemic are also facing other pressures, such as student-aid-processing delays.

Continue reading.

**Bloomberg Markets**

By Nic Querolo

August 12, 2024

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## When Climate Funds Pay for Highway Expansion.

**Several US states are tapping a federal carbon reduction program to fund highway projects, arguing that adding vehicle lanes can bring emissions down.**

Every month, Dennis Grzenzski drives the stretch of Interstate 43 that runs north of Milwaukee to a board meeting for the Blue Heron Wildlife Sanctuary. Along the route, the urban landscape gives way to undeveloped farmland. Traffic is usually pretty light. But the view on his drive changed in February 2022, when construction crews began work to expand the roadway from four to six lanes.

“By no stretch of the imagination was that a place that really needed more lanes because of congestion,” said Grzenzski, an environmental attorney who has fought the state on highway expansions — though not this specific project — for close to 30 years.

The Wisconsin interstate expansion represents one example of concerns raised by transportation and environmental advocacy groups around how states are spending funds from a federal program designed to lower carbon emissions. In 2023, the Wisconsin Department of Transportation used $4.1 million of its annual $24 million allotment from the Infrastructure Investment and Jobs Act’s Carbon Reduction Program (CRP) to fund work in the I-43 project, including energy-efficient lighting and signal technology.

Continue reading.

**Bloomberg Citylab**

By Benton Graham
August 7, 2024

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## Stuck Bridges, Buckling Roads - Extreme Heat is Wreaking Havoc on America’s Aging Infrastructure.

**COMMENTARY | The rate at which a bridge or road deteriorates depends not only on the materials and construction methods used but also on the climate during the structure’s life span.**

Summer 2024’s record heat is creating problems for transportation infrastructure, from roads to rails.

New York's Third Avenue Bridge, which swings open for ship traffic on the Harlem River, was stuck for hours after its metal expanded in the heat and it couldn't close. Roads have buckled on hot days in several states, including Washington and Wisconsin. Amtrak warned passengers to prepare for heat-related problems hours before a daylong outage between New York and New Jersey; the risks to power lines and rails during high temperatures are a growing source of delays for the train system.

It doesn't help that the worsening heat is hitting a U.S. infrastructure system that's already in trouble.

The American Society of Civil Engineers gave U.S. infrastructure an overall grade of C- in its latest national Infrastructure Report Card, released in 2021. While there has been some improvement – about 7.5% of U.S. bridges were in poor condition, compared with over 12% a decade earlier – many bridges are aging, making them difficult to maintain. Forty percent of the road system was considered in poor or mediocre condition, and maintenance costs have substantially increased.

Continue reading.

**Route Fifty**

By Suyun Paul Ham,
Associate Professor of Civil Engineering, University of Texas at Arlington,
The Conversation

August 6, 2024

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## $2.2B in Resiliency Grants Awarded to Upgrade the US Electric Grid by DOE - Duane Morris

On August 6, 2024, the U.S. Department of Energy (DOE) announced the first 8 selections for the 2nd round of the Grid Resilience and Innovation Partnership ("GRIP") funding specifically for the "Grid Innovation Program", one of three GRIP funding mechanisms. T

Per the DOE, through the second round of GRIP funding, the Grid Innovation Program will support 8 projects across 18 states, totaling approximately $2.2 billion in federal investment. Selections for the remaining 2 funding mechanisms should be announced later this year.

**California Energy Commission**

The California Harnessing Advanced Reliable Grid Enhancing Technologies for Transmission (CHARGE 2T) project is a public-private partnership that is intended to drive large-scale expansion to transmission capacity and improvements to interconnection process to increase and accelerate equitable access to renewable energy across California. CHARGE 2T is supposed to reconductor more than 100 miles of transmission lines with advanced conductor technologies and deploy dynamic line ratings (DLR) to quickly and significantly increase the state's system capacity to integrate more renewable energy onto the grid. CHARGE 2T also supports transmission interconnection reform through process improvements, an interconnection portal, workforce investment, and educational resource development.

Continue reading.

**Duane Morris LLP – Brad A. Molotsky**

August 6 2024

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## Expanding User Fees for Transportation: Roads and Beyond.

**Key Findings**

- Thanks to elevated deficits and interest rates, fiscal restraint is back in Washington.
- While substantially reversing America's fiscal situation requires structural reforms to entitlements and taxes broadly, reforming transportation funding would also help.
- The user-pays principle is a sound way to fund major infrastructure projects.
- Unfortunately, the US has moved away from the user-pays model, primarily due to the gas tax declining in real terms, but also due to excise taxes becoming weaker approximations of true user fees.
- By 2034, the gas tax and other car-related excise taxes are projected to raise less than half of the Highway Trust Fund's outlays.
- The ideal solution would be to replace existing excise taxes with true user fees, but raising existing excise taxes would be a better solution than continuing a growing reliance on general revenue.
- Fully paying for federal highway spending with user fees could reduce the federal deficit by over $200 billion over the course of the next decade.

Continue reading.

**Tax Foundation**

By: Alex Muresianu, Adam Hoffer, Jacob Macumber-Rosin, Alex Durante

August 7, 2024

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## WSJ: What Economic Dangers Is the Bond Market Pricing In?

**Corporate debt was hit by the recent panic, but true concerns are mostly limited to a few corners of the market**

Even more so than stocks, bonds are often seen as an economic bellwether. If so, they are heading in a pretty positive direction.

The difference, or spread, between Treasury yields and the rate at which companies borrow has widened. Option-adjusted spreads on the investment-grade paper issued by blue-chip corporations closed at 1.11 percentage points Tuesday—an aftershock of the big stock-market selloff the day before. Spreads on debt issued by risky "high yield" issuers hit 3.81 percentage points. Both were the highest since last November. U.S. municipal bonds have been affected as well.

However, trading has normalized since. The spread on high-yield bonds closed at 3.4 percentage points Thursday. This still implies a rise in the default probability to 5.7% from 5.1% at the end of May, despite the fact that, as of the latest June data published last week by Fitch, actual U.S. leveraged-loan and junk-bond default rates had inched down to 4.06%. But it is a small increase, and

it may soon fully come back down.

Continue reading.

**The Wall Street Journal**

By Jon Sindreu

Updated Aug. 9, 2024 5:29 pm ET

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## Competitive Underwriters Face Mounting Pressure, Competition.

Underwriters are experiencing greater pressure in the competitive market as several firms bid on deals more frequently, and deals, on average, see more bids and narrower spreads.

“Competitive underwriting remains a tough business that’s getting tougher,” said Justin Marlowe, professor at the University of Chicago Harris School of Public Policy and director of the school’s Center for Municipal Finance. “You see some firms that have been around for a while who seem to have stepped up their participation in competitive sales, and then a few others either who weren’t involved or being actively bid but are now getting more involved in the business.”

Competitive issuance during the first half 2024 was $41.467 billion, up 18.7% from the same period of 2023, according to LSEG.

The top 10 competitive underwriters for the first half of the year saw some minor shuffling, with new entrants Truist and Raymond James bumping Citi and RBC Capital Markets. However, those just shy of the top 10 are getting more involved in bidding, according to LSEG Lipper.

Some major players in the negotiated space are absent from the top 10 competitive underwriters list, potentially due to this market being a higher-risk proposition, particularly when there’s volatility, market participants said.

Some firms, though, top the rankings year after year in both the negotiated and competitive markets.

BofA is one of the largest firms, in terms of capital and healthy balance sheets, said Matthew McQueen, head of municipal banking and markets at BofA.

The firm remained the top competitive underwriter during the first half of the year. It underwrote $8.587 billion in 46 deals versus $6.524 billion in 62 in 1H 2023.

Similarly, J.P. Morgan is still a top contender in competitive underwriting, moving up to second in the rankings in 1H 2024 from third in 1H 2023. The firm underwrote $6.897 billion in 70 issues, up from $3.183 billion in 43 issues, according to LSEG.

Both firms pride themselves on being a market leader and serving their large client bases.

“We have the commitment and the capital on balance sheet to continue to support our issuer clients and to distribute that to our investor clients,” McQueen said.

“We aim to be a top trading partner with all of our investor clients,” added Sean Saroya, managing

director and head of public finance trading at J.P. Morgan. “Being consistently active across the breadth of the competitive space is an important way to achieve that goal.”

Given its stature, BofA is particularly drawn to large deals, while J.P. Morgan tries to bid on every transaction of sufficient size.

Meanwhile, others, like Baird, retain their status by bidding as a large syndicate, having several other firms with it on every deal, said Peter Anderson, a municipal bond underwriter and trader at Baird.

This works out for the firm as Baird remained in fifth during the first half of 2024, underwriting $2.9 billion in 226 deals versus $2.869 billion in 249 deals in the first half of 2023, according to LSEG.

“We take a group mentality toward everything and work as one in getting these deals,” he said.

The amount of bidders on any competitive deal can vary.

Some deals, such as larger transactions with more risk, may attract a smaller group of bidders, while others will see a wider range, Saroya said.

In any market, especially ones with low “entry barriers,” there will be ebbs and flows of market participants: sometimes heavier, sometimes lighter, Anderson added.

Currently, it’s one of the “heavier” periods as firms attempt to chase the same deals, he said.

Data shows the average bids per competitive sale is up noticeably over the past few quarters, Marlowe said, rising to 8.5 bids in Q1 2024 from 6.1 bids in Q1 2022.

“With the interest rate environment we’re in, with these rates here, with retail participation, that naturally brings in more dealers looking for product,” said Doug Vissicchio, managing director and head of municipal trading at UBS.

A big part of the reason for the increased bid frequency is new and returning entrants to the competitive market, propelled, in part, by Citi’s exit.

“It’s a $4 trillion market, and there is a need out there, so the market will absorb it,” McQueen said.

Many market participants worried about the impact of Citi’s departure on the muni market, including concerns over liquidity, but the bank’s exit created opportunities for firms like Truist to step in and gain a foothold, said Todd Bleakney, managing director and head of munis at Truist.

Truist was one of the new entrants into the top 10 competitive underwriters, ranking seventh. The firm underwrote $1.436 billion in 23 deals in 1H 2024 after not underwriting any deals in 1H 2023, according to LSEG.

The bank took its time building its muni team over the past several years. It started beefing up its muni presence with the hiring of Scott Frail, head of public finance origination and syndicate at Truist, in 2021, followed by Bleakney a year afterward.

Since then, the bank has added around 20 employees, including at least four from Citi in March.

Competitive underwriting is another “extension” of what Truist is doing and building, Bleakney said.

“We see this as an opportunity to take more [of a market] share, but we’re trying to be methodical

and thoughtful and profitable as well," he said.

Along with the new entrants, some longstanding firms stepped up their presence in the competitive market.

UBS, for instance, rose in the rankings to 12th in the first half of 2024, underwriting $834.5 million in 33 deals, up from 24th and underwrote $197.2 million in 10 deals in the same period of 2023.

When UBS exited the negotiated muni underwriting business, it "doubled down" on competitive underwriting, Vissicchio said.

"All of our customers depend on us for liquidity both on the bid side and on the offered side, and one of the best ways we can satisfy customer demand is staying in the [competitive] market," he said. "We now have the luxury of being able to tailor our bids to what we think is best for our clients."

This becomes more challenging as the average bid spread narrows. Bid spreads have steadily declined since the end of 2021, Marlowe said, noting that the average spreads across the past five quarters are the lowest in the past decade.

Multiple times throughout the week, UBS sees the top three or four cover bids all within a basis point of each other, said Vincent Pietanza, head of municipal competitive underwriting.

"A lot of times you need to bid through the market, not necessarily on the whole scale, but in spots," Anderson said.

Many firms will get similar big presale orders from funds and "then it's a race to who's going to be the most aggressive and try to buy the deal," leading to some frustration, he noted.

"It just goes to show you how tight the market bidding is right now and how hard it is to source products with a competitive space," Pietanza said.

But even as firms compete against each other in an increasingly competitive marketplace, market participants say competitive underwriting is an important part of their business.

"Buying competitive deals allows us to expand our capabilities in ETFs and on the creation side," Saroya said. "With increased inventory, we can more effectively engage in e-trading, portfolio trading, and swaps with clients. Sourcing risk for SMAs, funds and other investor clients is essential, making this integral to our business."

By Jessica Lerner

BY SOURCEMEDIA | MUNICIPAL | 08/05/24 10:50 AM EDT

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## Growing Supply of Active Municipal Bond ETFs.

Actively managed ETFs continued to gain traction in July with $24 billion of net inflows. This represented 19% of the industry's net inflows, which remains impressive given the 7% share of the assets. However, last month's most popular ETF will surprise you.

Six of the ten most popular active ETFs in July were fixed income products. Taxable bond funds like the Fidelity Total Bond ETF (FBND) and the Janus Henderson AAA CLO ETF (JAAA) continued to

gain traction. Yet, the Capital Group Municipal Income ETF (CGMU) gathered even more, adding $1.3 billion of new money more than doubling in size.

**Capital Group's ETF More Popular than iShares and Vanguard in July**

The fund has $2.2 billion in assets, making CGMU the second largest actively managed municipal bond ETF. The JPMorgan Ultra-Short Municipal Income ETF (JMST) has $2.8 billion in assets. JMST is a multi-state fund with an average duration of less than one year.

Continue reading.

**advisorperspectives.com**

by Todd Rosenbluth of VettaFi, 8/12/24

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## With Muni Bonds, Active Management Holds Appeal.

Rate cut expectations and a bout of equity market turbulence have led muni bonds and related ETFs to perk up.

That's good news for conservative income investors. But the asset class could be best approached with the benefit of active management. ETFs such as the Eaton Vance Intermediate Municipal Income ETF (EVIM) deliver on that front. The fund could be one of the municipal bond ETFs to consider over the remainder of this year and into 2025.

The reasoning for that assertion is simple. The current interest rate climate and related expectations for rate cuts could be indicators that active management has a window of opportunity to outshine passive muni strategies. Additionally, active managers can more swiftly seize upon credit and value opportunities than index-based muni bond rivals.

Continue reading.

**etftrends.com**

by Todd Shriber

August 12, 2024

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## Munis See Biggest Rout in Nearly a Year as Economic Views Swing.

- **Benchmark AAA yields jumped as much as 13 basis points**
- **State and local government debt sold off across the curve**

Municipal bonds slid on Wednesday after investors across fixed income markets dialed back a flight to quality bid.
The biggest rout came in the middle of the curve with yields on 15-year benchmark bonds surging 13 basis points, the most in almost a year, according to data compiled by Bloomberg.

The longest-dated securities saw yields jump 10 basis points, erasing gains during the flight-to-safety rally earlier this month.

The moves mark a week of unusually high volatility in the state and local government bond market as investors reassess the rally in safer assets fueled by concerns of a recession. The swings come in what was slated to be one of the busiest weeks of issuance for munis, and drove Chicago to delay its $643 million bond sale that was expected to price on Wednesday.

Continue reading.

**Bloomberg Markets**

By Nic Querolo

August 7, 2024

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## Former BlackRock Manager Gets 20% Return at Muni Bond Hedge Fund.

- **Pruskowski's strategy beats debt markets, many hedge peers**
- **Only about 25 US hedge funds focus on $4 trillion muni market**

James Pruskowski learned the intricacies of the municipal bond market in his 30 years at BlackRock Inc., before exiting the world's largest asset manager in 2023. He brought that expertise to another arcane part of Wall Street, the hedge fund industry, and produced market-beating results.

His muni hedge fund at 16Rock Asset Management has generated a more than 20% return in the past 12 months, according to Pruskowski, crushing the market's benchmark by 16 percentage points and a broad hedge fund index by about 11 percentage points.

The $7 million 16Rock Municipal Opportunities Fund, which charges a 1% management fee and a 20% levy on profits generated beyond a certain threshold, plans to close on $100 million in investments by the end of the year, the 52-year-old money manager said.

Continue reading.

**Bloomberg Markets**

By Martin Z Braun

August 8, 2024

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## Municipal Bonds: Where to Find Opportunities in a Volatile Market

**Despite unusual market volatility, munis can provide a boon for shrewd bargain-hunters.**

Municipal-bond investors have endured a roller-coaster ride with the usually steady muni market experiencing significant gains and losses since early 2022. Yet, while such volatility has given some investors heartburn, it also has provided a boon for shrewd bargain-hunters.

Federal Reserve interest-rate hikes hit munis hard in 2022, and much of the sector recorded double-digit losses and historic outflows from mutual funds even as the credit quality of muni issuers remained strong. Results improved in 2023 but were uneven. After a promising start to the year, muni returns remained negative through the end of October 2023. An impressive rally in November and December thrust the market into positive territory for the year and started to woo back weary investors. In fact, gains in 2023's last two months resulted in some of the best relative returns across the fixed-income landscape. On average, strategies in the muni-national long and high-yield muni Morningstar Categories earned 7.0% and 6.7%, respectively, over the 2023 calendar year. However, while strong, that still didn't make up for the double-digit losses endured in 2022.

Many hoped 2024 would bring luster back to the sector, but it got off to a slow start. The muni market was mostly flat through the end of May with returns muted by an increase in the supply of investment-grade muni bonds offered and uncertainty around the Fed's "higher for longer" message. While June hasn't always been kind to muni investors as redemptions often increase, the sector rallied this year. Strong credit fundamentals and some of the highest yields in decades finally brought consistent inflows back to muni strategies and boosted total returns, particularly in high-yield muni bond funds.

Continue reading.

**morningstar.com**

by Elizabeth Foos
Aug 6, 2024

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## 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 July) $280.8 billion, +33.0% Y/Y
- Trading (as of July) $12.9 billion ADV, +4.0% Y/Y
- Outstanding (as of 1Q24) $4.1 trillion, +1.0% Y/Y

View the SIFMA US Municipal Bonds Statistics.

August 2, 2024

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## Long Fiscal COVID: The Lingering Governmental Disease

**Federal aid helped states and localities cope with the biggest costs of the pandemic. But good things don't last forever, and this one didn't.**

Well, it sure seemed like a good idea at the time.

In 2020-2021, the federal government sent half a trillion dollars to state and local governments to help them survive COVID-19. Public health experts worried that the pandemic would be bigger than anything since the influenza outbreak of 1918, which struck one-fourth of the U.S. population and killed 675,000 people.

COVID-19, economists projected, would surely produce a big economic downturn. There was a sudden stall as things shut down early in 2020, but the economy began recovering almost immediately. State and local governments brought in more revenue than anyone expected. Many of them got hooked on the federal cash, and now that money is drying up, revenues have softened and lots of state and local governments are facing big deficits. The relief plan ended up blowing a hole in the federal budget, digging the country deeper into debt and luring many state governments into a fiscal hole.

Continue reading.

**governing.com**

by Donald F. Kettl

Aug. 1, 2024

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## The Costs and Benefits to Municipal Bond Issuers of Close Ties to Banks.

Banks are key players in the municipal bond market, holding approximately 20% of outstanding municipal bonds. In a paper presented at the Municipal Finance Conference in July 2024, Gustavo S. Cortes of the University of Florida, Igor Cunha of the University of Kentucky, and Sharjil Haque of the Federal Reserve Board find that banks are more likely to hold bonds with issuers with which they have an established relationship. This study uses novel (and confidential) data on larger banks' portfolios from the Federal Reserve, which collected the data for its stress testing exercise. This provides far more detail and specificity about holdings than data available to authors of previous studies.

Banks prefer larger, longer-maturity, and insured bonds as well as bonds with higher-credit ratings, but are less sensitive to these factors when picking bonds from an issuer with which the bank has other relationships.

These relationships benefit both banks and issuers, the authors conclude. Banks extract information from lending relationships to enhance investment decisions. They can more accurately price bonds at initial issue and find undervalued opportunities, resulting in better-performing bonds.

Continue reading.

**The Brookings Institution**

by Sarah Ahmad and David Wessel

July 30, 2024

## Fitch: U.S. States' Resilience Remains High Despite Two Years of Weak Tax Revenue

Fitch Ratings-New York-01 August 2024: U.S. states' financial resilience remains high despite a second consecutive year of weak overall tax collections in fiscal 2024, according to Fitch Ratings. Accumulated surpluses and record tax growth in 2021 and 2022 have allowed states to maintain rainy-day funds at historically high levels.

Overall, state tax revenue growth was roughly flat for the second consecutive year, driven by sluggish sales tax revenue growth, lingering effects of weak 2022 tax returns, and widespread income tax cuts, although actual experience varied by state.

For states reporting June data, median overall tax revenue growth for July 2023 to June 2024 (covering fiscal 2024 in 46 states) was 0.5%, with 16 states seeing yoy revenue declines, according to Fitch's review of 38 states' revenue collections. Monthly revenue reports vary in presentation by state. This data is timely and indicative but not necessarily definitive. Total state tax collections from July 2023 through May 2024 were below the highwater mark set in 2022 but were still well above pre-pandemic trends, based on Urban Institute data.

Continue reading.

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## Fitch: Rising Negative Outlooks Reflect Weaker U.S. 2H24 Credit Environment

Fitch Ratings-New York-31 July 2024: Fitch Ratings anticipates a modestly weaker U.S. credit environment in 2H24, according to the latest U.S. Credit Brief. Consumer spending growth has been holding up well and will likely be tempered as nominal wage and job growth slows. Housing demand is still solid but has recently softened with persistent high home prices, although affordability may improve with declining rates.

Fitch is forecasting two rate cuts in September and December. A soft landing is likely with moderating inflation and low unemployment, and we are projecting annual economic growth of 2.1%, down from 2.5% in 2023.

The vast majority of ratings across sectors in the U.S. have Stable Rating Outlooks. The percentage of ratings with Positive Outlooks exceeds those with Negative Outlooks, 7.2% vs. 5.1%, although the gap has narrowed with the increase in Negative Outlooks over the past four quarters, given cost and interest rate pressures on borrowers.

Delinquencies and defaults will continue to rise in 2H24 for rate sensitive borrowers, including CMBS, high-yield (HY)/ leveraged loan (LL), and subprime consumers. We are projecting higher CMBS delinquencies for all major CRE sectors in 2H24 due to increased maturity defaults from high rates. Structured finance downgrades are mostly tied to CMBS exposed to deteriorating office performance and lower valuations on specially serviced loans, primarily affecting ratings at 'BBBsf' and lower.

We expect HY default rates of 5.0%-5.5% in 2024 and have revised our 2024 U.S. LL default rates up to 5.0%-5.5% from 3.5%-4% as high interest rates are pressuring highly levered issuers' liquidity

positions and ability to service debt.

Our North American sector outlooks are split fairly evenly between neutral and deteriorating. We changed our sovereign regional outlook to neutral from deteriorating due to an improvement in our 2024 U.S. growth forecasts compared to our forecasts made at the start of the year and our expectations for modest improvement in the U.S. budget deficit in 2024.

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## S&P 2024 Biannual Rating Actions For U.S. Municipal Retail Electric, Gas, And Wholesale Electric Utilities.

S&P Global Ratings maintains public ratings on 211 U.S. public power (retail electric and gas) and distribution electric cooperative utilities and 55 wholesale utility projects (across 39 wholesale electric utilities). In early 2024, we revised the U.S. public power 2024 sector outlook to negative, reflecting our opinion that financial performance of, and ratings on, U.S. public power utilities could weaken in 2024, due to a confluence of inflation, reduced consumer wherewithal to pay utility bills, the sensitivity of rate-setting bodies to economic conditions, and a developing trend of weakening financial margins. (For more information, see "U.S. Public Power And Electric Cooperative Utilities 2024 Outlook: Mandates, Rising Costs, And Diminishing Affordability," published Jan. 23, 2024, on RatingsDirect.) These credit challenges have led to rating downgrades exceeding upgrades by seven to four in the first half of the year, outpacing 2023. Putting the numbers into perspective, the downgrades represent just 3% of the rated universe, but the negative sector outlook reflects our view that these issuers are more susceptible to the above mentioned financial pressures. Apart from rating changes, we revised more outlooks to negative than to stable or positive. During the first half of 2024, 57 ratings were unchanged after review (21% of the total combined sectors).

The number of ratings on new issuances increased more than 40% the first half of 2024 compared with 2023 for U.S. public power retail, gas, and wholesale electric utilities.

Continue reading.

29 Jul, 2024

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## 2024 Mid-Year Update: Are Municipal Bonds on the Road to Recovery?

**Muni bonds underperformed in the first half of 2024 due to robust economic conditions and increased supply, but strong credit fundamentals and potential rate cuts could improve performance later.**

Through the first half of this year, municipal bonds fell short of projected performance expectations. The essential elements of a reliable source of income due to strong credit quality and benefits of interest income exempt from taxes remain foundational. Yet, the anticipated strong performance of the asset class so far has not materialized. So, we ask if our outlook has changed for the remainder of the year to provide some context for our outlook for the second half of 2024.

**Expectations for the Second Half of 2024**

The risks we discussed in our Muni Trends to Watch in 2024 focused on the U.S. economic

environment, individual state laws and the municipal sector's challenges. Appropriately, we felt that our domestic economy would fairly quickly feel the bite of higher rates and efforts of the Federal Reserve ("Fed") to tighten monetary policy to temper inflation. History tells us not to ignore the risks of recession. The market's consensus in the direction of Fed rate cuts in early 2024 would have put municipals on a path to strong positive performance results because muni rates would have dropped. As we now see, that call was premature. Robust economic performance and lingering inflation have pushed out the likelihood of rate cuts to the third or fourth quarters as is the timing for better muni market performance.

Supply of new-issue bonds is the other primary area of change. The increase in newly issued bonds originates from a significant increase in the re-financing of older, outstanding debt.* Since this component is now expected to add $30-50 billion to year-end totals, the immediate effect has been to keep rates high and within zones of comparative attractiveness. It would not be surprising to see additional supply later this year, primarily in re-financing, should the Fed cut rates and spur a potential muni rally. Increased supply would provide a greater variety of available bonds in the market and a moderate move to lower rates—a classic example of cause and effect.

Continue reading.

**Van Eck**

by James Colby, Senior Municipal Strategist

July 31, 2024

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## Munis Extend Rally as Jobs Miss Cements Path to Fed Rate Cut.

- **Yields on 10-year benchmark bonds fell 9 basis points to 2.6%**
- **Issuers expected to sell over $15 billion of bonds next week**

Municipal bonds extended their rally on Friday after a lackluster jobs number cemented expectations that the Federal Reserve will start cutting interest rates by the end of its next meeting in September.

Yields on 10-year benchmark securities fell 9 basis points to 2.6% on Friday, following yesterday's move that marked the largest rally in weeks. Investors in search of safer assets fueled the rally, piling $1.1 billion into municipal bond funds during the week ended Wednesday, the second largest weekly inflow of the year, while the market's biggest muni ETF saw its largest daily inflow in more than two years.

The moves cap an unusually busy week in the municipal bond market as investors sought to reposition portfolios out of fears that the US economy is at risk of moving toward a recession.

"What you're seeing is a strong move to quality in anticipation of yields falling, and you will continue to see a rotation to high quality," said Chip Hughey, managing director for fixed income at Truist Advisory Services. "This will probably improve muni to treasury ratios and create a bit more value on a relative basis."

More certainty about the path of rate cuts should help stabilize the market, but tax-exempt munis are still "vulnerable" because of a heavy supply calendar, according to a Friday research note by

Barclays Plc. Issuers are expected to sell more than $15 billion of bonds next week, what would be one of the heaviest weeks of the year.

Year to date, muni supply is up about 36% compared to the same period last year, according to data compiled by Bloomberg. Hughey said he expects clarity around the path of interest rates could compel some issuers to move forward with financing plans, driving continued strength in supply going forward.

BlackRock's flagship muni ETF, the biggest in the market, saw its largest inflow since late April 2022, according to data compiled by Bloomberg. The iShares National Muni Bond ETF took in $418.5 million on Thursday.

**Bloomberg Markets**

By Nic Querolo

August 2, 2024

*— With assistance from Martin Z Braun*

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## Municipal Bonds Rally Most Since May as Fed Seen Slow to Cut.

Municipal bonds are staging a broad advance, pushing yields down the most in seven weeks as investors abandon stocks for fixed-income assets on concern the Federal Reserve is waiting too long to cut rates.

Yields on top-rated municipal benchmark bonds fell as much as seven basis points across the curve on Thursday, according to data compiled by Bloomberg. Thirty-year bond yields dropped seven basis points to 3.58% as of Thursday afternoon, heading for the biggest daily decline since May 3, while those on 10-year securities also posted a six basis point drop to 2.7%, the data show.

Fed Chair Jerome Powell indicated Wednesday that central bank officials are on track to reduce rates in September unless inflation progress stalls. The July employment report due Friday likely will fuel speculation on rate cuts.

Continue reading.

**Bloomberg Markets**

By Elizabeth Campbell and Nic Querolo

August 1, 2024

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## Bond ETFs Amass Record $39 Billion in July in Big Rate-Cut Bet.

- **TLT, AGG, BND funds are among those seeing big flows in July**
- **Fed's Powell says interest-rate cut could come in September**

Fixed-income ETFs took in a historic amount of cash last month as investors pile into the bond market, positioning for the start of a Federal Reserve rate-cutting cycle.

Bond funds saw inflows of roughly $39 billion in July, the most on record, according to data from Strategas. Investors are lavishing money across the fixed-income spectrum, from longer-duration government bonds and short-term obligations issued by Corporate America to muni ETFs.

The record spoils track a rally in Treasuries that has sent some yields tumbling to the lowest levels in months, with swaps traders now pricing in three quarter-point cuts in interest rates this year amid softening economic data. Fed Chair Jerome Powell said on Wednesday an interest-rate cut could come as soon as September.

Continue reading.

**Bloomberg Markets**

By Vildana Hajric

August 1, 2024

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## Fitch: US Slowdown Looms Amid Heightened Political and Geopolitical Uncertainty

Fitch Ratings-New York/London-29 July 2024: US rate rises in 2023 have begun to show some effect on the labour market and demand, while politics remains an area of high uncertainty, and geopolitical risk is here to stay, Fitch Ratings says in a new report.

Signs of a slowdown in the US are evident in weak credit growth and slowing consumer spending. This should continue in 2H24 with headline real GDP growth materially decelerating though clearly remaining well above recession territory in our base-case forecasts.

Continued disinflation and the beginning of a global monetary policy pivot have reduced the probability of a major negative credit risk scenario stemming from continued monetary tightening. The ECB made its first rate cut in early June, following earlier moves by the Swiss National Bank and Bank of Canada, with the latter cutting for the second time in late July. While we now expect a slightly slower pace of rate cuts in 2024 from the Federal Reserve than our expectations at end-2023, the latest US inflation and labour market data support our view that two reductions are likely in 2H24.

Politics is an area of high uncertainty, as demonstrated in the string of elections in large economies in 2Q24 and early July, including France, the UK, India, Mexico and South Africa, as well as for the European Parliament. Incumbents lost ground or lost outright in all elections but Mexico. The forthcoming US election in November will be particularly relevant for global credit as it could mark a pivot point for policy in several important areas.

Wars in Ukraine and between Israel and Hamas have continued as have simmering tensions in other hotspots. The broader context of geo-strategic friction between major powers remains a key long-term theme. The greatest risk to credit would come from a direct conflict in one of these hotspots. However, broader geopolitical tensions are likely to continue to feed into such diverse areas as trade and investment policies, capital flows, supply chains and FDI.

‘Risk Headquarters – 3Q24’ can be accessed at fitchratings.com

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## After Several Years of Rapid Growth, State Budgets are Downsizing.

**For most states, 2025 represents a return to more typical economic conditions after an atypical period for their budgets.**

State budgets are expected to shrink substantially in fiscal year 2025 as the post-pandemic era of surging revenue, record spending and historic tax cuts comes to a close. According to new data released by the National Association of State Budget Officers, total general fund spending is expected to decline to $1.22 trillion, a more than 6% drop from estimated levels in fiscal 2024, which ended for most states on June 30.

It’s a vastly different picture from recent years, two of which were the fastest-growing years for general fund spending since NASBO first launched its fiscal survey in 1979. The final tally for fiscal 2024, for example, is expected to total $1.3 trillion—a 13% increase from fiscal 2023, even after adjusting for inflation.

Although the decline in spending is comparable to the declines in 2009 and 2010, when the economic turmoil of the Great Recession drove state spending down by 5.8% and 6.6%, respectively, the situation now is driven by very different factors. For starters, California’s 2025 budget closes an eye-popping $46.8 billion budget deficit in large part by cutting or delaying spending. That one state has an outsize influence on the total 50-state picture. In fact, NASBO estimates that about half of states are still planning on spending increases in 2025.

Continue reading.

**Route Fifty**

By Liz Farmer

JULY 24, 2024

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

View the Current List.

25 Jul, 2024

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## S&P: Criteria Released To Clarify Method For Determining Ratings-Based Inputs

NEW YORK (S&P Global Ratings) July 26, 2024–S&P Global Ratings today published “Methodology For Determining Ratings-Based Inputs.” This article presents the principles S&P Global Ratings applies when assessing the creditworthiness of assets or entities it doesn’t rate, where this

information is required to inform its rating analysis. These principles, which are materiality-based, are reflected in our sector-specific criteria.

This methodology follows our request for comment (RFC), titled "Request For Comment: Methodology For Determining Ratings-Based Inputs," published Jan. 17, 2024. For the changes between the RFC and the final criteria, as well as a summary of the comments received during the RFC process, see "RFC Process Summary: Methodology For Determining Ratings-Based Inputs."

KEY CHANGES

This is a new article that formalizes and restates the key guiding materiality-based principles we consider when using rating inputs in our rating analyses. Those are used to perform our rating analysis in accordance with the application of many of our sector-specific criteria.

In addition, we updated our approach for incorporating other credit rating agencies' (CRAs) ratings into our analysis. Under this approach, when we use other CRA ratings, we do so without adjusting them by considering the materiality of those inputs to our overall credit rating analysis. This is to ensure that the ultimate ratings we assign reflect our credit opinions and are consistent with our ratings definitions. In contrast, the previous approach generally involved adjusting other CRAs' ratings, based in part on a statistical analysis, to account for differences with our own ratings.

This update has resulted in changes to certain sector-specific criteria, which we have republished. The prior versions have been superseded, except in jurisdictions that require local registration of the new articles, where they will be superseded–and the new articles become effective–only after the local registration process is completed. In addition, we have updated our guidance for rating CLOs and corporate CDOs.

Continue reading. **[Free Registration Required]**

26-Jul-2024

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## S&P Criteria | Governments | U.S. Public Finance: U.S. Public Finance Long-Term Municipal Pools: Methodology And Assumptions

(EDITOR'S NOTE: —On July 26, 2024, we released this criteria article following the publication of "Methodology For Determining Ratings-Based Inputs." See the "Revisions And Updates" section for details.)

For information about the initial publication of this article as of July 26, 2024, including key changes made following the publication of "Methodology For Determining Ratings-Based Inputs" on July 26, 2024, the impact on ratings, and superseded criteria, see "Criteria Released To Clarify Method For Determining Ratings-Based Inputs."

1. This criteria article describes S&P Global Ratings' methodology and assumptions for rating U.S. public finance issues and issuers backed by long-term municipal pools.

2. This article is related to our criteria article "Principles Of Credit Ratings," published Feb. 16, 2011.

3. Long-term municipal pool programs (hereafter referenced as municipal pool programs) vary in

structure, funding, and purpose. Examples of municipal pool programs range from government-supported state revolving funds and bond bank programs to more localized private sector-related economic development programs and pool programs that enjoy only a tangential relationship with a quasigovernmental organization. Most programs operate only in a single state.

4. The criteria reference criteria for municipal and corporate collateralized debt obligations (CDOs), reflecting the similarities in structure and purpose. The use of the other criteria reflects a desire to further illustrate comparability across sectors. Accordingly, readers should also reference the following articles:

- "CDOs And Pooled TOBs Backed By U.S. Municipal Debt: Methodology And Assumptions" July 26, 2024 (the Muni CDO criteria)
- "Global Methodology And Assumptions For CLOs And Corporate CDOs," published June 21, 2019 (the corporate CDO criteria)

5. While the criteria reference these similarities, they also recognize that the public purpose nature of municipal pool programs affect credit quality. Public-sector objectives of funding infrastructure improvements and recycling this money in a sustainable manner can result in different risk-taking behavior relative to the goals of maximizing yield return or profit. The methodology therefore uses a public finance enterprise framework to assess both enterprise and financial risk, consistent with other types of municipal enterprises.

Continue reading. **[Free Registration Required]**

26-Jul-2024

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

This publication does not constitute a rating action.

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

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

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

Continue reading.

22-Jul-2024

## Fitch Ratings Introduces New U.S. Local Government Data Comparator.

Fitch Ratings-New York-30 July 2024: Fitch Ratings has published a new dataset covering issuers rated using our recently launched U.S. Local Government Rating Model.

The file provides the current Issuer Default Rating and Rating Outlook along with detailed model data supporting the rating. This information includes headroom, model data inputs, assessments, and metric outputs associated with key rating drivers. It also provides any Additional Analytical Factors incorporated into the rating that were not captured in the model's Metric Profile.

Comprehensive overviews of the rated portfolio are available on the table tabs. Users can also easily focus in on a specific issuer by using the Ratings Analysis Snapshot option.

Fitch will update the file periodically with current data as more issuers are reviewed using the model. The file is available on Fitch's websites or by clicking on this link: U.S. Local Government Data Comparator. Please bookmark this link for easy access to the most recent version.

The dataset should be read in conjunction with Fitch's U.S. Public Finance Local Government Rating Criteria.

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## New $255M Federal Grant Will Help State, Local Public Health Agencies Modernize Data Systems.

**The program looks to improve data sharing infrastructure and processes for public health agencies to better detect and manage health threats.**

Coping with future public health threats means more state and local agencies—many of which rely on aging infrastructure and still collect data by faxes and manual entry—must modernize their data systems, experts say.

To do that, a new $255 million federal program will support state, local and tribal governments' data modernization projects by offering them technical assistance, policy and legal advice, and guidance documents, among other resources. Funded by the U.S. Centers for Disease Control and Prevention, the Data Modernization Implementation Center program will help develop robust and secure data exchanges among public health agencies, said Jennifer Layden, director of the CDC's Office of Public Health Data, Surveillance and Technology.

"Public health has a responsibility to detect health threats or diseases that warrant immediate action … to identify outbreaks and then work to investigate and shut down that outbreak," Layden said. And that, she continued, "relies on timely data."

Continue reading.

**Route Fifty**

By Kaitlyn Levinson,
Assistant Editor, Route Fifty

JULY 23, 2024

## How Cities Are Using Biden's $4.3B Climate Pollution Reduction Grants.

**The grants "put local governments in the driver's seat to develop climate solutions," a federal official said. Communities plan to use the money for electrification, bike-sharing and more.**

Local, state and tribal governments are getting a total of $4.3 billion from the federal government for projects that reduce greenhouse gas emissions, the U.S. Environmental Protection Agency announced on July 22.

The Climate Pollution Reduction Grants program is funded by the Inflation Reduction Act. Monday's announcement marks the second and final phase of the program. In the first phase, the EPA provided $250 million in noncompetitive grants to communities to develop plans to drive down greenhouse gas emissions.

The second phase, however, was competitive, with the EPA receiving almost 300 applications requesting a total of nearly $33 billion.

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**Smart Cities Dive**

Ysabelle Kempe

Published July 23, 2024

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## Would a 10% Cash Buffer on Open-End Bond Funds Reduce Fire Sales?

Regulators and academics have warned repeatedly that open-end bond mutual funds pose a significant risk to financial stability. If at a time of financial stress, lots of mutual fund shareholders pull their money out at the same time, the funds may be forced to sell bonds in their portfolios at fire sale prices. This can push down prices of other bonds, thus raising yields, and boost borrowing costs across the economy. In March 2020, for example, at the onset of the COVID-19 pandemic, investors took a record $45 billion from municipal bond funds, prompting the Federal Reserve to intervene to make loans backed by muni bonds and to offer to lend directly to state and local governments.

To reduce the risk of a repeat, the Securities and Exchange Commission has proposed, among other things, requiring open-end funds to keep at least 10% of their portfolio in highly liquid assets, such as short-term Treasury bills, so that they can satisfy a flood of shareholder redemptions without selling much less liquid municipal or corporate bonds. In a paper presented at the Municipal Finance Conference at Brookings in July 2024, economists Sergey Chernenko of Purdue University and Viet-Dung Doan of Hong Kong Baptist University find that—assuming the historical relationship between outflows from mutual funds and their sale of assets—such a requirement would have "a limited effect" on mutual funds sales of bonds from their portfolio when investors pull out large sums.

Chernenko and Doan construct a novel data set with daily trading, inflows and outflows, and cash buffers of municipal bond mutual funds. The funds did sell bonds from their portfolios when investors pulled money out. They estimate that $1 of outflows from a fund is associated with 24.2

cents of bond sales initially and another 26.9 cents worth of bonds in the following 15 trading days. The remaining outflows, they assume, are met by the funds' cash reserves. Larger funds tend to sell less in response to outflows, as do funds holding longer maturity bonds.

The authors use pre-COVID data to estimate the behavior of the funds and then estimate how differently funds would have behaved between March 9 and April 30, 2020, if they had held 10% of their assets in a cash buffer. Specifically, a 10% liquid assets buffer would have reduced cumulative aggregate sales by municipal bond mutual funds in the early stages of the pandemic by only about 18%. "Requiring cash buffers on the order of 10% is unlikely to have a significant effect on flow-induced sales during periods of market stress," they conclude.

Chernenko cautions, though, that funds might behave differently if all were required to have a 10% cash buffer. Absent such a policy, consider a fund that has a large cash buffer and knows that other funds do not. That fund might be reluctant to draw down the buffer instead of selling assets today to meet redemptions. It might worry that there will be outflows tomorrow and that, because other funds have little cash, they will have to be selling assets. If the fund draws down its cash and delays selling assets today and then faces outflows the day after tomorrow, it may have to sell assets at really low prices because of massive selling by other funds. However, if all funds were required to have a 10% cash buffer, then all of them might be comfortable in drawing down their cash buffers instead of selling assets, knowing that other funds won't be forced to sell assets at fire sale prices.

Still, in responding to questions at the conference, Chernenko said regulators should consider ways other than requiring the 10% cash buffer to shield the financial system from the turmoil caused when shareholders pull lots of money out of the open-end funds.

by David Wessel

July 25, 2024

**The Hutchins Center on Fiscal and Monetary Policy**

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## Hefty Demand for $269 Billion of Muni Sales Has Buyers on Hunt.

- **Investors are searching for overlooked muni securities**
- **Others are scouring the secondary market or sitting in cash**

The $9 billion-a-week market for new sales of state and local government debt is now so crowded that investors are being forced to get creative in their hunt for value.

There's been a record onslaught of issuance from municipal borrowers this year, with sales totaling $269 billion marking an increase of 38% from 2023's volume. That supply — bolstered by a rush to issue before the November US presidential election — has been met with a surprising amount of enthusiasm in the $4 trillion muni market, frustrating long-time investors because it's harder to get allocations of securities they want.

That tension is mirrored across fixed-income markets as global investors clamor for bonds. Credit spreads on both investment grade and junk-rated corporate bonds have tightened, with high-yield taxable debt trading at a spread roughly 100 basis points below the five-year average.

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**Bloomberg Markets**

By Erin Hudson and Amanda Albright

July 26, 2024

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## Free Funds! (For Now) and a Life Beyond Bonds.

**It's On The House**

It's becoming increasingly common for issuers to waive some or all of an ETF's expense ratio until the fund reaches a certain threshold of assets. US-listed spot crypto ETFs have supercharged the trend: the majority of the newly launched Ether ETFs have waived fees, following in the footsteps of the spot Bitcoin ETFs that debuted in January.

It's not just crypto, though. Invesco's just-launched Income Advantage Suite funds cost nothing between now and year-end, while the Roundhill Cannabis ETF (ticker WEED) dropped its expense ratio to zero from 40 basis points earlier this month for at least one year.

The logic is simple: issuers are hoping that by putting their funds on sale, investors will buy at a bargain — and then be charged full price once the waiver rolls off. But does that actually work?

Continue reading.

**Bloomberg Markets**

By Katie Greifeld

July 26, 2024

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## New York Life Buys Muni-Bond Funds With $1.2 Billion From Aquila.

New York Life Investment Management said it acquired six municipal-bond funds from Aquila Investment Management LLC, a four-decade-old firm that carved out a focus on vehicles for investing in debt from specific states.

The funds, which had about $1.2 billion of assets, had delivered a lackluster run in recent years as US markets were battered by the Federal Reserve's interest-rate increases.

MacKay Municipal Managers, part of New York Life Investments, will oversee the funds.

Continue reading.

**Bloomberg Markets**

By Amanda Albright and Sri Taylor

July 22, 2024

## Goldman Sachs Adds Muni Bond Funds to ETF Lineup.

Goldman Sachs Group Inc., which manages $2.93 trillion in assets, is adding four actively managed municipal bond ETFs to its lineup as it aims to tap into rising demand for active bond funds while increasing options for tax conscious investors.

Continue reading.

**Yahoo Finance**

by DJ Shaw

Thu, Jul 25, 2024

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## Goldman Sachs Makes Bigger Bet on $129 Billion Muni ETF Market.

- **Goldman Sachs Asset Management launches four new funds**
- **Offerings include a product aimed at New York investors**

Goldman Sachs Asset Management is launching four new municipal-bond exchange-traded funds, adding to the $129 billion corner of the state and local government debt market.

The firm, the investing arm within Goldman Sachs Group Inc., has created the actively-managed products which include a fund focused on ultra-short municipals and one that invests in tax-exempt debt sold by New York borrowers. More money managers have seized on demand for ETFs that are often lower-cost than mutual funds. The investment management business of Prudential Financial Inc. also introduced muni ETFs last month.

Inflows into muni ETFs in 2024 stand at roughly $5.4 billion, trailing last year's pace when the funds collected more than $15 billion. However, demand has picked up in June and the products recorded an influx of over $2 billion, the biggest month so far this year, according to Bloomberg Intelligence data.

Continue reading.

**Bloomberg Markets**

By Amanda Albright and Erin Hudson

July 25, 2024

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## Ex-Preston Hollow Duo Start Their Own High-Yield Muni Firm.

Two former executives from Preston Hollow Community Capital Inc. started a new firm, V2 Municipal Capital, that will source high-yield municipal bonds exclusively for alternative asset manager Fundamental Advisors.

Charlie Visconsi, who previously served as co-head of originations at Preston Hollow, and Ron Van Den Handel, a former managing director on the originations team, started V2MC this month, according to a statement Wednesday. It will target investment opportunities in health care, housing, education and infrastructure.

At Preston Hollow, a Dallas-based municipal lender, the two muni veterans sourced new deals for the firm. A representative for Preston Hollow didn't immediately reply to a request for comment.

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**Bloomberg Markets**

By Amanda Albright

July 24, 2024

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