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[Disney Outmaneuvers DeSantis in Clash Over Theme Park District.](#)

Walt Disney Co. pushed through changes limiting the powers of the municipal authority that governs its Florida theme parks ahead of a controversial takeover by representatives of Governor Ron DeSantis.

The changes were quietly approved last month by the outgoing board of the Reedy Creek Improvement District, the entity that provides fire protection, electricity and other services in the resort area. The last-minute changes restrict the powers of the new board members for decades, including their ability to review theme-park expansions and billboard advertising.

While the maneuver is a victory for the world's largest theme-park operator, it extends the clash between Disney and Republicans in the state, who have threatened to sue to reverse the changes.

"Disney has once again overplayed their hand in Florida," Bridget Ziegler, one of the new board members, posted on Twitter, accusing Disney of arrogance. "We won't stand for this and we won't back down."

The company defended the move, saying in a statement: "All agreements signed between Disney and the district were appropriate, and were discussed and approved in open, noticed public forums in compliance with Florida's government in the Sunshine law."

The Orlando Sentinel first reported the new agreement, citing lawyers for the municipal entity, which has been renamed the Central Florida Tourism Oversight District.

The "declaration of restrictive covenants," passed by the old board, is valid in perpetuity or, if that's considered unlawful, until "21 years after the death of the last survivor of the descendants of King Charles III, King of England."

It's the latest twist in the fight between DeSantis and the corporation that kicked off when Disney criticized a law he signed limiting elementary school teachings about gender identity. Disney had controlled the Reedy Creek district since its founding almost 60 years ago.

Bloomberg CityLab

By Felipe Marques

March 30, 2023

[How Disney Dodged Ron DeSantis and Kept Control of Its Florida Land.](#)

'Disney didn't do anything secret' in securing key approvals before governor's new board

gained oversight

Walt Disney Co. for now has outmaneuvered Florida Gov. Ron DeSantis in the battle for control over the more than 24,000-acre parcel of land near Orlando where Walt Disney World Resort is located.

In February, Disney went before a local board and secured approvals for the next 30 years on zoning, infrastructure and air-rights that the company might need if it chooses to expand Disney World, giving the company an advantage that has become clearer in recent days.

This week, those approvals were criticized by members of a new board that was created by the Republican governor to strip Disney of governing control over the land's special tax district, known as Reedy Creek. Mr. DeSantis, who has been clashing with Disney for more than a year, appointed the new board after the February meeting.

Continue reading.

The Wall Street Journal

By Robbie Whelan and Arian Campo

Updated April 1, 2023 1:48 pm ET

How Will Silicon Valley Bank Collapse Impact Bank Ownership of Munis?

Municipal bonds remain a viable, high-quality source of liquidity for banks, experts say, although they are divided about whether the collapse of two regional banks will curtail or eliminate the sector's ownership of municipal bonds.

Following the collapse of California-based Silicon Valley Bank on March 10 and New York-based Signature Bank (SGBG) on March 12, experts differ on how this will impact their holding of municipal bonds. Some say it will continue unabated, others say it could peter off, yet others believe banks may alter their duration to avoid the pitfalls of SVB and Signature.

"I do not believe banks will broadly reduce their ownership of municipal debt in light of the recent collapses of SVB and Signature Bank (SGBG)," Chris Brigati, managing director of municipal investments at Valley Bank, said.

Bank ownership of municipal bonds amounts to approximately 15% of the $4 trillion market, falling slightly during the COVID 19 pandemic, according to experts.

"I could even make a case for banks to increase their participation at some point," Brigati added.

Market and economic technicals, as well as the inherent benefits of municipals, support bank ownership, he and other experts said.

"Ratios versus Treasuries are presently rich as compared to historical norms," Brigati explained. "I do not foresee any immediate reason for this to change with anticipated near-term supply/demand dynamics."

If and when municipals offer a better relative value dynamic, banks could justifiably increase their engagement above recent norms, according to Brigati.

Cooper Howard, fixed income strategist focused on municipals at Charles Schwab (SCHW), agreed the inherent benefits of municipal bonds will continue to fuel ownership by banks.

"I would expect that banks will continue to be large buyers of municipal bonds because of their tax benefits and high credit quality," Howard said. "The issues in the banking sector didn't change that," he continued, noting the amount banks purchase in the future will chiefly depend mostly on yields relative to comparable securities.

Signature, SVB, and San Francisco-based First Republic – which is also under fiscal stress lately – all hold municipal bonds.

SVB held $7.4 billion of municipal bonds and notes as of Dec. 31, 2022, which were marked as having a fair value of $6.15 billion and ratings of A1 and above, according to its 10-K filing with the Securities & Exchange Commission.

Signature Bank (SGBG) – which in 2015 launched a public finance business – held $247 million of state and municipal securities in 2022, up from $7 million in 2018, according to its recent 10-K.

First Republic carries $19.4 billion of state and municipal securities, up from $8.19 billion in 2018.

But with the feds and large banks coming to the rescue of the banks, a "fire sale" of their municipal portfolios into the market appears unlikely, according to Lisa Washburn, managing director, chief credit officer at Municipal Market Analytics.

Should some banks have an initial "knee-jerk reaction," which Brigati said is unlikely, the underlying fundamental reasons that make ownership of municipal paper within bank portfolios possible continues to offer strong justification for no change to their engagement in the asset class, he said.

"Naturally, the tax-exempt benefits of bank-qualified paper persist in offering a strong draw for banks in particular," Brigati explained. "Additionally, the excellent credit quality, along with the diversification within the asset class offers another reason for continued engagement," he said.

While markets, in general, remain volatile due to banking sector concerns, that shouldn't stem municipal ownership by banks, according to John Miller, head of municipals at Nuveen, and Anders S. Persson, chief investment officer and head of Nuveen global fixed income.

"Some investors believe banks may be forced to sell municipal holdings and use the cash to shore up their balance sheets," the pair said in a March 20 report.

"At this time, we see no credit issues appearing in municipals as an asset class," that would force banks to sell their municipal holdings, they wrote.

"As regulators convene to discuss a way forward for banks in the wake of SVB, attention may be focused on munis, and while it is too soon to advance substantive prognostications, we will be on the lookout for anything that impacts demand for the asset class," Jeff Lipton, managing director and head of municipal credit and market strategy at Oppenheimer & Co., said in a March 17 report.

The 2018 Economic Growth, Regulatory Relief and Consumer Protection Act reclassified municipal bonds as high-quality, liquid assets and provided another vehicle for banks to help meet their liquidity needs, Lipton pointed out.

"While active investment by banks has generally been softer more recently, this buyer class has remained part of the muni liquidity profile," Lipton wrote.

Even with the lower corporate tax rates created by the Tax Cuts and Jobs Act of 2017, banks have remained a significant holder of municipals – albeit with higher allocations into taxable municipals, Lipton noted.

Going forward, Lipton plans to closely follow bank flows to gauge any meaningful selling pressure.

So far, there is little evidence that ownership of munis by banks – which hold about $540 billion of municipals, $140 billion of that is held by regional banks – will dwindle, according to Eve Lando, portfolio manager and managing director at Thornburg Investment Management.

About half of that exposure is in direct loans, so it shouldn't be part of a sell-off, Lando noted.

"The total muni market is $4 trillion, so in isolation, the large bank numbers are a small fraction of the entire market and unlikely to flood the market," she said in a March 21 report.

"We have seen one or two bid-wanted lists but nothing close to moving the market," Lando added. "Contagion risk is low in the muni market prompted by bank selling."

While others agree there will be little to no change in bank ownership of municipal bonds, they say banks could reduce their investment exposure.

"I do not expect bank ownership of municipal bonds will materially change," Paul Mansour, a veteran New York City municipal bond analyst and current vice chairman of the New Hampshire Municipal Bond Bank.

However, the former head of municipal research at Conning said he expects financial institutions will shorten their duration.

"The ongoing banking crisis was created by a mismatch of short-term deposits secured by longer-term fixed-income securities of all types," he explained.

"Deposits were withdrawn more rapidly than assumed could happen fueled by social media, forcing the banks to unload their fixed-income assets at distressed prices," Mansour said, adding, he also expects the long end of the municipal curve to cheapen as a result.

Peter Delahunt, managing director of municipal securities at New York-based global firm StoneX Group Inc. (SNEX), said deposit growth and loan demand drive a bank's appetite for bonds. The primary mission is to use the deposits to make loans, he explained. Where loan demand is insufficient for investing the deposits, banks will then invest in bonds, Delahunt added.

"Conversely, as funding becomes constrained when deposit growth deteriorates, there is less to invest in bonds and/or loans," he continued.

"So far as this banking crisis leads to deposit deterioration, there will be less investment demand for bonds from the banks, whether tax-exempt or taxable," Delahunt said.

The tax-exempt nature of bond demand will be determined by a bank's tax status – vis-a-vis the tax equivalent alternatives amongst the various fixed income securities, he noted.

"The other narrative is how much loan demand will be squeezed by the Fed's hawkish stance," Delahunt said.

Banks significantly added municipal bonds to their portfolios just after the 2008-2009 financial crisis for two leading reasons: first, they liked the credit quality in the sector and second, there were not as many other investment options at the time, according to Tom Kozlik, managing director and head of public policy and municipal strategy at HilltopSecurities.

“Therefore, there is likely to be a natural reversion in bank investment patterns in the near term, but this was because they added them in the beginning to the middle of last decade,” Kozlik explained.

He said if banks reduce their municipal holdings going forward it might not necessarily be related to the current regional banking collapse.

Like others, Kozlik is cautiously watching the banking crisis unfold.

“We do not know if the banking sector issues are going to snowball and/or if the economy is going to face headwinds,” he said.

Jon Barasch, long time credit analyst and fixed income specialist in New York, said municipals meet the federal banking regulations pertaining to high quality liquid assets and liquidity coverage ratios to which banks are subject.

Rather than curtailing ownership, he agrees banks could work toward a slight drop in maturity duration given the recent developments.

“Perhaps the bonds banks do choose to own will be shorter in duration than years past,” Barasch said, noting the troubled banks owned bonds that featured longer maturities.

Jim Tinker, vice president of Alphaledger, who has more than 15 years in banking and municipal finance, said most banks are on pause in terms of adding to municipal holdings.

“This is mainly the result of deposit declines reducing excess cash, which was underway prior to the closings of Silvergate Bank, Silicon Valley Bank, and Signature Bank (SGBG),” he explained. “With the recent bank closures, I would not be surprised if banks decided to reposition some of their municipal holdings to reduce duration and/or reallocate to increase liquidity,” Tinker said.

In the meantime, banking concerns continue to roil the financial markets, with potential impacts on the municipal market, sources said.

Multiple recent rating downgrades of banks, including First Republic, engendered fear among investors and depositors.

The plethora of troubles that felled Credit Suisse last week and ended in a $3 billion takeover of the Swiss bank by its bigger rival UBS on Sunday added an extra dark cloud.

And news reports that the Biden administration was in talks with Warren Buffett, the chairman of Berkshire Hathaway (BRK/A), who famously swooped in with billions to bolster Goldman Sachs (GS) during the 2008 financial crisis, only signaled that the current panic might grow worse still.

Jennifer Johnston, director of research at Franklin Templeton Municipal Bonds, spoke of the uncertainty over the collapse during a March 21 webinar about navigating rates and risk.

With bank ownership at approximately 15% of the $4 trillion municipal industry, she is evaluating the potential for bank selling of municipals.

“That’s something we are watching and looking to see how it unravels,” she said.

By Christine Albano

BY SOURCEMEDIA | MUNICIPAL | 03/21/23 03:44 PM EDT

Is Participatory Budgeting Coming to a Local Government Near You?

Amid an influx of billions of federal dollars, some think the tool may see an uptick in use.

Welcome back to Route Fifty's Public Finance Update! I'm Elizabeth Daigneau, subbing in for our Public Finance guru Liz Farmer while she's on vacation, and this week, I'm writing about participatory budgeting.

It's far from a new idea, and you've probably been reading about it for years, but participatory budgeting has slowly been growing since it was first introduced in the U.S. in Chicago in 2009. Many anticipate it is about to see a boom as billions of federal dollars continue to pour into local communities.

For the uninitiated, participatory budgeting is a tool that encourages citizens to decide how a portion of taxpayer money should be spent. It has been utilized by school districts in Arizona and Central Falls, R.I.; counties such as King County, Washington; and countless cities. It started in Brazil in 1989, and to date, roughly 7,000 cities around the world have used the tool, including 29 here in the U.S. where residents have collectively allocated $386 million, according to the nonprofit Participatory Budgeting Project.

Continue reading.

Route Fifty

By Elizabeth Daigneau

MARCH 21, 2023

How to Spend Your City's Money.

In a system known as participatory budgeting, citizens tell the government what to do.

n August, 2021, five Portuguese firefighters were battling a bushfire in the south of the country when a sudden wind drove the blaze up a steep slope beneath them. They had only a few seconds to climb into the cab of their truck before it was surrounded by flames. Once inside, they activated a safety feature that sprayed a cloud of water to cool the cab. The air was dark and smoky, but they used oxygen masks to breathe from cannisters of purified air. They soon managed to drive to a stretch of road where the fire was less fierce, and escaped without serious injuries.

The firefighters came from the municipality of Cascais, a coastal city of two hundred and fifteen thousand people near Lisbon. Their truck, with its cooling-water system and oxygen masks, cost a hundred and sixty thousand euros; before they purchased it, in 2017, they used a vehicle from 1996 that lacked both features. Though the upgrade was a matter of life and death, they couldn't get funding for it from the national government. Instead, they used a process called participatory budgeting. Each year, the government of Cascais allows citizens to propose, debate, and vote on projects that the public budget will fund. Winning projects receive up to three hundred and fifty thousand euros, and the city guarantees that it will execute them within three years. Since it launched the system, in 2011, Cascais has spent fifty-one million euros implementing hundreds of projects. The city has renovated derelict buildings, constructed high-school science labs and skate parks, improved accessibility at beaches, created green spaces, installed Wi-Fi and charging stations at bus stops, and much more. Collectively, these projects have reshaped the urban landscape: within Cascais, nobody lives farther than five hundred metres from a participatory-budgeting project.

Many cities around the world practice some form of participatory budgeting, but even among those that do, Cascais is an outlier. It spends prodigiously through the system: in Paris, five per cent of the city's annual investment budget has been allocated to participatory projects in recent years, but in Cascais, more than fifteen per cent of the budget flows through the program, and the percentage can float higher if voter turnout rises. Cascais is surprising in another way: its mayor, Carlos Carreiras, is both a champion of participatory budgeting and a member of a center-right political party. Participatory budgeting is often considered a tool of the left, but its role in Cascais suggests that it could have a broader appeal; part of the theory behind it is that citizens can be better than officials at knowing how money should be spent.

Continue reading.

The New Yorker

By Nick Romeo

March 24, 2023

Policy Thoughts about Single-Family Mortgage Social Bonds.

DOWNLOAD REPORT

The Urban Institute

by Laurie Goodman & Janneke Ratcliffe

March 24, 2023

Muni Moves in March (Bloomberg Audio)

Joe Mysak, editor of the Muni Market Brief, joins the program to discuss everything going on in the municipal bond market. Hosted by Paul Sweeney and Jennifer Ryan.

Listen to audio.

Mar 24, 2023

The Pros Fail to Meet the Moment With Bond ETFs.

Actively managed fixed-income ETFs stumbled last year and only 40% are beating their benchmarks in 2023.

The pitch for an actively managed bond exchange-traded fund can be compelling, especially when there's market turmoil and uncertainty: Let a pro handpick bonds that can outperform benchmarks instead of investing in an index-tracking fund on autopilot, but pay less than you would for a mutual fund. Oh, and you can save on taxes, too.

More investors are taking the bait. Last year, active ETFs accounted for 14% of overall ETF flows even though they made up just 4% of assets, according to a report from Bloomberg Intelligence analyst Eric Balchunas, who tracks the data. So far this year, more than 30% of incoming flows are to active ETFs. In addition, since 2021, dozens of such funds have been unveiled, including versions from big names like Vanguard Group and JPMorgan Chase & Co.

But a look at performance — when it mattered most — should stop investors in their tracks. Active fixed-income ETFs were a total flop as bonds were hammered by the Federal Reserve's actions last year and suffered their worst performance on record. Just half of 182 actively managed bond ETFs outperformed their respective indexes, data from Morningstar Inc. shows.

Continue reading.

Bloomberg Opinion

by Alexis Leondis

March 23, 2023

One Year of Rate Hikes Ends Decades of Bond Market Prosperity.

Bonds suffered historic losses after the Fed began raising interest rates in March 2022

KEY TAKEAWAYS

- Federal Reserve's interest rate hikes in 1980 sowed the seeds for a long-term rally in bond markets.
- But the same prescription, taken again last year to tame inflation, has hammered bond returns.

In the early 1980s, the Federal Reserve conquered high inflation with economically painful interest rate hikes that, in turn, planted the seeds for a 40-year bull market in fixed-income securities.

The run finally began to end March 17, 2022.

That's the day the Fed, after protecting the U.S. from pandemic calamity by maintaining its benchmark lending rate at a historic low of 0-0.25% for two years, raised rates for the first time since 2018.

Continue reading.

INVESTOPEDIA.COM

By LYLE NIEDENS

Published March 24, 2023

[Unpacking Muni Opportunities in a Slowing Economy.]

Still shaking off 2022's dismal returns, municipal bond investors now worry about the impact of a potential economic downturn. Gloomy news reports of projected budget gaps for state and local governments only add to their anxieties. But the muni market is more resilient than headlines suggest, and a closer look across sectors can help discern areas of opportunity from those that require a bit more caution.

Muni Market Resilience Starts at the State Level

Many state and local governments will face fiscal challenges next year, but they inherently have the flexibility to work through them. For example, foreseeing a $22.5 billion deficit due to a slowing economy, California is already strategically delaying funding and shifting spending to close the gap without having to tap into its $36 billion in reserves.

More broadly, the outlook is favorable for most state and local governments, thanks to the record budget revenues and reserves in hand. In fact, the median state reserves-expenditures ratio is currently 25%—well above its roughly 10% over the long run. By contrast, the ratio was just under 12% heading into the global financial crisis of 2008.

Strong fiscal report cards are the linchpin of the muni market's overall appeal. They also explain why muni bonds have weathered economic malaise much better than corporate bonds. In fact, muni bonds have had fewer downgrades, more stable ratings and significantly fewer defaults—near-zero—compared to corporate issues since 1981, which includes five official US recessions (Display).

Continue reading.

ALLIANCE BERNSTEIN

MARCH 22, 2023

[Cities' Credit Ratings Are at Risk Because There Aren't Enough Accountants.]

- **149 muni ratings on negative watch for disclosure delays: S&P**
- **S&P says staffing challenges have led to late fiscal documents**

Municipalities across the US are at risk of having their credit ratings downgraded or withdrawn by S&P Global Ratings because staffing shortages have delayed financial disclosure documents.

S&P has placed 149 long-term, underlying and program ratings on a negative credit watch this year because the ratings company hasn't received 2021 financial statements from the issuers. That's the most since at least 2018, and materially higher than the prior five-year average of 95 such moves, according to S&P data.

“If we don’t have the financials, then bondholders don’t have the financials,” Jaime Blansit, a rating associate at S&P, said in an interview. “We don’t want financial deterioration happening without our knowledge and updating our rating accordingly. Without financials we don’t know if the rating is accurate or not.”

Continue reading.

Bloomberg CityLab

By Danielle Moran

March 14, 2023

Should We Worry About Municipal Bond Defaults?

When it comes to safety in fixed income, municipal bonds have long proven their mettle as a strong, secure way to generate income and returns. After all, in theory, a state or local town has the ability to raise taxes to help pay for coupon payments and make investors whole. And history suggests just that.

But it isn’t always the case. Municipal bond defaults do happen.

With recession risks rising and new trends emerging, some analysts are predicting we could see a new wave of such events in the staid muni market. So, what should investors do? Is it time to abandon our muni bonds and look toward greener pastures? History is a good guide.

Continue reading.

dividend.com

by Aaron Levitt

Mar 13, 2023

State & Local Roundup: Bank Collapses Add to Worries for State and Local Officials

Plus: Lawmakers want to tighten SNAP work requirements; Conservatives continue DEI assault; A potential labor strike in L.A.; and more news you can use from around the country.

It’s Friday, March 17, and we’d like to welcome you to the weekly State and Local Roundup. This week, a second bank failed and a third narrowly avoided collapse, following the implosion of Silicon Valley Bank last week. The troubles in the banking industry have already caused headaches for state and local officials and could cause even bigger problems down the road.

After the federal government took control of Silicon Valley Bank, New York state regulators and the Federal Deposit Insurance Corp. on Sunday closed Signature Bank, which suffered from losses associated with cryptocurrency. Major banks agreed Thursday to rescue First Republic Bank with a $30 million package.

Continue reading.

Route Fifty

By Elizabeth Daigneau, Daniel C. Vock and Molly Bolan

MARCH 17, 2023

Muni Investors Fret Over First Republic.

First Republic Bank's tumbling share price has left muni bond holders worried about the bank's large stockpile of state and local government debt.

The bank was downgraded to "junk" by S&P Global Ratings Wednesday and was the worst performer in the S&P 500, according to FactSet. Its stock is down 74.99% month-to-date.

First Republic has been hit after the failures of Silicon Valley Bank on Friday and Signature Bank on Sunday. Cryptobank Silvergate Capital also said earlier this month it would shut down.

First Republic said Sunday it shored up its finances with funding from the Federal Reserve and JPMorgan Chase & Co. Executives at the bank said in a statement that day that First Republic's "capital and liquidity positions are very strong."

San Francisco-based First Republic, which is the 14th largest bank by assets according to the Federal Reserve, had $19.4 billion in municipal bonds on its books as of Dec. 31, according to its most recent filing. In contrast, Cincinnati-based U.S. Bancorp, the 5th biggest bank, has a little over $10 billion.

So far this week, muni debt has gotten a boost as investors have fled to ultra-safe investments. If First Republic sells its munis, a larger-than-usual amount of debt could get dumped into the $4 trillion market, dragging down prices.

But, historically, when banks have unloaded munis under pressure, they've generally been able to do so in an orderly way, said Daniel Solender, partner and director at the investment company Lord Abbett.

Should First Republic need to sell, Mr. Solender said, "it doesn't seem like there's a need to rush any sales."

About $580 billion of outstanding muni debt is held by banks, according to the Federal Reserve. Regional banks own close to $140 billion, according to Barclays PLC. Demand chronically outstrips supply in the muni market, one reason it generally remains calm in the face of turmoil – outside of a really major firesale.

"Silvergate sold $4 billion," said Mikhail Foux, head of municipal strategy at Barclays. "I don't think anybody noticed and nobody even knew."

The Wall Street Journal

By Heather Gillers

Mar 15, 2023

Table Of Contents: S&P Global Ratings Credit Rating Models

Table of Contents

An S&P Global Ratings model information document provides a summary description of a Ratings Model (a model that is used in the process of determining a Credit Rating) or a Criteria Model (a complex model that is based on advanced economic, financial, mathematical, or statistical methodologies used in the development of Criteria). A model information document typically includes a summary description of: (i) the model, (ii) assumptions underlying the model, (iii) data used in model development and calibration, and (iv) model limitations. A model information document also includes references to related criteria. Our credit rating models may be global, regional, or local, be specific to an individual industry or subject area, or apply across several industries or subject areas.

Material changes to credit rating models are described within our model information documents, which provide information describing recent material changes to models, where applicable. The publication of an updated model information document to describe material changes to a model typically follows shortly after use of the revised model is approved by S&P Global Ratings. There may be some instances where the description of a material change to a model could potentially reference changes being made by an issuer or a transaction that are confidential until the the issuer or transaction makes those details public. Accordingly, in these instances the publication of updates to a model information document may be timed to ensure that any publication does not communicate confidential information.

This table of contents, which we update continuously as we introduce or enhance models, will direct you to all active model information documents for the groups or instruments listed below. We most recently republished this table of contents on the date shown above.

Continue reading.

13 Mar, 2023

State Laws Shield Many Municipal Natural Gas Utilities From Energy Transition-Related Demand Erosion: S&P

Key Takeaways

- S&P Global Ratings rates 40 municipal gas utilities, 32 of which operate in states that preclude counties and cities from banning new natural gas connections.
- Based on these states' laws, we believe the 32 utilities are unlikely to experience intermediate-term erosion of demand for natural gas that might otherwise weaken their creditworthiness as the

energy transition proceeds.
- We believe that any negative pressure on existing gas sales will be manageable for the eight utilities that operate in states where they are not shielded by protective regulatory measures and might become exposed to prohibitions on connecting new gas appliances.
- Current mandates apply to new construction and the replacement of existing appliances; they do not require property owners to replace functioning gas appliances. We believe cost considerations will limit voluntary replacements.
- The Inflation Reduction Act's tax credits for electric heat pumps and hot water heaters cover only a portion of conversion costs and, therefore, might not provide a sufficient catalyst for property owners to voluntarily accelerate their transition to electric appliances from gas, although combining some states' incentives with federal tax credits might make the move more attractive.

Continue reading.

14 Mar, 2023

Fitch: HFA Loan Performance Compares Favorably to RMBS Loans

Fitch Ratings-New York/San Francisco-13 March 2023: Loans originated by state housing finance agencies (HFAs) show strong performance, with generally lower delinquencies than securitized loans with similar credit characteristics in residential mortgage-backed securities (RMBS) pools, due in part to HFAs' pre-mortgage engagement with potential borrowers and continued engagement after the mortgage is closed, Fitch Ratings says.

Fitch compared HFA loan performance with alt-A, subprime, and reperforming loans (RPLs), which have similar attributes to HFA loans, including weighted average interest rates and FICO scores. We assessed HFA and RMBS loans across 15 states representative of a range of geographic and economic conditions. The performance comparison is based on aggregate delinquency rate reporting by the HFAs, rather than the more granular loan-by-loan payment information for RMBS portfolios.

Most HFA single family programs are secured by a pool of first lien, fixed-rate, 30-year mortgages on primary residences for first time homebuyers. HFA loans have home price and income limit restrictions, and subsequently lower average balances relative to other mortgage loans. Strong HFA loan performance is attributable to underwriting standards that require full documentation and mortgage insurance for any loans with 80% or lower LTVs, as well as keeping the loans on balance sheet, which gives the HFAs ownership of the loans and a vested interest in ensuring that they perform well. This includes active oversight of the loan portfolios, with early follow-ups for delinquent loans to help keep borrowers in their homes and the loans performing.

Continue reading.

'The Era of Urban Supremacy Is Over'

On the last day of February, Glen Lee, the chief financial officer of Washington, D.C., issued a warning to the mayor and members of the District of Columbia Council, who are undertaking such costly ventures as free bus service and expanded affordable housing.

“The Covid-19 pandemic,” Lee wrote, “has brought about significant changes in the District’s population and economy, with potential long-term implications.” Revenue estimates, he said, have “been lowered due to 1) a more pessimistic economic outlook and 2) a deteriorating real property market.”

In Lee’s view, there are still more danger signals:

Continue reading.

The New York Times

by Thomas B. Edsall

March 15, 2023

Extreme Storms Will Punish Cities That Aren’t Prepared.

Hurricane-strength winds and intense rainfall will target the US Northeast in coming decades, a new report warns, redrawing the US flood risk map.

In August 2021, a series of severe storms hit the middle of Tennessee, shattering local rainfall records. In the town of Waverly, flash floods tore homes off their foundations and killed 20 people, including 7-month-old twins swept out of their father’s arms.

“It’s just devastating, to watch your lives go away in dumpsters,” Waverly resident Christy Brewer told a reporter from local NBC affiliate WSMV.

Weeks later, the remnants of Hurricane Ida swept over the same area, completing a one-two punch of wind and rainfall that helped turn Tennessee into one of 2021’s costliest US states for weather disasters.

Continue reading.

Bloomberg CityLab

By Patrick Sisson

March 15, 2023

States Consider New Transportation Funding Options: NASBO

In recent years, states have begun responding to the diminishing buying power of motor fuel revenue. States are concerned that in the long term, the current structure of state and federal fuel tax revenue will not be able to meet infrastructure funding needs as most gas taxes are set at fixed rates and do not rise with inflation, new vehicle fuel economy continues to increase, and the sale of electric vehicles rapidly grows. Since 2013, 33 states have taken actions to raise their fuel tax revenues. Many of the actions resulted from multi-year transportation plans and were combined with other revenue-raising actions. While motor fuel taxes have been impacted by the rise in vehicle fuel efficiency and the increase in electric vehicle sales, they currently remain the largest revenue source for transportation. According to NASBO's State Expenditure Report, in fiscal 2022 motor fuel taxes represented 38.4 percent of transportation fund revenue, followed by license and registration fees (19.8 percent), vehicle sales and use taxes (10.4 percent), tolls (1.3 percent), and all other (30.1 percent).

Continue reading.

National Association of State Budget Officers Budget Blog

States' Role in Water and Wastewater Spending Secure, Says EPA.

An agency official reassured state and federal officials that "states are very much in the driver's seat" in picking which projects to spend funds from the bipartisan infrastructure bill.

The top Environmental Protection Agency official on water policy reassured senators on Wednesday that the agency will give states flexibility in deciding how to spend the $48 billion for water and wastewater funds that was included in the bipartisan infrastructure bill.

"The states are very much in the driver's seat in selecting the projects that really meet the needs of their residents," said Radhika Fox, the assistant administrator for water at the EPA.

At the hearing, West Virginia Sen. Shelley Moore Capito, the top Republican on the Senate Environment and Public Works Committee, raised concerns that the Biden administration would not just consider what areas are most in need of help with their water infrastructure, but that it would factor in other administration priorities as it distributes the money, including its Justice40 initiative to send 40% of funding to disadvantaged communities.

Continue reading.

Route Fifty

By Kery Murakami

MARCH 16, 2023

Muni Reaction to Financial Instability (Bloomberg Audio)

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

Listen to audio.

Mar 17, 2023

[Bank Woes Create Bond Bargain in Obscure Corner of Muni Market.]

- **Muni prepaid gas bonds trade wider on bank contagion**
- **Barclays analysts "continue seeing value" in the sector**

Investor concerns over the crises within the financial industry are bleeding into a corner of the $4 trillion municipal-bond market where major investment banks guarantee energy for public utilities.

Spreads have widened on so-called prepaid gas bonds, which government agencies use to purchase long-term supplies of natural gas. Large institutional banks act as facilitators of the transactions, guaranteeing the supply and providing investors tax-exempt exposure to bank credit. Now, with global markets on edge over turmoil at Credit Suisse Group AG and the collapse of some US regional banks, those bonds have cheapened.

Unlike traditional municipal bonds that are backed by government revenues like taxes or household utility bills, these securities are more closely correlated to the corporate market on a credit basis. So while the broader municipal bond market has rallied, prepaid gas bonds have underperformed because a key-rating factor is the quality of the bank involved in the transaction.

Continue reading.

Bloomberg Markets

By Maxwell Adler and Danielle Moran

March 16, 2023 at 9:12 AM PDT

[Credit Backdrop Adds to Muni ETF Appeal Amid Bank Drama.]

As though rising rate volatility and recession fears weren't concerning enough for investors, the last week's bank run drama and instability has all eyes on the risk of contagion to the broader economy. That has investors looking to safer options, and for those investors who are put off by rapidly falling yields in Treasurys, it may be the right time to consider how a muni ETF can play an important role in recession proofing portfolios in 2023.

When talking about munis, market watchers will be well aware of how badly they performed last year — what investors may not know, however, is that municipal bonds have a strong tendency to bounce back after a tough year. Not only do munis tend to rebound, they're also seeing a solid, stable credit backdrop thanks to unspent Federal aid and record reserves.

That may add to munis' strength as a bulwark, less impacted by the bank situation than Treasurys have been while still looking at the financials sector with caution in mind. Three different muni ETF categories ranked in the top fifteen ETF categories on YCharts based on one month returns, as well, suggesting recent strength and durability for the category.

Continue reading.

ETFTRENDS.COM

by NICK PETERS-GOLDEN

MARCH 15, 2023

ESG Factors of Munis May Attract Non-US Investors.

US municipal bonds have traditionally been owned by US retail investors but their environmental, social and governance characteristics may attract overseas and institutional investors.

David Knutson, head of US fixed income product management at Schroders, told Markets Media that municipal bonds are generally not widely owned outside the United States. He explained that the US market is a natural habitat for municipal bonds, due to their related tax exemptions.

"However, there are inherent sustainable characteristics to a lot of municipal issuance, such as funding hospitals, water and infrastructure, so there could be growing demand among non-US investors," he added.

Continue reading.

marketsmedia.com

by Shanny Basar

03.15.2023

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

View the rating activity.

Ground Lease Risks in Municipal Bond Projects: ArentFox Schiff

Ground lease structures have become a common feature of conduit financings in the municipal bond market. They provide tax advantages to projects and can be structured several different ways depending on the tax-exempt status of the parties involved.

The majority of the projects involve tax-exempt lessor structures. Since government entities and nonprofit organizations are exempt from real property taxes in most jurisdictions, a ground lease between such entities and a borrower-sponsor provides a project the opportunity to either be exempt from property taxes or subject to a payment-in-lieu of taxes arrangement, both of which can provide significant savings over the life of a project.

In higher education, universities usually utilize conduit financed ground lease structures to build student housing projects. These projects include a ground lease between a university, as landlord, and the borrower-sponsor, as tenant. The university agrees to the ground lease because, since the borrower-sponsor is responsible for repayment of the bonds and the mortgage is on the leasehold, the university can build a project on campus without incurring debt and keep the project for free once the ground lease is terminated. During the term of the ground lease, the provisions of the ground lease provides a means for the university to regulate or supervise the project and receive an annual ground lease rent.

In other industries, the issuer often owns the land and ground leases the land on which the project is to be built to the borrower-sponsor, who constructs the project and subleases it back to the issuer. Such a project qualifies for a real property tax exemption because it is owned by a government entity, and since the government entity is also tenant under the sublease, the project qualifies for sales tax exemptions on materials during construction. The issuer, as tenant under the sublease, is responsible for payment of the bonds, while the borrower-sponsor develops and operates the project pursuant to terms and conditions of agreements with the issuer. The borrower-sponsor usually has an opportunity to purchase the land and project once the bonds are paid.

These structures present unique risks to bond buyers. The bonds are generally secured by mortgages on the leasehold and/or subleasehold estates. Bondholders should be mindful of the rights of parties to terminate the ground lease or interfere with their ability to exercise remedies. If the ground lease is terminated or the trustee cannot take possession of the project, the corresponding lien on the physical project is extinguished and the collateral package has no value.

With that in mind, bondholders should seek the following protections in any ground lease that is part of a municipal bond financing:

- **Term** – the term of the ground lease should be at least five years beyond the maturity date of the bonds, and bondholders should push for more if at all possible. The extra five or more years allows for a workout and extension of the term of the bonds in the event it is needed to allow the project to cash flow to cover operating expenses and debt service. If the bonds on a project have a bullet maturity, the term of the ground lease should be at least double the term of the bonds to allow for a refunding of the maturing bonds.
- **Authorization** – the ground lease should explicitly authorize the borrower-sponsor to incur a mortgage on the ground lease or else a court would consider the lien on the leasehold estate invalid.
- **Transfer and Assignment** – the ground lease should be assignable by the trustee without limitations. Failure to include such provisions could prevent a mortgagee from selling or transferring the leasehold estate (by sale or otherwise) upon foreclosure or the execution of an assignment-in-lieu of foreclosure. It is important for the provisions to allow for the trustee to designate another entity to take position in lieu of the trustee since the financing structure may rely on the status of borrower-sponsor to preserve the tax-exempt status of the bonds and/or provide other tax benefits. Additionally, such designee should be entitled to a new lease to aid in the restructuring of the project upon foreclosure or assignment-in-lieu of foreclosure.
- **Notice and Opportunity to Cure** – any notice of default by the tenant under the ground lease should be provided to the trustee, and the trustee should have an opportunity to cure of at least 30 days. An uncured event of default of tenant under the ground lease usually grants the lessor the right to terminate the ground lease, which would eliminate the trustee’s collateral. A notice and opportunity to cure allows the trustee to preserve its collateral and later seek reimbursement for such expenses of borrower under the leasehold mortgage, trust indenture or other bond documents.
- **New Lease** – if the ground lease is terminated for any reason, like termination upon default, or is rejected in bankruptcy, the trustee should have the opportunity to enter into a new lease on the same terms.

  No Modification – the ground lease should not be permitted to be modified without the consent of mortgagee, or else the landlord and borrower could modify mortgagee rights and remedies without mortgagee's knowledge or consent.

In our experience representing bondholders, most of the ground leases we have reviewed have included the foregoing provisions. As we have encountered more complex financings, we have seen the following serious issues:

- **Cross-Default** – the ground lease and sublease must not cross-default with the trust indenture, loan agreement or any other bond document (Example: "A default under the Trust Indenture is a default under this Lease…"). Any event of default under the bond documents should provide the trustee the chance to exercise remedies, not give the landlord the opportunity to eliminate the leasehold estate and, as a result, the collateral, unless the trustee cures borrower-sponsor's default.
- **Third Party Beneficiary** – the ground lease and sublease should recognize the trustee and any successor trustee as third-party beneficiaries. This can be done by including a provision that designates any leasehold mortgagee as a third-party beneficiary that can enforce the agreement against the landlord and the tenant. Leasehold mortgagees are not parties to the ground lease, so a third-party beneficiary designation is required to enforce mortgagee protections in the ground lease and sublease against the landlord and tenant in court. Additionally, if success of the project is dependent on the landlord and borrower-sponsor meeting certain standards or offering certain services under the ground lease or sublease, the third-party beneficiary designation is necessary for the leasehold mortgagee to enforce those provisions against the parties if they fail to meet expectations.
- **Borrower Notices and Consents** – if the project is a lease-sublease structure where the borrower-sponsor is the tenant under the ground lease and the landlord under the sublease, the borrower-sponsor should have no consent rights on any mortgagee matters under the ground lease or the sublease. The borrower-sponsor as ground lease tenant and sublease landlord is more of a passthrough entity for the project until the bonds are paid, while the borrower-sponsor as developer and manager is a true party-in-interest to the project. Just as developers and managers usually do not have consent rights to modifications of the collateral, the borrower-sponsor should not have those consent rights to the mortgage in the project. It grants the borrower-sponsor serious leverage in a workout against bondholders. If the borrower-sponsor has consent rights over mortgages in the sublease, for example, it could prevent the execution of a mortgage on the subleasehold estate over unpaid management and developer fees that are subordinate to debt service.
- **Shared Parcels** – the ground lease and sublease should be on their own subdivided plot, not part of a larger fee estate parcel. When ground lease projects are part of a larger fee estate parcel, the project is at risk of unrelated actions and charges on the fee estate. For instance, if a landlord that has ground leased part of the fee property to a project, funded by bonds and secured by a leasehold mortgage, decides to develop the rest of the property on the fee estate and secure it by a fee mortgage, a foreclosure of that fee mortgage would extinguish the leasehold and subleasehold estates. Similarly, if the landlord's fee project incurs taxes, utility charges, homeowners association fees or other costs that have the potential to become "super liens" superior to the leasehold estate, a foreclosure of those liens would terminate the ground lease and sublease. If the ground lease and sublease must be part of a larger fee parcel, the ground lease and sublease should (a) require that any mortgage or lien placed on the fee interest is subordinate to the ground lease, (b) require that the landlord promptly pays any charges or fees that risks the leaseholds, and (c) allow for the borrower-sponsor and the leasehold mortgagee to cure charges on the fee estate and seek reimbursement from the landlord.
- **Multiple Mortgagees** – The ground lease should recognize the potential for multiple mortgagees and prioritize the most senior mortgagee. We have encountered projects with multiple mortgagees

where the mortgagees do not have an intercreditor agreement. In those cases, either the subordinate mortgagees are subordinate to the senior mortgagees based on time of recording and the other bond documents, or the subordinate mortgagees have a springing security interest that attaches once the senior bonds are paid off. Because there is no intercreditor agreement, the deal is silent as to negotiation procedures upon an event of default. Subordinate mortgagees, who usually have a closer relationship with the borrower-sponsor and misaligned interest with the senior mortgagees, too often take the reins negotiating with landlords in a workout without notifying or consulting the senior mortgagees. Either the ground lease should clarify that the landlord will prioritize the most senior secured mortgagee in negotiation and dispute resolution, and/or an intercreditor agreement with clear guidelines should be recorded on the project.

Before investing in a ground lease project, bondholders must fully understand the project and its risks. While reviewing the official statement and engaging with the underwriter, this client alert should serve as a comprehensive checklist of issues that should be addressed. In the context of a limited offering, perspective purchasers of the bonds have leverage to request our suggested changes to the ground lease. In those transactions, most landlords are related parties that directly benefit from the conduit financed project. It would generally benefit landlords for the projects to succeed, and a failure to negotiate in good faith or a termination of the ground lease with a leasehold mortgage would negatively impact their reputation and rating in the bond market. If any of these protections are not included when the bonds are issued, it is critical to obtain them in a workout as a condition for forbearance or refinancing.

by Mark Angelov & Sterling Johnson

March 9, 2023

ArentFox Schiff

[GFOA Teams with Aon to Help Local Governments Mitigate Natural Disaster Risk.]()

This week, GFOA announced that it’s teaming with Aon plc (NYSE: AON), a leading global professional services firm, on a first-of-its-kind initiative to provide local U.S. governments with state-of-the-art tools to help them better analyze and plan their rainy day funds.

[LEARN MORE]()

[Fitch: US Airport Infrastructure Grants Help Offset Rising Capital Costs]()

Fitch Ratings-Austin/New York-07 March 2023: The recent round of Federal Aviation Administration (FAA) grant awards to US airports under the 2021 Bipartisan Infrastructure Law (BIL) is supportive of airports’ ability to address needed infrastructure expansion or improvement costs, given the capital-intensive nature of airports and higher revised budgets as airports move ahead with capital projects, Fitch Ratings says. US airport traffic has essentially recovered to pre-pandemic levels, contributing to strong airport financial profiles, although the size and scale of needed capital investments remains a significant ongoing budget pressure and is a key factor in our analysis.

We expect that airports’ cost per enplanement and debt levels will continue to rise at major market airports undertaking capital projects, as federal funding will only defray only a portion of the total costs. Fitch believes airport cashflow and liquidity profiles will remain solid in 2023 and following years, given the broad political and financial support for airport improvements, and stronger airline industry positioning due to positive travel trends.

In late February, grants were awarded to 99 commercial airports, with funds to be used for terminal facility projects geared to expansion, modernization, security, and sustainability targets. While federal programs have existed for decades to infuse funds for airport infrastructure needs, grants under the BIL may help lessen the impact of industry pressures from rising capital budgets, exacerbated by the combination of elevated inflation and higher borrowing costs. Further, the magnitude and duration of capital plans, particularly at the large-hub facilities, are resulting in airports seeking solutions to avoid passing through all capital costs via airline fees.

The BIL provides almost $970 million of federal grants per year over five years through the competitive Airport Terminal Program (ATP) for airport terminal improvement and access projects and air traffic control tower updates, demonstrating continued strong government support for the industry even though COVID risks have diminished. However, this amount only represents a small proportion of the estimated infrastructure needs across US airports. A 2021 survey from Airports Council International-North America indicates a backlog of projects well in excess of $100 billion over the succeeding five-year period.

FY23 grants were spread across non-hub, small, medium and large hub airports, with Chicago O’Hare (A+/Stable) receiving one of the largest award amounts of $50 million for its Terminal C rehabilitation, which has a total budget of $136.3 million and is part of the airport’s larger $12 billion, 10-year capital plan. The smaller Key West airport (A-/Stable) was awarded $13.3 million for a new concourse with seven added gates. The BIL grant and separate federal and state grants cover around 65% of the total project cost of $113.4 million. Smaller airports generally benefit more from grant awards relative to their larger peers as their debt capacity for project funding is constrained by their limited enplanement bases.

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MSRB: Negative Yield Municipal Bonds

View the publication.

03/09/2023

Muni Bond Update (Bloomberg Audio)

Joe Mysak, columnist with Bloomberg News, joins the program to discuss the latest on the municipal bond market. Hosted by Paul Sweeney and Kriti Gupta.

Listen to audio.

Mar 10, 2023

Vanguard's First New ETF in Two Years Targets Short-Term Munis.

- **VTES tracks short-maturity munis and charges a fee of 0.07%**
- **First new Vanguard fund since Ultra Short Bond ETF in 2021**

Vanguard Group Inc.'s first new exchange-traded fund in two years is setting sail at a turbulent time for municipal debt.

The Vanguard Short-Term Tax-Exempt Bond ETF (ticker VTES), which tracks an index of municipal bonds due in seven years or less, begins trading Thursday, according to a press release. The asset-management giant's last new ETF was the Vanguard Ultra Short Bond ETF (VUSB), which debuted in April 2021 and now has $3.3 billion of assets.

After a strong start to 2023, US state and city debt suffered its worst February since 2008 as sticky inflation and the Federal Reserve's resolve to tame it shredded fixed-income returns. But even with the recent swings, ETFs are becoming a force in the muni market: In February, assets in exchange-traded products surpassed the total held in closed-end funds, Barclays Plc data show.

"We're seeing heightened demand for fixed-income ETFs, muni ETFs in particular, and in fact, muni ETFs are the fastest-growing category," said Sara Devereux, Vanguard's global head of fixed-income. "We're hearing from investors who want to minimize their tax liability through an ETF at the short-end of the yield curve, and VTES fits that need."

Short-term munis are luring investors with the highest yields in years after the Fed's aggressive campaign to hike rates. What's more, amid all the questions about the central bank's policy path, shorter maturities also offer the benefit of being less sensitive to swings in interest rates than their longer counterparts.

The new entry brings Vanguard's relatively lean lineup to 82 funds with nearly $2 trillion in assets, ranking the firm as the world's second-largest ETF issuer. The move comes less than four months after Vanguard's first-ever closure of a US fund.

VTES is Vanguard's second muni-focused ETF after the $25 billion Vanguard Tax-Exempt Bond Index ETF (VTEB), which it introduced in 2015. VTES charges a fee of seven basis points and is managed by Steve McFee, who also oversees VTEB.

Bloomberg Markets

By Katherine Greifeld

March 9, 2023

Muni Bonds Finally Gained Some Value in Q4.

It wasn't much, but muni bonds got a small reprieve during the holiday season, according to Federal Reserve data released Thursday.

The total value of outstanding municipal debt edged upward to $3.891 trillion in the last three months of 2022, after dropping for five quarters in a row.

The total return on the Bloomberg municipal bond index over those three months was 4.1%, ahead of much of the bond market. The Bloomberg U.S. Aggregate Bond index—largely U.S. Treasurys, highly rated corporate bonds and mortgage-backed securities—returned 1.87%, according to FactSet.

It didn't last, though. To date this year, munis are up less than 0.1%, according to the Bloomberg muni index.

The Wall Street Journal

By Heather Gillers

Mar 9, 2023

Muni Bond Update: Credit Quality Still Looks Strong

While 2023 has started on shaky ground for the municipal bond market, there are reasons to be optimistic for more stability ahead, according to Jennifer Johnston, Franklin Templeton Fixed Income's Director of Municipal Bond Research. She explains why California's issues don't reflect all states, and offers reasons for optimism.

As we reflect on the disappointing performance of municipal bonds in 2022 and even so far in 2023, the fundamentals really have not been a driving force. In fact, in many cases we have actually seen a peak in terms of muni bond credit quality, and many municipalities are actually stronger today than they were prior to COVID-19. Hopefully, state and local governments have prepared themselves for the next rainy day.

Coming into 2023, municipal bond fundamentals were strong as most state and local issuers utilized COVID-19 relief funds to address pandemic costs and economic challenges so they shore up rainy day funds and position themselves for a potential economic slowdown. States in particular entered the year with very strong balance sheets that surpassed levels seen before the pandemic.

California an outlier, not an example
Following a huge surplus in the prior fiscal year, California now projects a large projected deficit in California for fiscal 2024. California's budget deficit has gotten a lot of media attention given the state's sheer size. But the deficit was not a surprise to us as we have been monitoring the state monthly and we think it's an outlier for a few reasons. However, we feel this volatility is not a trend we see nationwide. California is highly reliant on income taxes as a main revenue source. California's income tax structure is very progressive and as a result it has a high reliance on capital gains taxes, which were muted during last year's overall market downturn. We still feel California can utilize its reserve funds (which are the highest in its history) and other budget measures to preserve its fiscal strength over this coming year. We think California can weather this year's challenges.

In contrast, most other states are reporting higher-than-expected income and sales tax receipts. Illinois, for example, is a stronger credit than before the pandemic. The state is projecting an additional US$1.2 billion in revenue since the last projection in November. The state has utilized its surpluses smartly and has prepaid pension expenses and debt. It really has seen a turnaround.

The impact of inflation
Inflation not only hits consumers, it hits governments too. Wage inflation has created challenges, but it also increases income taxes, so that can actually have a positive impact for states. Sales taxes also increase as the price of goods increase, and we've seen good performance in sales taxes. To combat inflation, interest rates are rising, however, so the cost of borrowing for governments is going up.

The good news is that rainy day funds are near all-time highs as states used federal support funds to pay down debt and reduce expenses. So in sum, higher inflation, wage increases, and additional borrowing costs are having a negative impact on budgets, but these are being partially offset with higher tax revenue from additional economic activity.

by Jennifer Johnston of Franklin Templeton Investments, 3/8/23

Goldman Sachs Launches Community Municipal Bond ETF.

Goldman Sachs Asset Management has launched the Goldman Sachs Community Municipal Bond ETF (NYSE Arca: GMUN), an exchange traded fund that provides exposure to tax-exempt municipal securities with the aim to maximize tax efficiency.

GMUN seeks to provide investment results that closely correspond, before fees and expenses, to the performance of the Bloomberg Goldman Sachs Community Municipal Index, a rules-based index designed to track the municipal securities market with remaining maturities between one and 15 years. The fund also has screens that consider certain social or environmental factors.

By focusing on one- to 15-year maturities within the investment-grade municipal bond universe, the portfolio will seek to deliver diversified market exposure with lower duration and higher credit quality than the broader municipal market.

According to GSAM, ownership of high-quality municipal bonds following a rules-based methodology driven by sector, source of funds, and use of proceeds may offer higher credit quality and increased exposure to environmental and social themes than the broader fixed income universe. Targeted allocation into municipalities and projects with positive impact will provide the opportunity to invest in education, healthcare, clean energy, and more community-related initiatives.

"In the past year, we saw greater adoption of municipal bond ETFs as advisors and end clients saw the benefits of diversification, liquidity, and ease of use relative to other investment products," said Todd Rosenbluth, VettaFi's head of research. "The new offering from Goldman Sachs will be focused on essential services such as education, healthcare, and clean water that help to build and grow a local community."

GMUN carries an expense ratio of 0.25%.

ETF TRENDS

by JAMES COMTOIS

MARCH 9, 2023

Rainy Day Funds Reach Historic Levels: NASBO Budget Blog

As inflationary pressures, high interest rates, geopolitical conflict and other factors contribute to slower projections for economic growth, many economists are predicting that the next recession will occur sometime in 2023. How prepared are state governments to weather a possible downturn? After two consecutive years of widespread and sizeable budget surpluses and recent state policy actions to strengthen their reserves, states are now more financially prepared than ever to handle an economic downturn. Rainy day fund balances reached new heights in fiscal 2022, after already growing sharply in fiscal 2021. Based on enacted fiscal 2023 budgets, state reserves are projected to increase further by the end of the current year. While not all states would necessarily have to tap their reserves in the event of a recession, having a robust rainy day fund is a helpful tool many states rely on to manage fiscal uncertainty.

Rainy Day Funds Saw Substantial Growth During the Pandemic

Before the onset of the COVID-19 crisis, state rainy day funds were at a then all-time high in fiscal 2019, after a decade of rebuilding reserves following the Great Recession. In spring 2020, when the pandemic first hit, this financial cushion softened the immediate blow for states facing revenue shortfalls as well as cash flow challenges due to the tax filing deadline shift, helping them to close budget deficits by the end of fiscal 2020 – something most states are required by law to do. At the same time, as state revenue projections were plummeting further, concerns grew that states might end up depleting the rainy day funds they had worked so hard to build in recent years.

Continue reading.

NASBO Budget Blog

By Kathryn White posted 01-25-2023 03:14 PM

New Threat to Town, School District Budgets: Rising Rates.

Cash-strapped towns and school systems have pulled back on loans

Rising interest rates are squeezing cash-strapped towns and school systems that use short-term borrowing to keep cash flowing while they wait for property tax dollars to come in.

A-rated cities and school districts are paying 3.16% for a one-year loan issued March 3, compared with 0.21% at the beginning of 2022, according to data from Refinitiv MMD. In places where local budgets are already burdened by inflation, rising borrowing costs add to the pressure to raise taxes or cut services.

For most of the past decade, short-term borrowing cost almost nothing and offered an easy solution for places with limited reserves and slow-to-arrive revenues. Altogether municipalities generally issue several billion dollars in short-term debt a month to cover day-to-day expenses like keeping traffic lights on and roads plowed.

Continue reading.

The Wall Street Journal

By Heather Gillers

Updated March 7, 2023

Data-Based Decision-Making Is Flawed When the Data Is Flawed.

There are many reasons the quality of state and local data can be poor. Using that information can lead to unfortunate results.

There's nothing new about the importance of data to the smooth functioning of state and local government. But over the last few years, with the aid of advancing technology, phrases like "data-driven" have become ubiquitous and are used to make it appear that policies that fit in that category have some kind of magical seal of reliability.

In fact, "while it's a positive development that agencies are relying more on data," says Tracey Smith, associate director of Virginia's Joint Legislative Audit and Review Commission (JLARC), "that doesn't mean the data is actually good."

There may even be an inverse correlation between increased use of data and the likelihood that it is accurate, timely and useful.

Continue reading.

Route Fifty

By Katherine Barrett & Richard Greene

MARCH 2, 2023

S&P U.S. Not-For-Profit Acute Health Care Rating Actions, 2022 Year-End Review

S&P Global Ratings' portfolio rating actions in 2022 were more negative compared with the previous year's rating actions, which were relatively evenly split between upgrades and downgrades. While initial trends in 2022 were almost balanced through the first six months, a dramatic shift began in the summer where downgrades far outpaced upgrades for the rest of the year. This was mainly due to operating pressures associated with labor and supplies coupled with weakening balance sheets as investment markets declined and government stimulus funding largely ended. Despite the negative ratings shift in the second half of the year, we maintained the ratings on a majority of our health care organizations in 2022 and assigned ratings to eight new issuers.

There were more favorable outlook revisions (stable to positive, negative to stable, or negative to positive) than unfavorable outlook revisions (stable to negative, positive to stable or positive to negative) in the first half of the year, before the summer shift.

Lists of stand-alone hospitals and health systems with rating and outlook changes, as well as a list of the eight new organizations rated by S&P Global Ratings last year, are at the end of this article.

Continue reading.

28 Feb, 2023

Fitch: Early NFP Hospital Medians Show Expected Deterioration; Will Worsen

Fitch Ratings-Austin/New York/Chicago-02 March 2023: Not-for-profit hospital operating margins were pressured following a difficult FY22, according to medians compiled by Fitch Ratings for hospitals with an earlier FYE 2022. Audited results show materially weaker profitability and liquidity relative to FY21 due to expense increases and investment market losses.

The decline in operating results are likely to be even more pronounced in our full-year medians later this year when we have financial reporting for all rated hospitals, given the fact that the results of hospitals with later FYEs bore the full brunt of intensifying financial pressures in 2022, including labor inflation and market volatility. Fitch does not expect a rapid financial recovery for most providers, although hospitals under operational pressure will begin to see breakeven results on at least a month-to-month basis at some point in 2023 with revenue growth and expense pressures easing. Nevertheless, margins are not expected to return to pre-pandemic levels for quite some time.

Continue reading.

Fitch Ratings Updates U.S. Water and Sewer Rating Criteria.

Fitch Ratings-New York/Austin-03 March 2023: Fitch Ratings has updated its criteria for U.S. water and sewer utilities. The criteria updates and replaces the criteria from April 2020.

Among the notable revisions Fitch has made include changes to thresholds used to assess operating cost burden to reflect increased costs across the sector in light of recent inflationary pressures.

Periodic updates to the thresholds to recognize changes in sector-wide costs were anticipated when the criteria was reframed in 2020, and are likely to continue going forward. Fitch is also changing the treatment of Fitch adjusted net pension liability and pension expense in its FAST analysis to reflect a five-year historical average (versus holding last audit year's value constant in nominal terms through five-year horizon), the goal being to have a smoothing effect given recent market volatility.

The key criteria elements remain consistent with those of the prior report. There is no impact on outstanding ratings and no credits are being placed Under Criteria Observation. The previous version of the criteria has been retired.

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

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Additional information is available on www.fitchratings.com

Transportation Department Announces $145M for Projects that Reconnect Communities.

When the Interstate Highway System was constructed starting in the 1950s, its path cut right through communities—decimating previously vibrant and racially diverse neighborhoods. A recently announced initiative, the Reconnecting Communities Pilot Program, seeks to rectify those wrongs. For the first time, the federal government is set to distribute $145 million to 45 nationwide projects designed to reconnect communities cut off from opportunity by historic infrastructure decisions like the federal highway system.

"Transportation should connect, not divide, people and communities," said U.S. Transportation Secretary Pete Buttigieg about the grant opportunity. "We are proud to announce the first grantees of our Reconnecting Communities Program, which will unite neighborhoods, ensure the future is better than the past, and provide Americans with better access to jobs, health care, groceries and other essentials."

Simultaneous to the award distribution, Buttigieg's department announced the creation the Reconnecting Communities Institute, which will provide grant recipients and other organizations with the technical assistance they'll need to achieve their goals.

Continue reading.

American City & County

Written by Andy Castillo

1st March 2023

New GFOA Research: The Budget Officer as the Decision Architect

Organizations benefit from decision architecture. Budget officers can be the decision architects of local government by building on four job responsibilities that allow them to reduce the impact of well-known problems of bias and noise in human decision processes.

Publication date: February 2023

DOWNLOAD

Digital Bonds: The Disruption Is Underway - S&P

Key Takeaways

- Digital bond issuance has risen in recent months, and should continue to increase given the evident interest in the nascent market.
- Efficiency and speed of execution are the key benefits, while fractionalization and financial inclusion remain secondary considerations.
- Testing of issuance options and features has led to variations in bond parameters but little difference in terms of risk.
- Digitalization will reduce intermediaries' roles, while traditional financial players have adapted to protect their positions, so far.

Continue reading.

[Free Registration Required.]

27 Feb, 2023

How Environmentally Conscious Investing Became a Target of Conservatives.

The business world has been pulled into partisan politics, with Republicans bringing their battle against socially conscious investing to Congress.

It's been a widely accepted trend in financial circles for nearly two decades. But suddenly, Republicans have launched an assault on a philosophy that says that companies should be concerned with not just profits but also how their businesses affect the environment and society.

More than $18 trillion is held in investment funds that follow the investing principle known as E.S.G. — shorthand for prioritizing environmental, social and governance factors — a strategy that has been adopted by major corporations around the globe.

Now, Republicans around the country say Wall Street has taken a sharp left turn, attacking what they term “woke capitalism” and dragging businesses, their onetime allies, into the culture wars.

Continue reading.

The New York Times

By David Gelles

Feb. 28, 2023

Future Returns: Maximizing Benefit Through Social-Impact Muni Bonds

At the end of 2022, asset managers held US$8.4 trillion in ESG-aligned investment vehicles, according to the US SIF Foundation, representing 13% of all U.S. assets under management.

Eric Glass was one of the pioneers of that class of investments, helping launch AllianceBernstein’s Municipal Impact fund in 2015. Glass helped raise US$1.4 billion for the fund, and managers proudly point to its many positive impacts.

But in 2021, Glass walked away from the Nashville, Tennessee-based

AllianceBernstein, striking out on his own to develop a municipal strategy that he believes can be even more impactful to local communities and more beneficial to investors. The muni-bond market has long been the vehicle for financing the fundamentals of a community—roads, water, electricity, education, and so on. Using it to target needier populations represents the muni market’s natural evolution toward “socially responsible” metrics, Glass says.

Continue reading.

Barron’s

By Andrea Riquier

Feb. 28, 2023

Fiscal Justice Investing Is Changing the Municipal Bond Market.

Government bonds have long been synonymous with public spirit. During World War I, Hollywood celebrities like Charlie Chaplin and Ethel Barrymore promoted “Liberty Bonds” to raise funds for U.S. military efforts. In the decades after the war, an irrepressible Wall Street salesman named Jim Lebenthal coined the phrase “Built By Bonds” to popularize buying local-government debt for public works projects.

A new generation of investors is imbuing that traditional sense of purpose with an awareness of those underserved in American communities and markets. The "fiscal justice" investing strategies they're developing subvert the existing municipal bond market and use it to alleviate some of the inequities in American society.Government bonds have long been synonymous with public spirit. During World War I, Hollywood celebrities like Charlie Chaplin and Ethel Barrymore promoted "Liberty Bonds" to raise funds for U.S. military efforts. In the decades after the war, an irrepressible Wall Street salesman named Jim Lebenthal coined the phrase "Built By Bonds" to popularize buying local-government debt for public works projects.

A new generation of investors is imbuing that traditional sense of purpose with an awareness of those underserved in American communities and markets. The "fiscal justice" investing strategies they're developing subvert the existing municipal bond market and use it to alleviate some of the inequities in American society.

Fiscal justice strategies are still new and haven't yet been packaged into a product that retail—or even institutional—investors can put money into. But the idea is gaining currency among all players, including foundations, academics, and impact investors, and may represent the next wave of socially responsible money management.

Continue reading.

yahoo.com

by Andrea Riquier

March 2, 2023

One City's Intriguing Experiment With 'Social Bonds'

With a bond issue earmarked for community projects and marketed to individual investors as well as institutional buyers, Chicago is trying to move the needle on social equity. Is it the start of a durable trend, or just a cute public finance anomaly?

The municipal bond market is dominated by large institutional buyers like insurance companies, banks and mutual funds. Individual investors usually get the leftovers. But the city of Chicago broke through that glass ceiling last month with a $160 million "social bond" issue that attracted a swarm of individuals and households who want their money to do more than just earn tax-free income. In this case, the bonds' proceeds are earmarked for a variety of urban social goals, including affordable housing, vacant-lot cleanup and the planting of 15,000 trees.

For a city with a checkered history of fiscal self-deception and perennially fragile bond ratings to pull off this sale is noteworthy in itself. That it could sell 20-year bonds at rates under 4 percent — below that of even today's super-safe U.S. Treasury bills — was itself a remarkable accomplishment.

Can and will other cities follow Chicago's lead? Or was this just a blip on the radar — a cute anomaly but not durable enough to move the needle in urban redevelopment and social equity?

Continue reading.

GOVERNING.COM

OPINION | Feb. 28, 2023 • Girard Miller

Public Finance Professionals Can Lead on Climate Change.

Climate change is a complex issue, and it's no surprise that there are many voices discussing how best to tackle it. So, where does the public finance professional fit in to this complex conversation? To tackle global issues such as the climate crisis and make our economy more sustainable, we need to train a new generation of public finance professionals with the right skills for the challenges ahead.

Carbon pricing is one of the ways in which public finance departments can help to tackle climate change. CIPFA's recent report, Public financial management can lead on climate action: the case for carbon pricing, argues that public finance professionals have an important role in advancing the global adoption of carbon pricing and bringing benefits to local communities. Public finance professionals also have many other skills that are necessary in the fight against climate change, like problem solving, leadership, relationship building, influencing and negotiation.

Carbon pricing involves placing a monetary value on carbon production and consumption, incentivizing the move to a lower carbon and greener economy. However, global adoption has been low and there are large gaps between what is politically viable to implement and what is needed if we are to achieve our climate goals. But there is a key role for the finance professional to design and implement these policies and demonstrate the benefits to local communities. The skills they need are more than just being good with numbers, though.

Continue reading.

Forbes

Mar 2, 2023

by Rob Whiteman

Rob Whiteman is the Chief Executive of the Chartered Institute of Public Finance and Accountancy.

Mortgages, ETFs, Autos, Munis, and Aviation (Bloomberg Radio)

Erica Adelberg, MBS Strategist with Bloomberg Intelligence, joins the program to discuss the housing market, mortgage rates, and outlook for home buying. Sylvia Jablonkski, CIO at Defiance, joins the show in-studio for a discussion on ETF flows and stocks. Kevin Tynan, Senior Autos Analyst with Bloomberg Intelligence, joins the program to discuss everything autos earnings, including ChargePoint, Rivian, and Tesla. Eric Kazatsky, Senior Municipal Strategist with Bloomberg Intelligence, and Chris Brigati, Managing Director/Senior VP of Municipal Investments at Valley National Bank, join the program to discuss the latest on the muni bond market. Ali Ben Lmandani, CEO at ABL Aviation, joins in studio to discuss his investing strategy and aviation. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Mar 03, 2023

Nuveen's Malik Says Munis, Leveraged Loans 'Very Attractive'

Nuveen CIO Saira Malik says investors should take advantage of the “strong” fundamentals backing municipal bond and leveraged loan assets. “You are seeing entry points that you haven’t seen in years or even decades,” she says on “Bloomberg Surveillance.”

Watch video.

Bloomberg SurveillanceTV Shows

February 28th, 2023, 5:38 AM PST

Three Reasons Munis Are Right, Right Now.

The screaming banner headline running across the Goldman Sachs Asset Management “Muni Monthly” newsletter for January was hard to miss: “WHAT A START! BEST JANUARY IN 14 YEARS!”

Given the pounding that municipal bonds took for most of last year and the stellar turnaround taking place now, asset managers can be forgiven for wanting to shout the good word from the rooftops.

The S&P Municipal Bond Index showed a 3.21% return for January, the highest monthly return since 2009. For those who need reminding, that’s tax-free at the federal level, and sometimes at the state and local levels, too, making this investment extremely attractive to tax-sensitive (read: high-ne--worth) clients. The taxable equivalent would be 4.9% for someone in a 35% tax bracket (using the formula of dividing the return percentage by one minus the tax bracket percentage) and with very low risk.

Continue reading.

FINANCIAL ADVISOR

by JENNIFER LEA REED

MARCH 1, 2023

Fed Rate Policy Is Shaking Up the World of Muni Debt.

Demand is down for municipal bonds, which have erased nearly all of their January gains

The markets’ bumpy start to 2023 is causing whiplash even in the historically placid realm of state and local government debt. Municipal bonds this month have erased nearly all of their January gains after fears of rate increases cooled investor appetites.

“It has been a roller coaster,” said Nathan Will, head of municipal credit research at Vanguard

Group.

Muni fund inflows topped $1 billion a week for most of January, according to Refinitiv Lipper. They have slowed in February after strong sales and jobs data sparked mounting concerns that the Federal Reserve will continue to increase rates for the foreseeable future. In the week ended Wednesday, investors yanked more than $1.6 billion.

Their concern has blossomed just as a flurry of new bonds hit the market, pushing up supply. After weeks of lower-than-usual borrowing by state and local governments, New York City sold $677 million in muni debt this week on the heels of a nearly $2.5 billion bond sale by the University of California system.

“You had demand getting a little bit slower with supply picking up at the same time. That put some pressure on the market,” said Daniel Solender, partner and director at the investment company Lord Abbett.

The year-to-date total return on the Bloomberg Municipal Bond Index was 0.55% as of Thursday, down from 2.87% at the end of January, according to FactSet. Measured daily, the total return has zigzagged just this year between a high near 0.6% and a low of negative 0.6%. Total return is the return on the bonds including price changes and interest payments.

The prospect of rising rates tends to push down bond prices because newly issued higher-interest debt makes outstanding lower-interest bonds less attractive. That is why munis, along with other bonds, suffered their worst year in decades in 2022 as rates climbed.

Most bonds in the $4 trillion muni market are backed by state and local taxes, and prices for the ultrasafe securities tend to move in line with Treasurys. Demand rarely flags because the bonds have a perk coveted by high-income investors: Interest is generally exempt from federal and state taxes. A tax-free yield of 5% equates to a taxable yield of around 8% for investors in the top tax bracket, according to data from Nuveen Asset Management.

But after more than a year of investors and traders trying to predict what the Fed will do, heads are spinning even in the muni market. Over the past two months, debt maturing in one year has been trading at higher interest rates than debt maturing in three years, according to ICE Data Services. Market professionals say they can’t remember that happening for such a prolonged period in more than a decade.

A so-called inverted yield curve, when short-term rates dwarf longer-term ones, is often seen as a sign of an impending economic slowdown when it appears in the Treasury market. In the muni market, where short-term securities are prized for their tax-exempt income, it is also a sign of confusion, said Municipal Market Analytics partner Matt Fabian. Like other investors, muni bondholders are trying to interpret a barrage of conflicting signals.

“All this volatility has bent the muni market a little bit,” Mr. Fabian said.

Adding to the turmoil is a standoff in Congress as the U.S. approaches its borrowing limit.

“We’re seeing the debt ceiling debacle shake muni markets,” Amanda Hindlian, president of fixed income and data services at ICE, said this week. Republicans are calling for any increase in that limit to be paired with spending cuts, a path that could reduce federal funding for state and local governments.

State and local governments are already under budget pressure from rising interest rates, higher costs for goods and services and the possibility of a sustained economic slowdown. But federal aid and robust tax revenues from the stimulus-fueled pandemic recovery have created a strong financial cushion. Fitch Ratings deems the outlook for most state and local government bonds stable going into 2023. The firm upgraded New York City ahead of its bond sale this week, despite projected budget deficits and work-from-home-related revenue struggles.

Still some managers worry that muni prices don't fully reflect the possibility of a prolonged recession, particularly for the roughly half-trillion dollars in speculative-grade and unrated muni bonds that finance more risky ventures such as museums, charter schools and economic development projects.

"You're not getting paid enough in our view to take that risk on right now," said Duane McAllister, senior portfolio manager with Baird Advisors.

The Wall Street Journal

By Heather Gillers

Feb. 24, 2023

More States Push Back Against GOP's Anti-ESG Campaign.

While Florida and Texas rail against sustainability, Democrats and Republicans in other states are embracing it.

An increasing number of US states are starting to push back against the anti-ESG rhetoric emanating from the Republican Party and a few of its high-profile governors. Some are moving ahead with their own rules to address sustainability concerns and lower greenhouse gas emissions.

With Congress deadlocked for at least the next two years, state governments are now at the forefront when it comes to environmental legislation. In Minnesota, Governor Tim Walz, a Democrat, signed legislation establishing a statewide carbon-free electricity standard. In New Jersey, Governor Phil Murphy, also a Democrat, announced a series of steps aimed at achieving 100% clean energy by 2035.

A few Republican-dominated states are bucking their party's anti-ESG messaging as well. Pension plan executives in Kentucky, where the parties split control of state government, said the state treasurer's call for them to pull funds from financial-services firms deemed "hostile" to Big Oil violated their fiduciary duty. State officials in North Dakota, a Republican-controlled state, took a similar stand.

Continue reading.

Bloomberg Green

By Tim Quinson

February 22, 2023

['Catastrophic Financially.' What It Means for Cities If the Debt Ceiling Isn't Raised.]

A default on the federal level could discourage investors from providing the money cities need to function, build affordable housing, fix roads and make other improvements.

In rapidly growing Clearfield City, Utah, Mayor Mark Shepherd is watching the drama in Washington over raising the debt ceiling, worrying about what the federal government defaulting on its loans would mean for his city's overhaul.

In just the last four years, the city has permitted or started construction on an additional 4,000 homes after getting rid of its limit on building heights. It used municipal bonds to expand the city's train station and raise money for other projects like fixing its roads.

But Washington's stalemate could put a halt to more projects or force the city to raise taxes on citizens who could be dealing with a nationwide financial crisis.

Continue reading.

ROUTE FIFTY

by KERY MURAKAMI

FEBRUARY 21, 2023

S&P Outlook For U.S. Independent Schools: Consistent Demand Trends Despite Macroeconomic Pressures

Sector View: Stable

Our outlook on the U.S. independent school sector is stable. Risks, such as rising expenses, affordability pressures, and market volatility persist, but schools remain well positioned to manage operations through long-term budgeting.

Continue reading.

20 Feb, 2023

S&P Digital Booklet Published: Cyber Risk Insights

NEW YORK (S&P Global Ratings) Feb. 22, 2023–Cyber risks are an evolving threat to issuers' credit quality that must be systematically factored into organizations' governance and risk management frameworks, S&P Global Ratings said in a digital booklet, "**Cyber Risk Insights: Navigating Digital Disruption**," published today.

The booklet collates 11 reports covering subjects including how cyber risk affects credit ratings, the evolving cyber insurance industry, cyberthreats faced by issuers, and how cyber risks could impact credit quality across all sectors.

"This booklet is a selection of cross asset class insights from S&P Global Ratings' analysts, covering all rated entities from corporations, to governments, and structured finance transactions," said Tiffany Tribbitt, Senior Director & Lead for Global Cyber Security Research at S&P Global Ratings.

This report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Moody's: The Impact of Climate Change on U.S. Subnational Economies

Moody's Analytics new regional climate change forecasts shed light on the economic impact of this important long-term risk on all states, territories and metro areas in the U.S.

View the Moody's forecast.

FEBRUARY 24, 2023

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

View the Current List.

23 Feb, 2023

It's Been Two Years Since ARPA Was Signed Into Law and Almost 70% of Cities Have Committed their Allotments.

At the pandemic's height two years ago, American cities and counties were facing an uncertain future. Nationally, reported daily cases had peaked at more than 1 million, and renewed lockdown orders threatened to stifle the economy as it was re-emerging from a year marked by the onset of COVID-19.

The $1.9 trillion American Rescue Plan Act, which was signed into law last March, provided much more than $350 billion in necessary fiscal aid to floundering local, state and tribal governments—it paved a path beyond lockdown orders and social anxiety, letting local administrators build for the future. A new collaborative report from Brookings Metro, the National League of Cities (NLC), and the National Association of Counties (NACo) documents how 329 large cities and counties have prioritized expending their combined $65 billion federal allocation.

As of September, the tracked metros had committed 68% of their State and Local Fiscal Recovery Funds (SLFRF) dollars to 8,825 projects, an increase of 17% from the 7,537 projects that were reported in June. Of those, 34 counties, and 29 large cities and consolidated city-counties had committed 100% of their fiscal shares. Notably, 79% of large cities and consolidated city-counties have budgeted their allotments, compared to 59% of counties.

Continue reading.

American City & County

Written by Andy Castillo

23rd February 2023

High Yield and Recession-Proof: The Current Appeal of Municipal Bonds.

Bonds that offer high yield and can ward off the threat of a potential recession offer fixed income investors an attractive option. Right now, they can get that duality in municipal bonds.

That said, investors have been lapping them up as of late, which is a stark contrast from last year's bond debacle. Rising interest rates soured the taste for bonds amid the U.S. Federal Reserve's monetary policy tightening, but that's all proving to be in the past given the latest bond rally.

"Investors may have bailed out of muni-bond funds in record numbers last year, but now the asset class is not only looking attractive thanks to high yields but also appears well positioned to ride out a recession," wrote Katherine Lynch in Morningstar, also noting the attractive yields munis are offering.

"As with the rest of the bond market, yields on municipal securities are at their highest levels in many years," Lynch wrote further. "The average intermediate muni-bond fund stands at 3%, compared with roughly 1% just a year ago. When investors factor in the tax-exempt nature of many municipal bonds, the yield advantage is even greater, in some cases topping those found on comparable taxable-bond funds."

Additionally, the threat of a recession looms large as the Fed continues to tighten rates. However, local governments have fortified their financial positions in order to withstand a slowdown in economic growth.

"In addition, thanks to a general trend of many state and local governments strengthening their fiscal positions over the past several years, credit quality in the muni market is seen to be exceptionally strong," Lynch added. "That should help muni-bond funds ride out the kind of recession that could hurt corporate bonds or other credit sensitive parts of the fixed-income market."

An Active Muni Option
For dynamic exposure to the muni bond market, consider the American Century Diversified Municipal Bond ETF (TAXF). The fund offers an actively managed strategy that allows for portfolio tailoring by seasoned portfolio managers.

The fund seeks to provide consistent tax-free income by employing an active, research-driven process that draws from across the municipal bond universe and adjusts exposure depending on prevailing market conditions. As with local government bonds in the U.S., credit risk is minimized, with close to 80% of the fund ranging in debt rated at AAA to A (as of May 31).

The fund also features a low expense ratio of 29 basis points. This should appeal to cost-conscious investors who may typically view actively managed funds as too expensive to consider.

ETF TRENDS

by BEN HERNANDEZ

FEBRUARY 21, 2023

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

View the S&P activity report.

Fitch: U.S. Labor Demand Will Weaken on Rising Interest Rates, South Dominated Jobs Recovery

Fitch Ratings-New York-14 February 2023: Fitch Ratings expects the U.S. labor market to weaken as aggregate demand stagnates over the course of the year in response to the lagged effects of higher interest rates, according to a new Fitch report.

“The 517K payroll growth number for January 2023 was an upside surprise that is likely not going to be sustained.” said Olu Sonola, Head of U.S. Regional Economics. “Job growth has decelerated in five of the last six months. U.S. labor market conditions are still very strong, but they look set to continue the cooling trend in 2023.”

Employment recovery in 2022 was dominated by the South, particularly in high wage industries, such as information, and professional and business services. Four states in the South (Texas, Florida, North Carolina and Georgia) accounted for approximately 50% of job growth in the information, and professional and business services sectors, relative to pre-pandemic levels. Weakness in these sectors in 2023 will likely be a drag on job growth in these four states.

The state median jobs recovery rate is 100%, up two percentage points from 3Q22. Twenty-seven states recovered all job losses resulting from the onset of the pandemic.

States recouping 100% of 2020 employment losses include Indiana, Nebraska, Missouri, Maine, New Hampshire, New Jersey, Alabama, Arkansas, Florida, Georgia, Kentucky, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Arizona, California, Colorado, Idaho, Montana, Nevada, Oregon, South Dakota, Utah and Washington.

The labor demand and supply imbalance remains stubbornly persistent, equal to approximately 3.1%, or approximately 5.1 million, of the labor force. The labor supply is still notably below pre-pandemic levels and may not fully recover.

For more information, a special report titled “U.S. States – Labor Market Quarterly Tracker – 4Q22” is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Fitch: US Debt Ceiling Policy Actions Consequential for Public Finance Credit

Fitch Ratings-New York-15 February 2023: Fitch Ratings believes the U.S. government is likely to raise or suspend the debt limit to avoid default. However, the way it resolves the latest debt ceiling impasse could affect the risk profiles of Fitch-rated states, local governments, and US public finance (USPF) revenue-supported entities. Federal budgets directly support a wide range of functions carried out by states and local governments, and broader federal spending is meaningful to the economic activity that underpins the credit quality of USPF issuers.

If resolution of the debt ceiling materially reduces federal spending, USPF credits could be directly affected over time, especially those that rely on federal funding for healthcare services, housing subsidies and grants, higher education grants and student loans, and other programs. Medicare and Medicaid cuts would be particularly consequential given their size and relative importance for healthcare institutions and state governments. Medicaid (a joint federal-state program) comprises roughly one-third of total state budgets, while Medicare and Medicaid combined are more than one-half of the payor mix for hospitals.

All USPF sectors would be exposed to the wider ramifications of reduced federal spending, which would gradually reverberate through economic activity and could weigh on future tax collections and revenues. The U.S. Treasury Department estimates federal spending averaged approximately one-fifth of total GDP in the five years before the pandemic. Significant federal fiscal consolidation could have meaningful effects on overall economic activity.

Most USPF ratings assume sufficient flexibility to respond to reduced federal funding. The ability of state and local governments to respond to direct cuts, primarily with their own spending cuts, reflects their significant autonomy within the U.S. federal structure. States benefit from strong legal and fiscal powers enshrined in the U.S. Constitution, and states in turn delegate substantial fiscal powers to local governments. Local governments bear the added risk of absorbing potential state tightening that could follow federal cuts, although they typically have broad budgetary tools and reserves to cushion unforeseen developments. Many states and local governments currently benefit from unusually high reserves and solid liquidity given multiple rounds of pandemic-related federal economic stimulus and generally prudent fiscal management.

Revenue-supported entities are also generally well-positioned to absorb the effects of reduced federal funding. Cuts to Medicaid and Medicare would add to fiscal challenges for not-for-profit hospitals. However, hospitals and health systems generally have rating flexibility due to significant balance sheet cushion, a hallmark rating strength of the sector, and the generally lower reimbursement levels from both Medicare and Medicaid compared to commercial payors.

A prolonged impasse marked by heightened brinksmanship and risk of default cannot be ruled out. In this scenario, higher uncertainty could have more serious economic consequences. While Fitch's USPF ratings anticipate normal economic cycles, if debt ceiling uncertainty triggers a sharp and deep downturn, they would be subject to greater transition risk.

Most USPF ratings are not explicitly tied to the U.S. sovereign rating ('AAA'/Stable) except when bond repayment depends on federal agencies or instruments. Negative rating action on the U.S. sovereign would likely result in negative action on ratings with direct links to, or dependence on, the sovereign rating unless other factors mitigate the exposure.

Bonds linked to the sovereign rating include municipal housing bonds currently rated 'AAA' and secured entirely, or predominately, by Fannie Mae and Freddie Mac mortgage-backed securities, pre-refunded municipal bonds where escrowed funds deposited with a trustee to advance refund the bonds are invested in U.S. government obligations, and bonds fully enhanced by FHLB letters of credit. Ratings on pre-refunded municipal bonds depend on the rating assigned to U.S. treasuries or other bonds guaranteed by federal agencies.

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

Municipal Bonds: Are States Recession-Ready?

Municipal bond investors worry about the impact of a potential recession on the financial health of individual states. States represent the largest sector in the $4 trillion muni market—14%—and provide important funding sources to other municipal issuers. Therefore, state budget challenges can have broad negative consequences if not handled effectively. But the state of the states is strong, and their solid fiscal report cards should help most of them skirt economic speedbumps on the horizon.

States Given Much Prep Time for Recession

If a recession strikes, it should be no surprise to state leaders. This has been one of the most telegraphed leadups to a possible downturn in decades. What's more, muni issuers have the fiscal strength and budget tools to navigate an economic setback.

States' financial health is its strongest in decades, the combined result of years of steady revenue income, increasingly conservative budgeting and leftover federal relief funds in the wake of the COVID-19 pandemic as well as improved pension funding practices since 2008. Total fund balances hit a record $343 billion in 2022, equal to 32% of their expenditures (Display).

Continue reading.

AllianceBernstein

Bryan Laing, CFA| Credit Analyst—Municipal Bonds
Daryl Clements| Municipal Portfolio Manager

FEBRUARY 13, 2023

Attention, Public Financiers: Money Is Now Growing on Trees

As polluters pay up for absolution, state treasuries and public pension funds might be able to capitalize on carbon offset credits. Public forests and timberland investments could yield untapped value.

Last month, Alaska Gov. Mike Dunleavy introduced carbon management and monetization bills that could be forerunners of similar legislation, in the 38 states with state forests, seeking to capture some of the economic value of global efforts to reduce carbon emissions. Just a month before, a major U.S. oil company promised the government of Guyana, where it has discovered a massive subsea oilfield, a $750 million deal to buy what are called carbon offset credits for local forest preservation. A week later, JP Morgan asset managers cut a deal to buy $500 million of loblolly pine timberland in Arkansas, Mississippi and Oklahoma, with investment analysts pointing to the trees' hidden environmental value as carbon sinks.

What spurs these actions is a slowly developing global marketplace. In simple terms, carbon offsets are tradable credits earned by property owners and enterprises that take actions to reduce or offset carbon dioxide emissions. Those credits can be sold for hard cash to businesses that pollute, in order for buyers to achieve a zero-carbon or reduced-carbon footprint. An example would be carbon credits earned by large landowners in the Amazon region who refrain from deforestation, which otherwise would yield them a higher land value if exploited for conventional agriculture.

Continue reading.

governing.com

OPINION | Feb. 14, 2023 • Girard Miller

Taxpayers Lose in GOP's War on ESG.

Texas and Florida lawmakers are targeting banks that support environmental, social and governance practices. The result? A hidden tax on residents.

What happens when Florida and Texas blacklist Wall Street's largest municipal bond underwriters because of their support for environmental, social and governance practices? The answer is a hidden tax foisted on their residents amounting to hundreds of millions of additional dollars.

If socialism means state control of production, distribution and exchange of goods and services, then Florida and Texas fit the description. That's not the case with California, whose embrace of ESG and free markets has allowed it to borrow more cheaply than Florida and Texas even though it has lower credit ratings. Superior demand makes California debt the outstanding performer among the three largest US states.

Companies committed to ESG favor protection of natural resources, human rights, health and safety, community engagement, transparency, compliance with regulatory policies, diversity, equity and inclusion. Investors like the potential. Asset allocation based on ESG criteria has grown to be at least a $35 trillion industry, according to the Global Sustainable Investment Alliance.

Elected officials in Florida and Texas, not to mention half a dozen other states which voted for Donald Trump in the 2020 presidential election, decry ESG as "woke." These southern states, where racist laws prevailed 50 years ago, now prohibit the biggest Wall Street banks from arranging and selling their new bond offerings because they're "woke," often assigning the job smaller firms that may not have the resources or reach to ensure that the borrowers are getting the lowest possible borrowing costs.

Bloomberg Opinion

By Brooke Sample

February 18, 2023

ICE Fills Gaps in Fixed Income ESG Data.

Anthony Belcher, head of sustainable finance at ICE, said the exchange has been filling one of the big gaps in environmental, social and governance data which was fixed income and the link to securities issuance.

Belcher told Markets Media that market participants have been very focused on equities in sustainable finance and ESG, so Intercontinental Exchange saw fixed income as one of the big gaps.

“We can map a company’s ESG data to its fixed income issuance and cover 1.4 million debt securities,” he added. “Clients can now look at ESG from a multi-asset perspective as we also cover municipal bonds and mortgage-backed securities.”

Continue reading.

marketsmedia.com

by Shanny Basar

02.14.2023

Research Highlights Lack of Benefit from Public Funding of Sports Stadiums.

(The Center Square) – A recent academic paper on the economics of sports stadiums again has highlighted how publicly funding professional sports stadiums does not provide the benefits promised by politicians.

The paper highlights how building entertainment districts surrounding stadiums has not changed that formula and alternative tax funding mechanisms – like those planned to be used in Nashville to fund a new $2.1 billion Titans stadium – only serve to obscure the fact so much is public funding is being used.

“The common justification that stadium-related spending results in increased economic activity is not well founded, because most fan spending derives from existing area residents who reallocate their spending from other local leisure consumption options,” the paper said. “Thus, spending at sports events crowds out other local spending and does not represent net new spending to the area.”

Continue reading.

By Jon Styf | The Center Square Feb 13, 2023

Lankford Wants to Stop Federal Subsidies to Professional Sports Stadiums

WASHINGTON, DC – Senators James Lankford (R-OK) and Cory Booker (D-NJ) introduced the No Tax Subsidies for Stadiums Act, a bill to end generous federal subsidies for professional sports stadiums. The bill would close a loophole in the tax code that allows professional sports teams to finance new stadiums with municipal bonds that are exempt from federal taxes. Rep. Earl Blumenauer (D-OR) is leading the bill’s introduction in the House of Representatives.

Municipal bonds are intended to give communities a way to finance projects, such as hospitals, schools, and roads, without needing to pay federal taxes on the debt’s interest. Using municipal bonds to finance sports stadiums diverts money away from these critical local infrastructure projects.

“Oklahomans should not be forced to pay for new professional sports stadiums in another state with their federal tax dollars when our veterans need better access to care, our federal interstate highways need upkeep, and our debt is skyrocketing past $31.5 trillion. Local taxes can pay for local stadiums,” said Lankford. “Our bill provides an opportunity to cut irresponsible federal spending and refocus our priorities on our constitutional tasks and responsibilities, not sports stadiums. I can’t see any reason we ever started using federal tax dollars to pay for stadiums, and I certainly don’t think we should keep doing it.”

“Over the last two decades, billions of American taxpayer dollars have been wasted by subsidizing the costs of professional sports stadiums,” said Booker. “It is wrong for wealthy investors to exploit a tool intended for critical local infrastructure projects, like schools and hospitals, in order to finance these stadiums. I am proud to introduce this bill that would put an end to this wasteful practice.”

“American taxpayers should not be forced to front the bill for professional sport teams. Billionaire sports owners are perfectly capable of financing their own stadiums to stage their immensely profitable games. Our tax dollars should be used to create communities where all of our families can thrive—communities that are safe, health, and economically secure,” said Blumenauer.

The bill would end federal subsidies for stadium financing but would not prevent localities and states from bidding and offering economic incentives to teams. In eliminating this wasteful expenditure, the bill also unties the hands of local governments to finance their stadium subsidies with taxes on tickets and in-stadium purchases—allowing states to target taxes on the people who actually use and benefit from the subsidy. Current tax law does not allow local governments to finance federal stadium subsidies by levying taxes on stadium purchases.

In a 2020 paper included in the National Tax Journal, it was estimated that as much as $4 billion have been lost in federal tax revenue from subsidies to sports stadiums. The current Super Bowl Host Committee believes this year’s Super Bowl brought in approximately $500 million to the local Arizona economy.

In addition to last weekend’s Super Bowl, Phoenix recently hosted the PGA’s Waste Management Open from February 6-12 and Car Week. A professor at Arizona State University says the three events will help the Valley area surpass $1 billion in revenue. When Phoenix hosted Super Bowl XLIX (49) and the Pro Bowl in 2015, the local economy received over $719 million in revenue. Revenue from sales taxes, hotel taxes, gas taxes, and car rental taxes totaled over $26 million.

Lankford is a member of the Senate Finance Committee and serves on the Tax and IRS Oversight Subcommittee.

BDA Bonding Time: A Discussion with Tom Kozlik of Hilltop Securities on Rates and Issuance in 2023

The BDA’s most recent episode of Bonding Time features a discussion with Tom Kozlik of HilltopSecurities. The podcast was led by Brett Bolton of the BDA and covers:

- The Fed likely staying the course over first half of 2023 and its impact on Hilltop’s issuance prediction
- Municipal credit outlook and the potential need for lifelines for key sectors such as mass transit
- An update on debt ceiling negotiations in Washington, DC

Listen to audio.

Bond Dealers of America

February 13, 2023

Muni Moves in January (Bloomberg Audio)

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

Listent to audio.

Feb 17, 2023

World's Top Junk-Muni Fund Is Loaded With a Rarely Traded Stock.

- **Energy Harbor shares are top holding in 15 of Nuveen's funds**
- **Received in debt workout, shares deliver boon — and a risk**

The biggest holding in the world's biggest high-yield municipal bond fund isn't a municipal bond.

It's a $1.5 billion stake in shares of Energy Harbor Corp., a thinly traded power company that's not listed on any US stock exchange. The Nuveen High Yield Municipal Bond Fund — like many others run by the investment giant — received the stock three years ago after the company's precursor, FirstEnergy Solutions, restructured its debts in bankruptcy.

It hasn't been a bad investment. In fact, the shares have surged so much that it's creating a dilemma for Nuveen — and posing a little-known risk to its investors.

Continue reading.

Bloomberg Markets

By Martin Z Braun and Miles Weiss

February 16, 2023

Muni ETFs Become A Force.

Bloomberg's Max Adler discusses Muni ETFs with Matt Miller and Katie Greifeld on "Bloomberg ETF IQ."

Watch video.

February 13th, 2023

Muni ETFs Are Nabbing Record Cash.

ETFs now account for about 11% of total municipal fund assets, surpassing the total held in closed-end funds, according to data analyzed by strategists at Barclays. Max Adler has more on "Bloomberg Markets."

Watch video.

Bloomberg MarketsTV Shows

February 13th, 2023

Muni ETFs Gaining Assets From Mutual Funds.

Municipal bond exchange-traded funds are pulling in record cash as Bloomberg TV reported on Monday citing Barclays data, with ETFs making up nearly 11% of total municipal fund assets. But while the overall trend shows flows going into muni ETFs and coming out of muni mutual funds, that's not a completely one-way migration.

Most recently, municipal bond ETFs are seeing a hiccup after being on a tear in 2022. The category has seen roughly $600 million in outflows year to date. Meanwhile, mutual funds saw significant outflows in 2022 and have pulled in several billion dollars this year.

Consider also that two of the largest muni bond ETFs have seen opposing flows year to date. The $32 billion iShares National Muni Bond ETF (MUB) has lost more than $567 million year to date, while the $25.4 billion Vanguard Tax-Exempt Bond ETF (VTEB) has gained $340.7 million in the same time period. Although this year muni bond ETFs have seen more than half a billion dollars in outflows, in the past 12 months, the category gained almost $28 billion.

Continue reading.

Yahoo Finance

by Heather Bell

Tue, February 14, 2023

SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

- Issuance (as of January) $22.4 billion, -14.6% Y/Y
- Trading (as of January) $12.5 billion ADV, +21.0% Y/Y
- Outstanding (as of 2Q22) $4.0 trillion, +0.2% Y/Y

Download xls

February 6, 2023

BofA Sees More Muni-Bond Defaults in 2023 After January Uptick.

- **First-time payment defaults rose 122% in January from year ago**
- **Forecast reflects a tougher outlook for riskier debt**

Expect more defaults in the $4 trillion municipal-bond market this year, Bank of America Corp. strategists said. Most of the distress will be concentrated in riskier sectors like nursing homes and hospitals.

Muni-bond defaults are forecast to total between $1.7 billion and $2.1 billion in 2023, according to a research note the bank published Friday. First-time payment defaults in January rose 122% year-over-year to $611 million, marking the third highest month since 2019, the note said. Almost all of the defaults were unrated securities in the not-for-profit, nursing home and hospital industries.

The forecast reflects a toughening financial outlook for higher yielding debt that until recently had benefited from an extended stretch of low interest rates, and in some sectors, stimulus money. Most of the credit pain will likely be concentrated among smaller issues.

Continue reading.

Bloomberg Markets

By Nic Querolo

February 7, 2023

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

Download the S&P report.

S&P U.S. Municipal Sustainable Bond Issuance Outlook 2023: Momentum To Continue

S&P Global Ratings estimates total U.S. municipal sustainable bond issuance could reach at least $54billion in 2023.

Download Slides.

S&P U.S. Muni Sustainable Bonds: Momentum To Continue In 2023

A clear fit between the purpose of many municipal entities and the objectives of sustainable bonds is likely to spur ongoing use of the instruments, although headwinds persist.

Download

When States Take Over Financially Troubled Local Governments.

A recent bankruptcy filing by Chester, Pennsylvania, highlights the limits and difficulties with state programs in dealing with fiscal stress at the municipal level.

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer and this week is the third and final installment of my series on Chester, Pennsylvania's bankruptcy. You can find the first two parts here. This week, I'm taking a look at state oversight of distressed municipalities.

A number of states have programs in which they actively monitor municipal finances and roughly 20 have emergency manager laws allowing for direct intervention. People have long debated how effective these oversight programs are at generating a real recovery and what the right level of intervention even is. Duly elected city officials don't like being told what to do by state overseers. States on the other hand, typically want troubled cities to just buckle down and take their advice—even if it's tough medicine.

So while the whole point of these programs is to avoid or mitigate extreme distress, they can also create or exacerbate tension between cities and states along the way.

Continue reading.

Foute Fifty

by Liz Farmer

FEBRUARY 7, 2023

The Politics of ESG Investing.

Leaders in conservative states are hesitant to adopt ESG-related principles. Are their positions purely political or substantive as well?

Florida Gov. Ron DeSantis made headlines when he banned the state's pension system in August 2022 from making investment decisions based on environmental, social, and corporate governance guidelines or any other guidelines outside of pure financial performance.

This is one of several recent examples of Republican officials in red states making such decisions when it comes to using ESG or other social responsibility factors in policymaking or administrative decisions.

Around the same time DeSantis announced his decision, Texas banned 10 banks and 348 investment funds from doing business with the state for allegedly boycotting fossil-fuel based energy companies. And before that, Utah threatened to sue S&P over its use of ESG as part of its creditworthiness rating criteria for the state.

Continue reading.

Route Fifty

By Hughey Newsome

Feb 10, 2023

GFOA is Rethinking Financial Reporting.

Local governments are in an era characterized by declining trust, increasing resource constraints, and increased risk. For these reasons GFOA has launched the Rethinking Revenue and Rethinking Budgeting initiatives. Part of the "rethinking" process is to ask questions and discover what is actually driving these processes and what provides value. Over time, status quo can stagnate while needs change. Similarly, we should be asking questions about financial reporting to determine if current practices are still meeting needs. For example, in a time of decreasing trust in government, we should ask if lengthy, technical financial reports that are published many months in arrears are the most effective way to build trust with government's most important constituency: citizens. In a time of declining resources, we should ask if the finance officer's time is well spent producing these reports, if, in fact, these reports are not the best way to provide accountability to the public. Government finance officers face substantial opportunity costs with their time. Time spent on general purpose external financial reports is time not spent on other forms of decision support and public engagement. For these reasons, we are now launching "Rethinking Financial Reporting."

GFOA's next steps will follow the dictum "a problem well stated is a problem half solved." This means we will conduct rigorous research on questions like: To what extent do financial reports inform decisions and policy making? What is the cost of compliance with GAAP accounting and reporting standards? What do citizens/taxpayers want to know about local government finance? How do they define accountability for the use of their tax dollars?

GFOA's commitment to generally accepted accounting principles (GAAP) remains iron clad, as the consistency and comparability GAAP reporting offers is the best way for governments to meet their obligations to be accountable for the public resources they use to fulfill their public service missions. GFOA also supports financial reporting that is efficient and addresses the information needs of citizens, elected officials and other community stakeholders, and recognizes that current GAAP may not be the best way to achieve these objectives.

Now, we'd like to hear from the GFOA community. A fundamental question of Rethinking Financial Reporting is: "what are the benefits versus the costs of financial reporting?" In this spirit, we'd like to pose a few questions to members as a way to begin the conversation about Rethinking Financial Reporting.

JOIN THE DISCUSSION

[Guess Who Loses After Florida and Texas Bar ESG Banks?]

Banning Wall Street's biggest municipal bond underwriters has foisted a hidden tax on their residents totaling hundreds of millions of dollars.

What happens when Florida and Texas blacklist Wall Street's largest municipal bond underwriters because of their support for environmental, social and governance practices? The answer is a hidden tax foisted on their residents amounting to hundreds of millions of additional dollars.

If socialism means state control of production, distribution and exchange of goods and services, then Florida and Texas fit the description. That's not the case with California, whose embrace of ESG and free markets has allowed it to borrow more cheaply than Florida and Texas even though it has lower credit ratings. Superior demand makes California debt *the* outstanding performer among the three largest US states.

Companies committed to ESG favor protection of natural resources, human rights, health and safety, community engagement, transparency, compliance with regulatory policies, diversity, equity and inclusion. Investors like the potential. Asset allocation based on ESG criteria has grown to be at least a $35 trillion industry, according to the Global Sustainable Investment Alliance. The iShares ESG Aware MSCI USA ETF has expanded 3,400 times to $20 billion since its inception in 2016, according to data compiled by Bloomberg. No less than Larry Fink, chairman, chief executive officer and co-founder of BlackRock Inc., whose $10 trillion in assets makes it the largest money manager, is a believer. He told his shareholders that Wall Street's embrace of ESG is "capitalism, driven by mutually beneficial relationships between you and the employees, customers, suppliers and communities your company relies on to prosper."

Continue reading.

Bloomberg Opinion

By Matthew A. Winkler

February 13, 2023

Time Bomb of Public Pension Funding Ticks Louder.

The aggregate level for state and local plans is below 50%, inviting a disaster that would outstrip the occasional municipal bankruptcy.

State and local pension funding is one of those perennial crises that always seem to loom but only occasionally produce limited actual disasters in places like Detroit, Puerto Rico or the smaller but more recent Chester, Pennsylvania. Essentially all 21st-century municipal bankruptcies in the US are due to underfunded pension plans. But none of the defaults so far have led to falling dominoes: soaring municipal bond yields, taxpayer revolts or general government employee strikes. Will state and local pensions stagger along for the next few decades, bankrupting the odd declining city or three but not triggering a general political or economic crisis? Or are we, in Jim Steinman's immortal words, "living in a powder keg and giving off sparks"?

The chart below is the conventional way to look at the pension situation. The vertical axis shows state and local pension assets at stated values (which often contain optimistic valuations of less-liquid assets), divided by actuarial estimates of liabilities. These are estimates by Piscataqua Research, investment consultants who follow this issue closely.

Continue reading.

Bloomberg Opinion

By Aaron Brown

February 13, 2023

Scorecard Ranks U.S. States on Water Efficiency, Sustainability Policies.

View the scorecard.

WATER FINANCE & MANAGEMENT

BY WFM STAFF

JANUARY 31, 2023

Achieving Higher ROI and Public Trust Through Transparency: A Winning Strategy for Local Governments.

Public trust in local government is eroding. According to data from Polco, in 2022 less than 50 percent of residents surveyed had confidence in their local government. This is part of a larger and worrying trend. The same data shows that overall confidence in local government fell from 56 percent in 2020 to 48 percent in 2022—an eight-point drop.

The most effective way to bolster trust between local governments and their residents is through transparency. Transparency builds public trust, promotes accountability and efficiency, and simultaneously decreases opportunities for misconduct and fraud.

Achieving transparency in local government is challenging. There may be concerns about the time and costs of implementing transparency measures, as well as worries about the risk of opening the organization and its staff to greater scrutiny and criticism. Since prioritizing transparency can provide such significant benefits for a local government, it’s important to understand the potential return on investment of these initiatives.

Continue reading.

American City & County

Written by Mike Bell

10th February 2023

[Muni Outlook for 2023 (Bloomberg Audio)]

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

Listen to audio.

Bloomberg

Feb 10, 2023

How ETFs Are Driving Growth in Municipal Bonds: Morgan Stanley

Municipal bond ETFs are on track to double assets under management by 2026 as obstacles to their growth recede, bringing the tax benefits of muni bonds to more investors.

Key Takeaways

- Ownership of municipal bonds has largely been limited to wealthy investors.
- The growth of muni ETFs is expanding access to these bonds to a broader group.
- Evolving regulatory structures and investment models will likely fuel growth.
- The growth of muni ETFs should have an impact on the muni bond market as a whole.

Continue reading.

Feb 9, 2023

How Public Cash Managers Should Gird for Federal Debt Follies.

If a congressional debt ceiling deadlock persists and capital markets seize up, states and localities will still have to pay their bills. Public financiers need to be ready to adjust their portfolios to establish a liquid cash buffer.

It's *Groundhog Day* again on Capitol Hill as the perennial piñata of the federal debt ceiling has returned to center stage in the political theater. Meanwhile backstage, prudent public cash managers will be donning their risk manager hats to make sure government workers' paychecks don't bounce if a deadlock persists.

For those new to this dramaturgy, Congress has been setting a limit on the amount of federal debt outstanding since 1917, which invites perennial squawking by don't-tax-don't-spend fiscal hawks. Since 1960, the debt limit has been raised 78 times, 49 of them under Republican presidents and 29 times when Democrats occupied the White House. What's different this time, at least so far, is that a voting bloc in the House has elevated the issue to a stagy level that magnifies the risks to capital markets that could develop if the hawks are able to hold control of that chamber over the debt issue.

So far, it looks like the anti-spenders are trying to craft a proposal that would keep certain checks flowing for Social Security retirees, law enforcement, defense and other off-limits spending channels, while freezing or trimming everything else. How that would impact federal payments to the states — which account for a third of their total revenues — is beyond the scope of this column. Instead, let's focus on the implications for state and local cash and payroll managers of a debt ceiling crisis in capital markets if the U.S. Treasury debt market and operations of the Federal Reserve system are held hostage in the political fray.

Continue reading.

governing.com

by Girard Miller

Jan. 31, 2023

[State and Local Governments Face Persistent Infrastructure Investment Challenges.]

Costs grow to address critical repair backlogs and limit impact on public safety after decades of underinvestment

State and local governments across the United States spend roughly half a trillion dollars annually on transportation and water infrastructure, with about one-quarter paid for through grants from the federal government. This spending includes investments in new projects as well as general upkeep and operating costs for roads, bridges, and public transit systems, as well as the development and maintenance of state and locally managed water resources.

Still, experts warn that these commitments will not be enough to keep pace with the growing backlog of needed repairs, or the significant upfront investments required to modernize core public infrastructure systems. In a 2019 report, researchers from the Volcker Alliance, a nonprofit organization focused on public finance issues, estimated that the costs for delayed repairs and maintenance that has accumulated nationally over the past 50 years could reach nearly $1 trillion. That represents about 5% of the nation's gross domestic product (GDP), but the estimate is likely low. Last year, The American Society of Civil Engineers projected these costs could be double that amount.

Making matters worse are the imminent effects—climbing temperatures, rising sea levels, and increasing precipitation, for example—that a changing climate will have on already vulnerable infrastructure systems. Estimates of the additional investments needed to make core public services, such as access to clean water, more resilient to these changes range in the hundreds of billions of dollars.

Continue reading.

The Pew Charitable Trusts

By: Fatima Yousofi & Susan Banta

February 3, 2023

Risky Muni Debt Is Getting Riskier.

Risky municipal debt is getting riskier, according to a recent report from Moody's Investors Service. More muni borrowers reported defaults in the last quarter of 2022 than have since the second quarter of 2020, when early-pandemic shutdowns prompted a wave of repayment problems.

Increasing costs for labor and materials have strained operations and delayed construction on some of the projects these bonds finance. Some nonprofit borrowers are seeing a fall-off in donations. Nursing homes and senior care facilities, a large portion of the high-yield market, are less able to attract new residents in the wake of the Covid pandemic. All those factors will lead more borrowers to fall behind on payments in 2023, Moody's projects.

Most municipal debt is backed by taxes. But the borrowers behind high-yield and unrated muni bonds tend to be charitable organizations or one-off projects that are authorized to borrow at tax-exempt rates because they are seen to have some public good.

"The unrated/high-yield municipal bond sector has moved into a new phase," the report said.

Even with the uptick, muni default rates remain extremely low. For bonds rated by Moody's, the likelihood of default over a five-year period is 0.08%, much lower than corporate debt.

The Wall Street Journal

By Heather Gillers

Feb 2, 2023

Five S&P U.S. Public Pension And OPEB Credit Points To Watch In 2023.

Key Takeaways

- Funded ratios likely to fall for fiscal 2023 as market continues pullback, according to S&P Global Ratings' current economic forecast.
- High inflation could affect pension funding as sponsors experience budgetary stress, but is unlikely to directly alter funded ratios in 2023.
- Retiree health care plans lacking prefunding may see rapid cost increases.
- Pension obligation bond (POB) issuance is expected to remain low as interest rates remain high.
- Lagging payroll growth could lead to compounding cost pressure.

Continue reading.

31 Jan, 2023

S&P U.S. Charter Schools Rating Actions, 2022

Table of Contents

In 2022, S&P Global Ratings took more positive than negative rating actions on U.S. charter schools, reflecting a sector that remains healthy due to increasing demand. Robust federal stimulus funding has led to greater financial flexibility for many of the schools we rate. We raised twice as many ratings (12) as we lowered (six). Moreover, the number of downgrades in 2022 was the lowest in a given year for the past decade (chart 2).

Continue reading.

1 Feb, 2023

S&P U.S. Higher Education Rating Actions, 2022

Table of Contents

S&P Global Ratings lowered 21 ratings and raised 15 ratings on U.S. colleges and universities in 2022. Among the upgrades, we raised the ratings on six Illinois universities by one notch within the 'BB' or 'BBB' categories subsequent to the upgrade on the State of Illinois on May 6, 2022. In addition, we raised the rating on Vanderbilt University to 'AAA' on Nov. 22, 2022, based on a history of exceptional operating performance, increasing endowment, and continued improvement in selectivity and matriculation. Among U.S. colleges and universities that we rate, 19, or 4%, are rated 'AAA'.

Continue reading.

1 Feb, 2023

Fitch: US Not-for-Profit Hospital Cyberattacks Could Signal Greater Risk

Fitch Ratings-New York/Austin/Chicago-03 February 2023: Recent coordinated cyberattacks on US not-for-profit (NFP) hospitals and health systems' websites are unlikely to drive any downgrades, but the attacks highlight the growing risks and capabilities of threat actors who could cause greater harm through more malicious attacks that affect healthcare delivery, Fitch Ratings says.

The websites of a number of US hospitals were taken down in a single coordinated distributed denial of service (DDoS) attack, which sent a flood of traffic to overload a server or website, slowing or shutting them down, potentially for days. This seems to be the most widespread and coordinated attack against the sector to date, with roughly 20 hospitals reporting and some affected hospitals and systems likely not publicly disclosing an attack. Some affected entities have been able to quickly restore their websites, and it currently appears that no personal healthcare information or data was compromised in these attacks.

Given what we know at this point, the DDoS attacks are not expected to have any material financial or operational effect on targeted hospitals due to their brief and relatively superficial impact. However, deployment of a more sophisticated cyber weapon that compromises service and affects a hospital's financial profile could negatively affect ratings. Critically, the disruption highlights the risks to the sector of a similarly scaled, but more severe, attack that could have dire effects on health and safety.

KillNet, the hacking group that has claimed responsibility for the attacks, has previously targeted healthcare organizations, according to recent release from Health and Human Services' Health Sector Cybersecurity Coordination Center that indicates that follow-on ransomware attacks are likely. Healthcare and public health is one of the sectors that the Cybersecurity and Infrastructure Security Agency (CISA) has identified as a critical infrastructure sector, which is the focus of federal security policy. KillNet has also taken credit for similar attacks on other entities outside of the US.

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[Green Transaction Evaluation: Washington Suburban Sanitary District's Consolidated Public Improvement Bonds Of 2023]()

Green Transaction Evaluation: Washington Suburban Sanitary District's Consolidated Public Improvement Bonds Of 2023
The Washington Suburban Sanitary District (the district or WSSC Water) was created in 1918 and operates as a public corporation of the state of Maryland under the Public Utilities Article. WSSC Water provides water supply and sewage disposal to nearly 2 million people in Montgomery and Prince George's counties in Maryland. WSSC Water is issuing consolidated public improvement bonds, the second series of which will be green bonds worth $20 million. The net proceeds of the green bonds will provide funding for (i) the planning, design, and construction of improvements to a water filtration plant in order to reduce solids discharge, (ii) the planning, design, and construction or rehabilitation of large diameter water transmission mains and large system valves and other appurtenances including meter and pressure reducing valves, (iii) other projects that have been designated by the commission as "green projects", and (iv) the cost of issuance.

[Download]()

[Impact Bonds: Bumps in the Road Give Way to a Smoother Ride Ahead]

After a record-breaking approximately $1 trillion of green, social, sustainability, and sustainability-linked bonds (GSSS bonds) in 2021, the biggest impact bond story of 2022 was that new issuance fell for the first time in almost a decade. While ESG investing has come under fire from all sides in recent months, the primary culprit for the slowdown in the market for sustainable debt issuance was the same as it was for global fixed income markets overall: a surge in inflation and the Fed's attempt to combat it by raising interest rates made it more expensive for businesses to raise capital through debt issuance.

Continue reading.

SAGE ADVISORY

By Doug Benning, Vice President & Senior Research Analyst

JANUARY 30, 2023

Muni CEF Update: Great Time To Buy But Not Without Challenges

Summary

- What a difference a year makes – a year ago Muni bond yields were barely above 1% while Muni CEF discounts were close to zero.
- This time around both bond yields and CEF discounts are at very attractive levels. At the same time, the sector faces two challenges which we discuss in this article.
- We continue to see value in funds like BTT, NAD and NZF.

Continue reading.

Seeking Alpha

Jan. 31, 2023

Active Muni Funds Can Stake Their Claim in 2023.

Municipal bonds, the subject of a recent debate here at VettaFi, are nonetheless an area that some market watchers are tapping for a "renaissance" of sorts this year. After a difficult 2022, municipal bond yields may benefit from higher interest rates that should be settled in the early stages of 2023. That presents an appealing opportunity for active muni funds, with one candidate to watch being the Franklin Dynamic Municipal Bond ETF (FLMI).

One crucial part of the municipal bond story in the last few months, though, may be the swap investors made from muni bond mutual funds into muni bond ETFs. According to Franklin Templeton's SVP and Head of ETF Product and Capital Markets, David Mann, mutual funds investing municipal bonds did see $140 billion in outflows last year, but muni bond ETFs actually added $30 billion in net inflows.

“Active fixed-income ETFs allow portfolio managers to stay nimble and avoid sectors and parts of the credit spectrum that might encounter increased stress, all while leveraging the same creation/redemption operational efficiencies used by index funds,” Mann said in a recent note in his newsletter, “One Mann’s ETF Opinion.”

As part of a trend in ETFs in which the vehicle is increasingly adding value to the fixed income market, Mann pointed to the increasing use of ETFs for municipal bond investing as a “huge tailwind” for the government bond segment.

Looking ahead to 2023, municipal bonds may also benefit from a lack of supply and growing demand. Governments across the country are relatively flush right now, with a lot of redeemed money coming out in the next few years outpacing supply.

That makes active muni funds a particularly interesting area, with FLMI an active muni bond ETF to watch. The ETF charges 30 basis points for its approach, investing in tax-free muni securities with a maturity mostly in a range of three to ten years. FLMI has outperformed its ETF Database Category and FactSet Segment Averages over the last three months, returning 8.2% compared to 6.3% and 5.3% respectively on top of $5.9 million in net inflows.

Fixed income may be back in style this year, but with so many options, investors may want to consider how active muni funds can ably navigate a complicated and ever-shifting landscape. For those investors interested in muni bonds, FLMI is a strategy to consider in the weeks to come.

ETF TRENDS

NICK PETERS-GOLDEN

FEBRUARY 2, 2023

NASBO: Many Revenue Forecasts for Fiscal 2023 Revised Upward as States Monitor Economic Conditions

Overview
Revenue forecasts play a vital role in budget decisions for the current year as well as future spending plans. NASBO’s revenue forecast webpage compiles recent forecasts from across the country. States vary in the frequency and timing of revenue forecasts. However, as shown in NASBO’s *Budget Processes in the States*, nearly all states release a revenue forecast in the late fall or early winter to help guide upcoming budget deliberations.

Fiscal 2023 Revenue Forecasts
Many states have revised revenue forecasts upward for the remainder of fiscal 2023 following better than projected growth in tax collections year-to-date. As highlighted in NASBO’s *Fall 2022 Fiscal Survey of States*, revenue projections in fiscal 2023 enacted budgets were 3.1 percent lower than preliminary actual collections for fiscal 2022. However, this decline is largely attributable to differences in the timing of fiscal 2022 figures and fiscal 2023 estimates. More recent collections data for fiscal 2023 suggest that general fund revenues will come in stronger than enacted revenue projections. In the Fiscal Survey of States, 33 states had already reported revenues exceeding original budget forecasts for fiscal 2023.

In addition to better-than-expected growth in tax collections so far in fiscal 2023, many states revised revenue forecasts upward for the remainder of the fiscal year after examining a series of economic indicators. A number of states' forecasts discussed the current overall strength of the labor market including the low unemployment rate, job gains, and elevated wage growth. Many states also said consumer spending has been higher than anticipated due partly to pent-up demand. Other revenue sources have also seen gains including severance taxes from the strength of the oil and natural gas sector.

Fiscal 2024 Revenue Forecasts
While many states have revised their revenue forecasts upward for the remainder of fiscal 2023, their projections for fiscal 2024 remain conservative as they monitor uncertain economic conditions which could produce a range of outcomes. In their fiscal 2024 revenue forecasts, most states are assuming nominal growth in tax collections, although at a much slower rate than the double-digit growth in both fiscal 2021 and fiscal 2022. States cited concerns about a weakening macroeconomic outlook due to several factors including rising interest rates, inflationary pressures limiting real growth, recent layoff announcements, the stock market correction, and the continued impact of geopolitical events.

Outlook
As states work to finalize their budgets for fiscal 2024, they will continue to monitor the economic outlook. In the spring many states will release an updated revenue forecast for fiscal 2024 taking into consideration any changes in the economy. Over the past several years, states have taken steps to prepare for a potential economic slowdown through actions such as building up rainy day funds to record levels, maintaining structural balance, increasing pension payments, paying down long-term debt, and using one-time funds for one-time purposes.

National Association of State Budget Officers

By Brian Sigritz

The Debt Ceiling Battle Hits Home.

The battle over the debt ceiling is nightmare fuel for Treasury markets. It's also a headache for state and local governments that rely on the municipal bond market to finance everything from roads and public transportation to schools.

"It puts me a bit on edge," Howard Cure, a partner at Evercore who leads the investment bank's muni bond research team, told MM.

House GOP budget hawks haven't identified what cuts they'd like to make in exchange for a vote on the debt limit. And Biden administration officials are adamant that they won't abide Speaker Kevin McCarthy's attempt to link Treasury's ability to make bond payments — a cornerstone of the global financial system — to spending cutbacks.

Continue reading.

POLITICO

By SAM SUTTON

01/23/2023

[State & Municipal Treasurers Publish Letter Encouraging McCarthy to Make Deal on Federal Debt Ceiling.]

They say a default would be 'catastrophic' and devalue portfolios, damaging pension funds and 401(k) plans.

Eleven U.S. state treasurers and the comptrollers of Maryland and New York City have sent a letter to House Speaker Kevin McCarthy demanding the House of Representatives vote to increase the debt limit to prevent "catastrophic consequences" they say would damage pension funds, 401(k) plans and other retirement and educational savings vehicles.

In addition to the Maryland and NYC comptrollers, the letter was signed by the state treasurers of Colorado, Connecticut, Delaware, Illinois, Maine, Massachusetts, Nevada, Oregon, Rhode Island, Vermont and Washington.

The letter outlines their concerns that the federal government will be forced to default on its debt, which hit the current limit of $31.4 trillion last week. The Treasury Department has taken "extraordinary measures" to make sure the government can meet its financial obligations, but those will likely only work until June. If a default happens, the signatories say, "the value of portfolios invested across asset classes would decrease significantly."

Continue reading.

Chief Investment Officer

By Michael Katz

January 26, 2023

[Why Some Executives Wish E.S.G. 'Just Goes Away']

The environmental, social and corporate governance investment trend is booming, but it has also become a big distraction for business leaders.

Corporate leaders open up about E.S.G.

At a cocktail party this week in Davos, one executive told DealBook something he — and most of the attendees at the World Economic Forum — would most likely never say in public: "I hope E.S.G. just goes away."

The executive, whose company is involved in the carbon industry, clarified that he still believes that it is vital to focus on climate, but that environmental, social and corporate governance — as the business approach is formally known — has become too broad and distracting. He's just one of many executives who have talked to DealBook about coming to terms with how politically charged E.S.G. has become, and about how to deal with it.

[Continue reading.](#)

The New York Times

By Andrew Ross Sorkin, Ravi Mattu, Bernhard Warner, Sarah Kessler, Michael J. de la Merced, Lauren Hirsch and Ephrat Livni

Jan. 19, 2023

[The Thematic ESG Approach in US Municipal Bonds.](#)

Executive summary

US municipal (muni) bonds play an important role in funding public services and infrastructure, hence they are fundamentally well positioned for responsible investment strategies. Muni bond issuers affect the quality of life of most Americans and will be key in the transition to a low carbon economy.

Like their peers across many fixed income asset classes, muni bond investors have started to address ESG factors more explicitly to mitigate risk in their portfolios. Some have also gone beyond seeking better risk-adjusted investment performance to adopt an ESG thematic strategy, which involves allocating capital to themes or assets that are tied to certain environmental or social outcomes. This approach, and more broadly weighing the real-world outcomes of muni bond holdings (both positive and negative), is less common than the risk mitigation approach, but momentum is building.

The two approaches are not necessarily mutually exclusive and could deploy the same techniques (for example exclusion or engagement). If anything, the US muni bond market is well suited to embracing both ESG strategies simultaneously, given the many public benefits funded by proceeds.

[Continue reading.](#)

Principles for Responsible Investment

18 January 2023

[Green Could Add Value in Municipal Bond Rebound.](#)

While municipal bonds tracked aggregate bond benchmarks lower in 2022, munis were less bad than Treasuries and some other corners of the bond market, prompting some market observers to bet on municipal debt as the 2023 rebound story.

Indeed, there are compelling reasons to consider exchange traded funds such as the SPDR Nuveen Municipal Bond ESG ETF (MBNE). Notably, despite last year’s weakness, fundamentals for municipal bonds remain sturdy, indicating the asset class’s 2022 slump was more a symptom of the Federal Reserve raising interest rates, not a direct commentary on municipal debt.

Specific to MBNE, which debuted last April and is actively managed, is pertinent to advisors and income investors at a time when a municipal bond rebound could be in the offing, but also as market participants look to add environmental, social, and governance (ESG) overlays to this corner of the bond market.

"Coupled with the potential opportunity in municipal bonds, a focus on environmental, social, and governance (ESG) investing has permeated fixed income markets. More and more, investors are seeking to allocate to issuers aligned with a wide range of sustainability goals and practices. Expectations for ESG municipal issuance in 2023 range from $50B to $60B, compared to $45B in total issuance last year, indicating longer-term commitments to sustainable finance," wrote Brianna Roberts, research strategist at State Street Global Advisors (SSGA).

While MBNE is still less than a year old, investors shouldn't view age as a negative in this case. In fact, the fund's status as an actively managed product is already proving to be a positive trait.

"MBNE uses an active management style to help identify inefficiencies while allocating assets toward the most ESG-oriented areas of the market," added Roberts. "Despite a challenging environment, MBNE ranked in the 12th percentile among its active peers, both ESG and non-ESG, in December 2022.6 MBNE also ranks near the lowest quintile based on gross expense ratio relative to its peers in the US Fund Municipal National Intermediate category."

MBNE can leverage active management to unearth muni debt that not only meets strict ESG criteria but bonds that offer investors above-average levels of income and attractive value traits. Under one umbrella, those three objectives are difficult for many index-based products to deliver on.

With an option-adjusted duration of 4.92 years, MBNE holds 100 bonds and sports a 30-day SEC yield of 2.76%, according to issuer data.

ETFTRENDS.COM

by TOM LYDON

JANUARY 25, 2023

Moody's 2023 ESG and Sustainable Finance Outlook: Cadwalader

Moody's published its 2023 Outlook – Macroeconomic challenges to exacerbate ESG credit risks on January 9, 2023, laying out various macroeconomic challenges it expects as a result of climate-related and other issues. Among other things, Moody's expects four trends from 2022 to continue having an impact on credit risk: (1) macroeconomic, financial, and geopolitical consequences from the pandemic and Russia-Ukraine conflict; (2) persistent challenges associated with access to and the affordability of basic services; (3) continued scrutiny of corporate decarbonization pledges; and (4) difficulties arising from a complex regulatory landscape for companies and issuers' governance capabilities across the credit cycle. It also expects that companies with high exposure to climate transition risk will set and endeavor to meet ambitious emissions reductions goals with more transparency and credibility. However, Moody's also concludes that the transition plans of non-financial companies most exposed to carbon transition risks are least likely to disclose ambitious and detailed plans, increasing the challenges these companies confront in light of anticipated regulatory and market scrutiny. In addition, the constantly shifting ESG regulatory framework and varying perspectives on disclosures and investing practices may further complicate compliance, especially for financial institutions. Lastly, as the exposure to and understanding of physical climate risks improves, so will investor focus on companies that face greater exposure—which may be intensified by increasing regulation of high-risk companies.

Taking the Temperature: Moody's predictions underscore the longevity of ESG-focused investing and also emphasize the credit risks that high-exposure companies and sectors will face in the future as they transition to a low-carbon economy. The inconsistent regulatory landscape and, in the U.S., politicized nature of climate change, complicate how companies approach governance and disclosure regarding sustainability and other ESG issues. Moody's Outlook succinctly summarizes what we have been observing and expect to continue in 2023.

By Kya Henley
Associate | Global Litigation

January 20, 2023

Cadwalader

S&P Outlook For U.S. Charter Schools: Credit Profiles Hold Steady

Sector View: Stable

Charter school demand continues to grow, per-pupil funding levels are healthy overall, significant federal funds remain available, and we expect credit stability for states. These positives partially offset increased expense pressures, enabling the sector to enter 2023 with greater financial flexibility.

Continue reading.

24 Jan, 2023

What's Next for State, Local Cybersecurity Grants?

Fifty-four of the 56 entities eligible for year one federal grants applied, and 10 have fulfilled the second part of the process by submitting their cybersecurity plans. A notice of funding opportunity is expected year two in the spring.

States had until mid-November to apply for their — and their local government partners' — share of nearly $200 million worth of federal cybersecurity grants. Now that applications are in, what's next?

Most — but not all — eligible entities applied for the State and Local Cybersecurity Grant Program (SLCGP), and under a fifth have completed both of the two key parts needed before they can receive funds, said Trent Frazier, deputy assistant director for Stakeholder Engagement at the Cybersecurity and Infrastructure Security Agency (CISA), who spoke as part of a FedInsider panel this week. CISA is reviewing the applications alongside FEMA.

The four-year grant program keeps progressing, too, and the notice of funding opportunity for the second year's round of awards is due out in late spring, to the tune of $400 million, Frazier said.

[Continue reading.](#)

govtech.com

January 13, 2023 • Jule Pattison-Gordon

[Critics Take Aim at State and Local ARPA Spending on Prisons and Jails.](#)

The American Civil Liberties Union is among those raising questions about federal Covid aid from the American Rescue Plan Act going to corrections projects.

State and local governments that directed federal Covid relief funding toward jail and prison costs are under fire from civil rights advocates.

The American Civil Liberties Union last week urged the Treasury Department's Inspector General to require states and counties that used hundreds of millions of dollars of American Rescue Plan Act aid to build or expand prisons and jails to shift those funds toward expenses more directly related to fallout from the public health crisis.

Treasury's inspector general's office has said that a county in Iowa could use the Covid relief funds to expand a juvenile detention facility because governments are allowed to use ARPA money to backfill revenue lost during the pandemic. And under that revenue replacement category they have a great deal of flexibility to spend the funding as they choose.

[Continue reading.](#)

Route Fifty

by Kery Murakami

JAN 26, 2023

[Legislative Analysis for Counties: The Consolidated Appropriations Act of 2023](#)

On December 23, 2022, the U.S. Congress enacted a Fiscal Year (FY) 2023 omnibus appropriations bill to fund the federal government through September 30, 2023. Enactment of the omnibus followed a series of Continuing Resolutions (CR) to fund the federal government and avert a government shutdown since the beginning of the federal fiscal year on October 1, 2022. President Biden signed the $1.7 trillion omnibus appropriations bill into law on December 29, 2022.

For the second year in a row, discretionary spending levels for FY 2023 were not limited by statutory spending caps prescribed by the Budget Control Act of 2011. As such, the White House, congressional leadership, and top appropriators negotiated topline spending levels over several months.

The FY 2023 omnibus includes several key investments of importance to counties detailed in this report. These include, but are not limited to, full funding for the Payments in Lieu of Taxes (PILT) program and significantly invests in the RECOMPETE pilot program and technology hubs authorized by the bipartisan CHIPS and Science Act. These programs and others funded by the bill, including a $550 million increase in wildland fire suppression, will enable counties to provide critical services and plan for economic sustainability and growth in 2023.

Continue reading.

National Association of Counties

JANUARY 17, 2023

Spending American Rescue Plan Act Funds: A Primer for Municipalities

The American Rescue Plan Act (ARPA) of 2021 is a $1.9 trillion legislative package that includes funding for states, local governments and tribal nations to respond to the economic and public health impacts of the COVID-19 pandemic. While initially restricted, subsequent guidance from the federal government has expanded what those funds can be used for. However, to avoid being required to repay the funds, it is important that all spending complies with the act and subsequent regulations.

As we are now seeing many cities and counties using the awarded funds, this article will provide an overview of how and when the funds can be spent and identify the major compliance requirements.

How can the funds be spent?
Under the ARPA, cities and counties may use funds to cover a wide range of expenses related to the pandemic, including:

- **Premium pay:** Funds can be used to provide additional compensation for "eligible workers performing essential work during the COVID-19 public health emergency or to provide grants to third-party employers [non-municipal employees] with eligible workers performing essential work." Premium pay is designed to compensate workers who took on additional burdens or sacrifices because of the pandemic. Eligible workers include those whose work was necessary to maintain continuity of critical infrastructure sectors. A complete list of those sectors can be found in the 2020 House of Representatives HEROES Act. In addition to the critical infrastructure sectors, the chief executive or equivalent of a recipient may designate additional sectors as critical, provided doing so is necessary to protect the health and wellbeing of the residents of the jurisdiction.
- **Lost revenue:** Funds can be used to replace revenue lost because of the pandemic. Cities or counties can calculate the amount of revenue lost as a result of the pandemic or they can use the standard allocation of $10 million, whichever is less.
  Water, sewer and broadband: Funds can be used for water, sewer and broadband projects. Investment in these types of projects is generally limited to those that are necessary. Necessary projects would typically include those eligible for funding under the EPA's Clean Water State Revolving Fund or Drinking Water State Revolving Fund.
- **Public health emergency relief and negative economic impacts:** Funds can be used to address the public health emergency created by the pandemic, including aiding of households, small businesses and nonprofits, or to aid impacted industries like tourism, travel and hospitality. To determine if a program or service is eligible for funds under this provision, the city must identify the need or negative impact of the pandemic and identify how the program, service or intervention would address the need. An eligible use under this category must be in response to

COVID-19 itself or a harmful consequence of the economic disruption resulting from it.

There is no requirement for preapproval of projects.

Ultimately, although it is up to each city to determine how best to use the ARPA funds, we expect that most recipients will elect to use the funds under the “lost revenue” category. Once selected, those funds can be used for government services, which include any service traditionally provided by a government, unless the Department of the Treasury has stated otherwise.

What is the administrative process for spending ARPA funds?
To ensure that funds are not used for ineligible purposes and that there is no fraud, waste or abuse of the funds, cities and counties are required to take certain administrative steps regarding their use of ARPA funds. These include the following:

- **Keeping records:** Financial records and other supporting documents related to an award and spending must be kept for a period of five years after all funds have been expended. This expressly includes those records that show the award funds were used for eligible purposes.
- **Reporting:** Recipients are required to submit an interim report, project and expenditure reports, and annual recovery plan performance reports.
  – Interim reports must identify expenditures by category. These reports were due on Aug. 31, 2021.
  – Project and expenditure reports must include the financial date, information on contracts and subawards over $50,000, types of projects funded, and other information regarding the use of the funds. For larger recipients, with a population of more than 250,000 or receiving more than $10 million, these reports are to be made quarterly. For all others, these reports are to be submitted annually by April 30.
  – Cities and counties with a population of more than 250,000 must submit performance reports that include a description of projects funding, performance indicators and objectives for each award. These plans must be posted on the recipient’s public-facing website.
- **Single audit:** Cities and counties spending more than $750,000 in federal awards in a fiscal year are subject to an audit under the Single Audit Act.
- **Civil rights compliance:** Recipients receiving funds are required to meet legal requirements relating to nondiscrimination and nondiscriminatory use of federal funds. Those requirements include ensuring that entities receiving funds do not deny benefits or services, or otherwise discriminate based on race, color, national origin (including limited English proficiency), disability, age or sex (including sexual orientation and gender identity).

It is important for recipients to carefully follow the guidelines and requirements for spending ARPA funds to ensure they are using the funds in a way that is compliant with federal regulations and meets the needs of their community.

What is the timeline for spending ARPA funds?
A recipient must use ARPA funds to address eligible costs incurred during the period of March 3, 2021 through Dec. 31, 2024. The funds must be obligated for spending by Dec. 31, 2024, and must be spent by Dec. 31, 2026. Costs for projects incurred before March 3, 2021 are not eligible for reimbursement.

What are consequences for missing a requirement?
Beyond using the funds improperly, enforcement related to the reporting and other requirements is loose. According to guidance issued by the Treasury Department, if a city misses a reporting deadline, it should submit the necessary report as soon as possible. There is no penalty for late reporting, but it could lead to a finding of non-compliance. In that case, the city could be subject to a

corrective action plan or “other consequences as appropriate.” Use of the funds for ineligible expenditures could result in a city being required to repay the funds.

The actual economic impact of the pandemic on cities and counties might be up for debate. Some saw revenues increase, but the ARPA has provided much-needed funds to address aging infrastructure or to expand broadband. Initially, it was expected that the program would limit eligible expenses, but with the subsequent guidance, a city or county can likely use the funds for any legitimate government function. Before doing so, it is important that each use be carefully evaluated to avoid any payback requirements.

American City & County

Written by Baxter Drennon

27th January 2023

Baxter D. Drennon is a partner at law firm Hall Booth Smith. He is based in Little Rock, Ark., and handles complex litigation involving commercial disputes, product liability and medical malpractice. In addition, Baxter represents municipal government entities and is the city attorney for Benton, Ark.

A Small Catholic College's Closure Hints at More to Come.

- **Holy Names University defaults on debts amid economic strain**
- **More distress coming for higher-ed in 2023, analysts say**

Economic strains that have pushed a number of colleges and universities to the brink show no signs of stopping, with Holy Names University in Oakland, California, the first to default on its debt in 2023.

The Roman Catholic school with fewer than 1,000 students defaulted on a $49 million loan, according to a Jan. 3 filing, after the almost 155-year-old institution announced it would be closing its doors at the end of the academic year.

The closure is likely a harbinger of what’s to come as S&P Global Ratings has warned less selective, regional institutions will struggle in the new year. Growing competition, falling enrollment trends and higher expenses could weaken credit quality. At the same time, waning risk appetite ahead of a looming recession means struggling schools’ access to the $4 trillion municipal-bond market could be limited.

Continue reading.

Bloomberg Markets

By Allison Nicole Smith

January 24, 2023

How a Bankrupt City's Pension System Hit a Breaking Point.

You're reading Route Fifty's Public Finance Update. To get the latest on state and local budgets, taxes and other financial matters, you can subscribe here to get this update in your inbox twice each month. You can find a full archive of these newsletters here.

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer and this is the second installment of my series on Chester, Pennsylvania's bankruptcy. (Click here to read Part I.)

As with most—if not all—municipal bankruptcies, there's a lot of blame being thrown around. But in Chester's case, sentiments on all sides appear particularly caustic. So much so that for nearly two years, the receiver's team has been working out of a sparsely furnished office a half-block away from City Hall. In courtroom testimony earlier this month, receiver Michael Doweary described being called the "N-word" during a verbal altercation with Mayor Thaddeus Kirkland. Doweary, meanwhile, has accused city officials of nepotism and fiscal malfeasance, if not outright corruption.

Continue reading.

ROUTE FIFTY

by LIZ FARMER

JANUARY 24, 2023

States Reimagine Power Grids for Wind and Solar Energy.

The rate of grid expansion needs to double to bring wind and solar online and would cost $700 billion. Advocates want utilities and grid operators to build infrastructure that aligns with the states' clean energy goals.

For years, many states have set ambitious goals and incentives to promote renewable electricity projects. Now, more of those states are turning their attention to the transmission lines, substations and transformers needed to get that electricity from wind farms and solar plants into homes and businesses.

Congress has invested billions in boosting clean energy. But the money won't lower emissions as much as predicted without "more than doubling" the last decade's rate of grid expansion, Princeton University researchers noted last year. That expansion is needed to support the new renewable energy projects coming online, as well as the growing number of electric vehicles, heat pumps and other technologies requiring electricity.

Jon Wellinghoff, former chair of the Federal Energy Regulatory Commission and the CEO and founder of GridPolicy Consulting, which works with governments and companies to support clean energy deployment, agreed that expanding the grid needs to be a top priority.

Continue reading.

Alex Brown, Stateline.org

Jan. 26, 2023

[Over $1 Billion Now Available to Convert Bus Fleets to Cleaner Fuels.]

Purchases of electric and hydrogen-powered buses are among the projects eligible for a new round of federal grants.

States, local governments and tribes can now apply for nearly $1.7 billion in federal funding through a pair of grant programs geared toward transitioning the nation's bus fleets to cleaner fuels, like electric or hydrogen power.

The money, available under the 2021 infrastructure law, includes $1.2 billion this fiscal year for the Low or No Emission Vehicle Program, which covers purchases or leases of buses that cause less air pollution than models that run on fuels like diesel. Grants from that program can also fund the construction or lease of facilities and equipment to support the new vehicles.

In addition to battery and hydrogen-powered buses, rubber-tired trollies with power from overhead electric wires are eligible for funding, as well as other options that can meet federal requirements.

Continue reading.

Route Fifty

by Bill Lucia

JAN 27, 2023

A New Initiative Seeks to Help Small Cities Access Infrastructure Funding.

The program will work with communities to assemble strong grant applications that can win some of the billions of dollars available.

Thanks to the 2021 infrastructure law, billions of dollars are available to communities to invest in clean energy, transit, affordable housing, good-paying jobs and environmental justice initiatives. But for small and rural communities, these funds are often out of reach.

Many such communities don't have the staff or financial capacity to assemble strong grant applications. That's where a new initiative that aims to connect governments with the capital and training necessary to kickstart their projects comes in.

The 10,000 Communities Initiative is the brainchild of the Milken Institute, a nonprofit think tank. Its goal is to help thousands of communities access infrastructure funds over the next year.

Continue reading.

ROUTE FIFTY

by MOLLY BOLAN

JANUARY 26, 2023

Adding the Limited Buydown to WIFIA Loans.

The EPA's WIFIA loan program offers several interest rate management features that are highly beneficial for large-scale infrastructure financings, including a U.S. Treasury-based fixed-rate lock for construction and permanent drawdowns, post-execution rate resets until draw, and no-penalty cancellation and prepayment.

All are enabled, directly or indirectly, by a statutory framework that WIFIA shares with its predecessor, the DOT's TIFIA program, and a recent successor, the DOE's CIFIA program.

But one loan feature is missing from WIFIA's specific statute – a limited interest rate buydown. The limited buydown allows the program to lower, within specified limits, a loan's execution interest rate to what it would have been on the day the loan's application was accepted. Even at a well-run program, there will inevitably be a significant amount of time between loan application acceptance and final execution for complex infrastructure financings. Treasury rates can easily rise during this time, especially in the current economic environment, and that introduces a big element of uncertainty into the cost of the project's long-term financing. A limited buydown enables the program to help mitigate this pre-execution interest rate risk when it's a factor that could stall project development and construction. Like other interest rate management features, the limited buydown is a useful tool for achieving an infrastructure loan program's core policy objective of enabling and accelerating U.S. public infrastructure renewal.

A limited buydown provision was added to TIFIA's statute in the MAP-21 Act of 2012. The provision, with more specific language, was included in CIFIA's statute when the program was established in 2021 by the Infrastructure Investment and Jobs Act. For both programs, the maximum interest rate reduction is 1.50 percent, which is quite significant in the context of current Treasury rates.

Despite being closely modelled on TIFIA law, WIFIA's statute didn't include a limited buydown provision when the program was established in 2014, nor was it added in subsequent WIFIA-related legislation even though CIFIA's proponents and federal policymakers were clearly aware of the provision's usefulness. It's hard to see why the WIFIA program, which makes extensive and innovative use of all its interest rate provisions, was skipped over in the case of a limited buydown. Perhaps pre-execution interest rate risk is not as an important factor for WIFIA's highly rated public water agencies as it is for TIFIA's project financings or CIFIA's carbon pipeline development?

If that – or something like it – is the reason, adding the limited buydown to WIFIA's statute should now be re-considered for two very different types of potential program borrowers. The provision would be useful for both, albeit also in different ways, and although neither have been frequent WIFIA applicants to date, that may change soon.

The Limited Buydown and CWIFP Loans

The first type of potential borrower will be the large-scale water management and dam projects expected to apply to the Army Corp's WIFIA section, the Corps Water Infrastructure Finance Program (CWIFP). CWIFP has received about $81 million in funding to support about $7.5 billion of loans and is scheduled to start accepting applications in spring 2023.

CWIFP applicants are likely to include complex, multi-party, and multi-jurisdictional project financings for major foundational infrastructure assets. This type of project is closer to TIFIA's toll roads or CIFIA's multi-state pipelines than to WIFIA's municipal water system assets. They have a long development period with many highly uncertain variables, not the least of which is the cost of long-term financing. Bringing everything to the stage where loan agreements can be executed, and construction started, is inherently a lengthy process subject to many risks. In contrast to WIFIA's current post-execution interest rate management features, the limited buydown can help reduce rate risk during this, pre-execution, phase of project development. For many projects, that may be an especially valuable aspect of a CWIFP loan application.

The Limited Buydown and SWIFIA Loans

The second type of borrower that could benefit from a WIFIA limited buydown doesn't directly involve infrastructure projects, but infrastructure lenders – state revolving funds, or SRFs. The sub-optimal levels of leverage at SRFs, especially smaller funds in mostly rural states, have long been recognized, as has the potential for WIFIA loans to help address the issue. As federal funding becomes less certain and increasingly subject to unexpected restrictions or re-allocations (e.g., earmarks in the 2023 Consolidated Appropriations Act), the ability of SRFs to leverage in a flexible, cost-effective way can also become an important tool for state-specific planning and prioritization.

The 2018 SRF-WIN Act proposed several WIFIA loan features designed to encourage more program lending to SRFs, but the ultimate legislative result, SWIFIA, did not include them. Yet, well-designed program loan features are arguably the most effective way to overcome the SRF's reluctance to leverage their portfolios.

A WIFIA limited buydown could encourage smaller, unleveraged SRFs to take the first step towards leverage by providing additional certainty at an early, low-cost stage in the loan application process. The likely maximum interest rate of the executed loan will be set on the day the application is accepted. That's valuable to help the SRFs planning and decision-making with more specific numbers, and perhaps also to visualize how the leverage would work in more concrete terms. If Treasury rates start rising, the application's potential value also becomes intrinsic and measurable. But if the SRF decides to discontinue the process for whatever reason, there are no penalties for withdrawing an application. In effect, the limited buydown makes a WIFIA loan application a small but realizable goal that will potentially improve an SRF's future leverage if the fund decides to go forward, but not cost very much if it does not.

Adding the Limited Buydown to WIFIA's Statute

An amendment that adds a limited buydown provision to WIFIA's statute would be very straightforward. The language can basically be copied from TIFIA law or (even better) from CIFIA's more recent version. And soon there should be proposed legislation to place it in. The Water Infrastructure Finance and Innovation Act Amendments of 2022 will almost certainly be re-introduced in the next Congress. This bill contains budgeting and other clarifications that are especially important for CWIFP's implementation, but the proposed amendments will apply to all WIFIA borrowers.

Notably, an amendment to extend WIFIA's maximum loan term to 55 years is already included. A limited buydown amendment would provide a similar incremental enhancement of WIFIA loan features. Both serve an important role at this stage of WIFIA's development – to expand the program's base of potential borrowers and help accelerate U.S. water infrastructure projects in other, equally critical sectors.

WATER FINANCE & MANAGEMENT

By JOHN RYAN

JANUARY 16, 2023

John Ryan is principal of InRecap LLC. InRecap is focused on debt alternatives for the recapitalization of basic public infrastructure. Ryan has an extensive background in structured and project finance. He recently served as an expert consultant to the U.S. Environmental Protection Agency and is a frequent contributor to WF&M on WIFIA topics.

Stormwater Research Centers Funded after WEF, NMSA Support.

Research centers focused on stormwater infrastructure will be established through federal funding after extensive support from the Water Environment Federation (WEF) and the National Municipal Stormwater Alliance (NMSA).

Congress has provided $3 million in initial funding for the establishment of three to five Centers of Excellence for Stormwater Infrastructure Technologies (CESITs), a new program authorized in the Infrastructure and Investment in Jobs Act (IIJA) of 2021.

The CESITs are to:

- Conduct research on and create an inventory of new and emerging stormwater control infrastructure technologies;
- Analyze innovative financial programs supporting stormwater infrastructure implementation;
- Provide technical assistance to states, tribal communities, and local governments who want to implement innovative stormwater infrastructure technologies;
- Collaborate with educational institutions as well as public and private organizations including community-based public-private partnerships; and
- Establish and maintain a national electronic clearinghouse center to collect data and disseminate information and findings from CESITs to the stormwater sector.

“The stormwater sector is extremely data-poor, especially regarding the performance of new and emerging technologies,” says Seth Brown, Executive Director of NMSA. “These centers have the potential to bridge the gap between research and application in our sector through support of technology-focused initiatives.”

WEF and NMSA proposed the concept of creating stormwater centers of excellence as part of their annual Stormwater Policy Recommendations to Congress document, which has resulted in multiple other stormwater policy legislative successes since 2017 when the first recommendations document was released.

“This funding in the FY23 federal budget is a result of over five years of advocacy before Congress by WEF and NMSA and our members to establish stormwater centers of excellence across the nation that will help communities employ the right technologies and practices to address their local stormwater management challenges,” said Walt Marlowe, Executive Director of WEF.

Despite billions of dollars of investment over the last three decades, urban stormwater runoff remains the largest growing source of water pollution across the U.S. Additionally, studies show that there has been a significant increase in extreme rain events over the last 50 years globally and projections are that floodings impacts are expected to accelerate in the future.

“Performance of stormwater infrastructure is critical to meeting the growing needs in the sector,” said Brown. “The CESITs could support existing efforts, such as the Stormwater Testing and Evaluation for Products and Practices (STEPP), which is a program established by WEF and now shepherded by NMSA to drive innovation in the stormwater sector by objectively, robustly, and consistently evaluating the performance of stormwater technology.”

The IIJA additionally created a stormwater planning and implementation grant program, as proposed in the recommendations document. While that program was not funded in 2023, the initial funding for the CESITs will help communities be ready for planning and implementation of grant funding in the future.

Marlowe concluded, “On behalf of WEF and NMSA, we thank Congress for creating and funding the new CESIT program. We will now work with the U.S. Environmental Protection Agency and stakeholders to ensure that the CESITs and other federal stormwater resources help communities address their stormwater management needs.”

WATER FINANCE & MANAGEMENT

BY WFM STAFF

JANUARY 26, 2023

Federal Agencies Release National Blueprint for Transportation Decarbonization: Nossaman

On January 10, 2023, the Biden-Harris administration released the U.S. National Blueprint for Transportation Decarbonization (“Blueprint”), representing a major step in advancing the president’s clean transportation agenda and addressing the growing climate crisis caused by greenhouse gas (GHG) emissions. The Blueprint arrives as preliminary U.S. carbon-emissions data for 2022 show yet another year of increased emissions, indicating that the country is not on course to meet its commitment under the Paris Agreement to halve economy-wide emissions by 2030.

The Blueprint, jointly developed by the U.S. departments of Energy (DOE), Transportation (DOT), Housing and Urban Development (HUD) and the Environmental Protection Agency (EPA), stems from a memorandum of understanding (MOU) signed by the four agencies last September to formalize their commitment to aggressively reducing GHG emissions in the transportation sector, the largest source of emissions in the United States.

Continue reading.

By Frank Liu on 01.19.2023

Nossaman LLP

Muni Bonds to Start 2023 (Bloomberg Audio)

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

Listen to audio.

Jan 27, 2023

What is in Store for Municipal Bonds in 2023?

Municipal bonds are a staple of many investment portfolios, especially for investors in higher tax brackets. The tax-exempt nature of muni bonds helps boost after-tax returns while providing a high level of safety. But like the rest of the financial markets, muni bonds saw a historic drop in 2022, thanks to rising inflation and interest rates.

Let's take a look at how the municipal bond market performed last year and what's in store for 2023 and beyond.

Continue reading.

dividend.com

by Justin Kuepper

Jan 25, 2023

Vanguard Expects Muni Bond Renaissance Due to Higher Yields.

According to Vanguard, investors that allocated part of their portfolios to low-yielding municipal bonds at the beginning of last year should now be looking forward to the prospect of higher income, thanks to a rapid rise in rates. In a fixed-income report for the first quarter, the fund firm wrote, "Following a year with $119 billion of outflows from municipal funds and ETFs, we expect the tide to turn. For high-income taxable investors, we are expecting a municipal bond renaissance." According to the report, muni bonds only offered yields of around 1% at the start of 2022, compared to yields that now exceed 3% before adjusting for tax benefits. Tax-equivalent yields are at 6% or even "meaningfully higher for residents in high-tax states who invest in corresponding state funds." Vanguard said that this makes munis a "great value compared with other fixed income sectors and potentially even equities—especially with the odds of a recession increasing." According to the Vanguard report, muni bonds also remain strong from a credit perspective, with attractive spreads over comparable U.S. Treasurys and corporate debt. In fact, municipal balance sheets are stronger now than they've been in two decades, leaving states well-prepared to navigate an economic slowdown.

nasdaq.com

Written by dkorth@finsum.com (FINSUM) for FINSUM

January 24, 2023

Are Local Governments Leaving Billions on the Table?

By undervaluing publicly owned assets, jurisdictions are missing out on enormous opportunities to help citizens and their communities. A newly launched incubator could change how public assets can be leveraged.

Serving as mayor of Salt Lake County from 2013 to 2019, Ben McAdams faced a familiar dilemma. He knew what residents needed and felt duty-bound to provide it. But the funds he had weren't equal to his ambition.

"I was always surprised at how hard it was to find revenue to invest in things that were empirically substantiated to be important to our community," says McAdams. "One of my passions was early childhood education — we had budget of $1.3 billion a year, yet we couldn't find $500,000 to invest in an early childhood education program."

McAdams discovered a way forward after meeting Swedish investment adviser Dag Detter and reading his book, *The Public Wealth of Cities*. It has been the norm for governments to greatly undervalue public assets, Detter says; moreover, unlike the private sector, they fail to manage them in ways that unlock their potential to serve the public good.

Continue reading.

governing.com

Jan. 17, 2023 • Carl Smith

Analysis Calls for Federal Oversight of State, Local Budgeting and Borrowing.

With COVID-19 funding approaching its expiration date and pandemic-related revenue streams beginning to taper off, a paper published by The Volcker Alliance's Richard Ravitch Public Finance Institute calls on federal regulators and Congress to push for a "higher level of transparency in state and local borrowing" and budgeting, with more oversight.

"For too long, the federal government has maintained an indifferent posture on oversight of or uniformity in state and local budgeting and borrowing practices despite doling out over a trillion dollars a year in aid," said William Glasgall, senior director of public finance at the Volcker Alliance. The paper, "Sustainable State and Local Budgeting and Borrowing: The Critical Federal Role,“ examines why oversight of budgeting and borrowing is so limited and outlines steps that can be taken by federal officials to create more accountability.

"Now is the time for Congress and regulators to step in and implement sound, sustainable budgeting and borrowing practices nationwide," Glasgall said.

Each year, Congress provides about $1 trillion in grants, tax exemptions, and tax credits to state and local governments. Additionally, the municipal bond market—a debt security issued by local, county and state governments to raise money for capital expenditures like highways—is worth $4 trillion.

Even before the pandemic unleashed historic federal investment, "Congress and the executive branch have demanded surprisingly little in continuing, high-level oversight of states and local budgeting and borrowing," the report notes.

This costs taxpayers and the nation's economy "tens of billions of dollars," reads the report, which was written by experienced municipal finance experts Matt Fabian, a partner at Municipal Market Analytics and Lisa Washburn, the organization's managing director and the chief credit officer.

To reduce that cost, responsible oversight of local and state budgeting and borrowing would help federal regulators prevent fiscal crises before they happen.

"Tightening oversight of state and local budgeting and borrowing are the cornerstones of the Volcker Alliance's Richard Ravitch Public Finance Initiative," the analysis says, noting that Ravitch, the former lieutenant governor of New York State, "was a transformational actor in the federal bailout of New York City after its near bankruptcy in 1975. He was also a key player in the resolution of fiscal crises that led to bankruptcies in Detroit in 2013 and Puerto Rico four years later."

Both crises were caused by the governments' excessive borrowing while they maintained the fiction of balanced budgets, the report says. "To this day, many governments continue to declare their annual or biennial budgets in balance—often in accordance with state statutes or constitutions—even though they have run up over $2.7 trillion in unfunded obligations for public worker pension and retirement health care costs, and another $1 trillion in deferred maintenance on roads, bridges, and other infrastructure."

Researchers lay out a number of recommendations federal officials can enact. First, state and local governments should be incentivized to switch from a cash or modified cash basis method of producing an annual budget to generally accepted accounting principals (GAAP), which among other things discourage one-time maneuvers like borrowing to balance budgets, for budgets and annual comprehensive financial reports (ACFRs).

"These two accounting methods often produce divergent results because of differences in the way they recognize revenue and expenses. While a balanced state budget may suggest adequate, real-time fiscal health, it may not reflect accrued additional liabilities that pose substantial risks to future fiscal health," the report says.

Among other recommendations, the analysis notes that federal lawmakers should take a more active role overseeing the municipal securities market. The paper also outlines a six-point agenda for discussion and action regarding budgeting and borrowing.

americancityandcounty.com

Written by Andy Castillo

17th January 2023

[Mayors Fret Over Possibility of ARPA Clawbacks.]

Detroit's mayor urged others to speed up putting American Rescue Plan Act funds to use and to take special care that spending adheres to federal rules. He's not the only one raising concerns.

With House Republicans demanding major cuts in federal spending in return for raising the nation's debt limit, Detroit Mayor Mike Duggan warned other mayors on Wednesday to spend all of their American Rescue Plan Act funding sooner rather than later in case Congress tries to claw it back later this year.

"I would say to you that if you can responsibly speed up the obligations, I would say you do want to consider doing it," Duggan said. He also urged mayors to have independent auditors, in addition to city compliance staff, examine and attest that ARPA funds are being spent properly, in ways that adhere to the law and Treasury Department guidelines.

"None of us wants to get our projects named in a congressional hearing in the next year or two," he said. Duggan added: "I hope eight months from now, 10 months from now, 60 months from now, we're not in a big fight to hang on to the obligated money."

Continue reading.

Route Fifty

by Keri Murakami

JAN 18, 2023

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

View the S&P rating actions.

17 Jan, 2023

S&P Outlook For U.S. Municipal Utilities: Stable, Though Risks Are Rising

Sector View: Stable

Although cost pressures are mounting, cash reserves have grown, and rate-setting flexibility is strong. But there are some pockets of credit pressure, especially for utilities with substantial deferred maintenance or limited economic underpinnings.

Continue reading.

12 Jan, 2023

S&P Outlook For U.S. Public Power And Electric Cooperatives: Essentiality And Strategic Planning Temper Challenges

Sector View: Stable

We expect a continuation of rating stability among public power and electric cooperative utilities. Our opinion reflects expectations of sound financial performance given the essentiality of electric service, coupled with the sector's record of credit-supportive ratemaking decisions and access to capital and liquidity. We will continue to assess management strategies for facing numerous risks and challenges, including inflation, recession, supply chain hurdles, increasingly stringent emissions regulations, climate change, and grid security.

Continue reading.

17 Jan, 2023

S&P Outlook For Global Not-For-Profit Higher Education: Credit Quality Continues To Diverge

U.S. Sector View: Stable But Bifurcated

Our view of the sector in the U.S. is mixed. While institutions with strong demand, sound resources, and excellent reputations will likely maintain or strengthen their positions, we expect that less selective, regional institutions will struggle amid growing competition, higher expenses, and operating margin pressure that could weaken credit quality. Institutions at the lower end of the rating scale and those with limited enrollment or financial flexibility will face credit stress in 2023.

Continue reading.

18 Jan, 2023

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

S&P Global Ratings affirmed 20 ratings without revising the outlooks, took five rating actions, and revised six outlooks without changing the ratings in the U.S. not-for-profit health care sector in December 2022. There was one new sale in December, for which the outstanding rating was affirmed with no outlook revision. The 11 rating and outlook actions consist of the following:

- Four downgrades on three hospitals and one health system, including one that was also placed on CreditWatch with developing implications. One of the four downgrades was within the speculative-grade categories and one other downgrade went to speculative-grade from 'BBB-';
- One upgrade on a health system within the speculative-grade category; and
- Six unfavorable outlook revisions on three hospitals, two health systems, and one long-term care provider (all six from stable to negative).

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

[Continue reading.](#)

18 Jan, 2023

[S&P Outlook For U.S. Public Finance Housing: Economic Winds Won't Blow The House Down](#)

Sector View: Stable

Housing entities enter the year with healthy balance sheets and liquidity sufficient to sustain activities through the shallow recession we forecast. Nonetheless, market headwinds may dampen both single-family and multifamily loan production, delay development, and pressure properties with thin operating margins.

[Continue reading.](#)

19 Jan, 2023

[Why Some Executives Wish E.S.G. 'Just Goes Away'](#)

The environmental, social and corporate governance investment trend is booming, but it has also become a big distraction for business leaders.

At a cocktail party this week in Davos, one executive told DealBook something he — and most of the attendees at the World Economic Forum — would most likely never say in public: "I hope E.S.G. just goes away."

The executive, whose company is involved in the carbon industry, clarified that he still believes that it is vital to focus on climate, but that environmental, social and corporate governance — as the business approach is formally known — has become too broad and distracting. He's just one of many executives who have talked to DealBook about coming to terms with how politically charged E.S.G. has become, and about how to deal with it.

Have executives overpromised on E.S.G.? Fixating on lofty goals, without delivering on actions, has made business leaders vulnerable to a backlash, executives said. As evidence, some point to BlackRock's Larry Fink, one of the earliest and most vocal proponents of E.S.G., saying he's trying to "change the narrative" after taking fire from the right, and despite the fact that the asset manager still has investments tied to fossil fuels. The elevated messaging, and the pushback to it, has also obscured what supporters of the movement say are the real financial considerations of E.S.G., like what climate change means for a real estate business.

[Continue reading.](#)

The New York Times

DealBook

Jan 19, 2023

Tax-Free Muni ETF Can Ride Muni “Renaissance”

Tax season is just around the corner, and government dues could well be on investors’ minds — almost as much as the Fed’s ongoing interest rate hikes and the recession they could induce. Suffice to say, there are a lot of open questions in the market right now. But one source of positivity, municipal bonds, could be worth looking at for tax-free yields as bonds resurge, available in a tax-free muni ETF like the American Century Diversified Municipal Bond ETF (TAXF B).

What’s behind this muni bond “renaissance” on the horizon? Municipal bonds offer significant value compared to other fixed income securities, strong from a credit perspective with appealing spreads versus comparable U.S. Treasurys. That stability could help especially if the aforementioned Fed-induced recession comes to pass.

Municipal bond ETFs in the muni national intermediate category on YCharts have taken in $1.6 billion in net inflows over the last month, returning 1.3% in that time — that’s better than the 1% return from corporate bond ETFs according to the database or the 0.5% return for ultrashort bonds. Add in the tax benefits, and the case grows yet more.

The investment case for municipal bonds also benefits from municipalities being fluish with cash with strong revenues, which will likely limit new issue supply, providing a “technical tailwind” for market performance in the first quarter of 2023.

TAXF itself charges 29 basis points for its active management approach. The tax-free muni ETF combines investment-grade and high-yield municipal bonds in order to provide current income, a strategy that’s paid off recently — the ETF has outperformed the ETF Database Category Average and Factset Segment Average over the last month, returning 2.2%. The strategy allocates up to 35% of its portfolio to riskier municipal offerings, depending on conditions in the market.

Municipal bonds are just one part of the overall bond landscape that is driving so much attention right now — but they are a powerful tool given their value, yields, and tax free nature. For those investors on the lookout for an appropriate tax-free muni ETF, TAXF may be one strategy to watch in the weeks ahead.

etfdb.com

by Nick Peters-Golden

Jan 19, 2023

Investors Dip a Toe Back Into Munis.

Weekly inflows into municipal bond funds reached their highest level in more than a year last week, a sign of optimism by some investors that the year-long bond rout is easing.

A net $1.98 billion flowed into municipal bond mutual and exchange-traded funds for the week ended Wednesday, Jan. 11, according to Refinitiv Lipper. The last time inflows reached that level was July 2021.

In 2022, muni bond funds lost money nearly every week.

Continue reading.

The Wall Street Journal

By Heather Gillers

Jan 17, 2023

For Closed-End Fund Investors, Paper Losses Turn Real.

Municipal-bond funds have been especially hard-hit amid market slump

Investors in closed-end funds are feeling a painful consequence of the historic market slump: cuts to their monthly payouts.

A Pacific Investment Management Co. California municipal-bond fund slashed dividends by 45% this month, while a Nuveen LLC stock fund endured a 7% cut. Eaton Vance Management in November cut distributions across six stock funds by as much as 24%. Six BlackRock muni funds endured at least two payout cuts last year, with dividends falling by as much as 38% in total.

The falling payouts are yet another way that investors are getting squeezed as Federal Reserve efforts to control inflation enter a second year. Many closed-end funds try to amp up returns by investing borrowed money. That risk generally paid off over the past decade, but has backfired in the face of rising rates and ensuing stock and bond losses.

Continue reading.

The Wall Street Journal

By Heather Gillers

Jan. 12, 2023

The Biggest Issues to Watch in 2023.

State coffers are overflowing, but inflation could put a pinch on spending plans and tax cuts. The labor market remains tight just when the demand for more teachers is skyrocketing. And then there are the ongoing culture wars. Welcome to 2023.

Regardless of any policy preferences lawmakers may have, they will face challenges in terms of achieving them in 2023 in two key ways — figuring out how much to pay and finding enough workers to implement their ideas.

Last year, state lawmakers were able to have their cake and eat it too, vigorously cutting taxes and substantially increasing spending, while still able to rack up record savings in their rainy-day funds. The good times are still around — most states are seeing surpluses — but there are reasons to be nervous. Inflation may have slowed a bit, but it’s still eating into real revenue growth. And the prospect of a struggling economy – what economist Mark Zandi is calling a “slowcession,” if not a full-blown recession — is also making some legislators wary.

Still, there's a considerable appetite both for new spending and continued tax cuts. "No doubt, 2022 will go down in the record books as one of the most successful tax-cutting years in history," says Jonathan Williams, chief economist at the conservative American Legislative Exchange Council. Given sizable surpluses, he expects to see more. As the year begins, there are promises of major cuts coming not only in the capitols of red states, including Iowa and Texas, but from Democratic governors in states such as Connecticut, Kansas and Wisconsin.

[Continue reading.]

governing.com

by Alan Greenblatt, Carl Smith, David Kidd, Jared Brey

Jan. 10, 2023

[Cities Are Headed for Fiscal Trouble Again, Especially if There's a Recession.]

New York City's lessons from the 1970s can help as Covid largess ends and tax receipts ebb.

Years of excess borrowing and slipshod accounting caught up with New York City in the 1970s. It would take tough choices, hard sacrifices, and a federal bailout to put the city on a sound fiscal path. To help the city emerge from its crisis, the state Legislature in May 1975 passed the Financial Emergency Act for the City of New York. The law subjects the city to increased oversight, requiring it to plan for financial shortfalls and adopt a balanced budget in accordance with generally accepted accounting principles, which require accounting for promised payments when liabilities are incurred and discourage one-time maneuvers to achieve balance.

Four months later, President Gerald Ford approved a $2.3 billion revolving loan to help the city to pay its debts and begin its recovery. Since then—through economic booms, recessions and disasters, including 9/11 and superstorm Sandy—New York has never seen a replay of its brush with bankruptcy, and its budgeting remains as close to a model of fiscal responsibility as there is.

Despite this, no other major American state or local government has followed New York's budgetary lead. While most state and local governments are flush with cash following an unprecedented $5 trillion in federal Covid-19 relief spending, they are nonetheless facing an inevitable fiscal cliff, created by the one-two punch of a possible recession this year and the expiration of hundreds of billions of dollars in pandemic aid by 2026.

[Continue reading.]

The Wall Street Journal

By Richard Ravitch and William Glasgall

Jan. 11, 2023

[S&P Outlook For U.S. Local Governments: Reserves And Agile Management Will Provide Stability In A Recession]

Sector View: Stable

Our view reflects the local government sector's financial reserves and long history of effective responses to unexpected circumstances. Having federal stimulus money on hand prior to a recession—rather than after a long period of economic weakness—should also help operating stability for cities, counties, and school districts. We expect they will have time to respond to economic challenges before credit quality is threatened, underscoring our view of the stable nature of the sector. However, any LGs that aren't proactively managing high inflation and preparing for a weaker economy could be challenged to maintain balanced operations.

Continue reading.

[Free registration required.]

10 Jan, 2023

Analysis: State Anti-ESG Laws Could Cost Taxpayers Hundreds of Millions.

State-level efforts to penalize companies for use of environmental, social or governance (ESG) goals in investments could cost taxpayers over $708 million, according to a study published by the nonprofit Sunrise Project.

ESG incorporates environmental and social factors into investment decisions along with traditional financial metrics. Conservative critics of the practice have argued it introduces a political agenda to what should be a purely financial decision.

Eighteen states have either proposed or passed legislation restricting the state from doing business with companies that practice ESG, and Kentucky Attorney General Daniel Cameron (R) has announced an investigation into the use of ESG in state pension funds. These bills are based on model legislation written by the American Legislative Exchange Council, a conservative nonprofit that creates draft bills for state legislatures.

In the study, researchers analyzed a Wharton School of Business paper on Texas's anti-ESG law, which linked the state law to $532 million in higher interest payments on municipal bonds. Sunrise Project analysts extrapolated this to six other states — Florida, Kentucky, Louisiana, Missouri, Oklahoma and West Virginia — and estimated the same impacts would cost taxpayers a total of $708 million over the past 12 months.

The range of potential additional costs varies state by state, according to the study.

Florida has both the widest range and highest ceiling, with a range of $97 million to $361 million. While Gov. Ron DeSantis (R) has proposed an anti-ESG rule for state pension funds and pulled $2 billion in assets from BlackRock over its use of ESG, the state does not have a law that would specifically affect bond issuance.

“Setting aside the implications of politics interfering in financial decisions, there is the question of how removing major, proven financial companies from the marketplace will affect competition,” the authors wrote. “Restrictions on financial market participants, (and in this analysis we look at large investment banks), alter the outcomes of municipal bond market transactions and modify contractual engagements with state governments.”

THE HILL

BY ZACK BUDRYK – 01/13/23

Municipal Debt Outlook for 2023.

With 2022 in the rearview mirror, 2023 will likely see the continuation and effects of the policies and shifts initiated last year to combat things like historic inflation and the aftermath of COVID-19 pandemic.

Furthermore, 2023 will likely be a relatively tumultuous year for issuers, investors and the capital markets in general due to economic uncertainties, the Fed’s aggressive take on interest rates and political shifts ahead. With the rapid rate of interest rate hikes, many fixed income investors are sitting on hefty unrealized capital losses in their portfolio. For both issuers and investors, it’s paramount to gauge the Fed’s stance on the U.S. economy and whether we will see a downward shift in the short-term interest rates stimulating municipal debt issuances and helping investors with their unrealized losses.

In this article, we will take a closer look at what CY2023 has in store for the capital market and the U.S. economy in general.

Continue reading.

dividend.com

by Jayden Sangha

Jan 11, 2023

Munis Positioned to Shine in 2023.

Municipal bonds now offer yields not seen in more than a decade (aside from a spike at the onset of the pandemic). Investors need to pay attention to these higher income levels as they consider portfolio positioning for 2023. In addition to attractive yields, supportive market dynamics, resilient credit quality, and important tax benefits make munis a key asset class to own.

In the upcoming webcast, Munis Positioned to Shine in 2023, Michael Cohick, director of product management at VanEck; and Tamara Lowin, senior analyst, municipal bonds at VanEck, will outline opportunities in the municipal bond market and highlight strategies to help financial advisors diversify back into this fixed income category.

For example, the VanEck Vectors AMT-Free Intermediate Municipal Index ETF (CBOE: ITM) has been a go-to option for many bond investors seeking munis exposure. ITM seeks to replicate the performance of the ICE Intermediate AMT-Free Broad National Municipal Index (MBNI), which is intended to track the overall performance of the U.S. dollar-denominated intermediate-term tax-exempt bond market.

Continue reading.

etftrends.com

January 11, 2023

Cyberattack Turns Up the Heat on Common Security Problems.

The ransomware attack that crippled a New York county again demonstrated the need for investment, regular updates and an enterprisewide approach to security.

A cyberattack on Suffolk County, New York, crippled county services and resulted in the leaking of personal information from hundreds of thousands of its residents late last year.

The hack, which has so far cost the county more than $6 million in recovery expenses according to local reports, prompted Suffolk lawmakers to launch a special legislative committee to investigate its origins.

Among the departments affected was the Traffic and Parking Violation Agency. Its server was compromised by the attack and some residents' personal information may have been accessed by hackers, county officials said. While systems were down, emergency responders and other services relied on pen and paper.

Continue reading.

Route Fifty

By Chris Teale,
Staff Reporter, GCN

JAN 10, 2023

Green Municipal Bonds Could Take Off in 2023.

Innovation is afoot in the municipal bonds market, and it comes courtesy of asset allocators' desire for more fixed income products with environmental, social, and governance (ESG) ties.

In fact, municipal bonds are ideal territory for the greenification of fixed income, underscoring the relevance of exchange traded funds such as the SPDR Nuveen Municipal Bond ESG ETF (MBNE). MBNE debuted last April and entered 2023 with $35.11 million in assets under management — a decent tally when considering that 2022 was one of the worst years on record for the broader bond market.

However, municipal debt outperformed broader bond benchmarks last year, and that has some analysts bullish on what 2023 has in store for muni bonds, particularly high-quality fare such as what resides in MBNE. Add to that, the growth outlook for green municipal debt is intriguing.

[Continue reading.](#)

ETF TRENDS

by TOM LYDON

JANUARY 11, 2023

['Green Banks,' Poised for Billions in Climate Funds, Draw States' Attention.](#)

In recent years, several states have created or helped to fund specialized banks that lend money to homeowners and businesses for energy-saving and climate projects. Now, states have billions more reasons to establish such institutions, known as green banks.

Congress last year approved a Greenhouse Gas Reduction Fund of $27 billion, largely to pour money into green banks and similar financial institutions. Newly established green banks from Nevada to Illinois are readying for federal support that could supercharge their efforts, while bipartisan leaders in places such as New Mexico and Alaska are pushing to create their own state green banks.

“Everybody is interested in green banks now,” said Reed Hundt, CEO of the Coalition for Green Capital, a climate-focused nonprofit that has spearheaded such efforts across the country. “[The federal funding] is adding a lot of oomph. Nobody should get left out.”

Green banks provide financing to support climate-friendly projects, often focusing on energy savings and solar generation in residential and commercial buildings. Such projects have struggled to obtain capital from traditional financing institutions.

Like conventional banks, green banks provide loans that must be repaid, but they often offer long-term, low-interest loans that aren’t available on the private market. Some use other tools to lower risk for private lenders or to finance projects in partnership with utilities.

Green banks can be public, quasi-public or nonprofit institutions. Several green banks have been established by state lawmakers, governors or agencies, often with some level of state funding. Many state-level green banks have focused much of their work in low- to moderate-income communities, which have the greatest need for energy upgrades and the least access to financing.

Many green banks use public funding to attract much greater amounts of private investment, using tools such as a loan loss reserve to lower risks (and therefore interest rates) for traditional lenders. Such banks use a wide variety of financial mechanisms to back an even wider variety of projects.

“Green banks principally are about taking a limited amount of public money and turning it into multiples of private investment,” said Bryan Garcia, president and CEO of the Connecticut Green Bank, which became the nation’s first state-level green bank in 2011.

The Connecticut Green Bank has used $322 million, primarily from a state ratepayer fund, to attract nearly $2 billion in private investment. Its tools include a loan fund to promote residential solar installations in low-income communities, a bond program to promote solar deployment and a credit enhancement reserve that allows local lenders to provide low-interest loans to homeowners for energy efficiency upgrades.

Energy Efficiency

Even as states work to include more clean energy in their supply, experts say efficiency programs to reduce energy demand are just as essential.

Most green banks have focused their efforts on helping homeowners and businesses reduce energy use by lending money to replace furnaces with heat pumps, install efficient air conditioners and upgrade insulation and windows. Many also support rooftop solar and battery storage projects.

“The majority of our work is basic equipment you need to make your house feel comfortable and save money on your energy bills,” said Mary Templeton, president and CEO of Michigan Saves, a nonprofit green bank that has received some state funding. “We really want to fill gaps in the marketplace and help residents and business owners pay for their loans with their energy savings.”

Green bank officials say many of their projects also help to lower energy costs for residents and businesses, while putting local contractors to work.

“There has long been a disconnect between the capital needs for energy projects in this country and the proper type of capital to match with that,” said John Harris, director of finance with the Missouri Green Bank.

The success of early green bank programs has prompted more states to follow suit in recent years.

“The most crucial thing we can be doing environmentally is figuring out how we can finance this transition,” said Colorado state Rep. Alex Valdez, a Democrat who sponsored legislation in 2021 that established the Colorado Clean Energy Fund.

The fund, created with an initial state investment of $30 million, offers loan programs to help residents and businesses install clean energy and energy efficiency upgrades.

Federal Funds

Other states are considering green bank proposals, with the newfound federal funding adding urgency to the conversation.

“States are looking to hop on the train if they don’t have a green bank, because otherwise, that money doesn’t have a clear place to go in the state,” said Ava Gallo, climate and energy coordinator with the National Caucus of Environmental Legislators, a collaborative forum for state lawmakers.

Lawmakers in New Mexico are crafting green bank legislation at the urging of the Coalition of Sustainable Communities New Mexico, a group of local governments aligned to support climate policies.

“It’s critically important for us to stand up a vehicle now that can receive some of those federal funds,” said Beth Beloff, the group’s executive director. “It would be a huge lost opportunity [if the state failed to establish a green bank].”

Alaska Gov. Mike Dunleavy, a Republican, has pushed lawmakers to establish a green bank, and agency officials in South Carolina have explored the potential for a green bank in recent years.

Nevada lawmakers established a green bank in 2017, but didn't fund it until 2021, when the prospect of federal money emerged.

"It's pretty critical in Nevada to have this capacity right now with all of the federal funds that are becoming available," said Kirsten Stasio, CEO of the Nevada Clean Energy Fund. "It's a huge advantage."

The federal Greenhouse Gas Reduction Fund, created under the Inflation Reduction Act of 2022, includes $20 billion to support financial and technical assistance for projects that cut emissions, with $8 billion of that designated for low-income and disadvantaged communities.

That fund will serve as a national green bank and is expected to distribute funding to existing green banks throughout the country. Leaders of state green banks say they expect the U.S. Environmental Protection Agency to provide funding details next month.

"This is going to be completely game-changing and help us put our program on steroids," said Doug Coward, executive director of the Solar and Energy Loan Fund, a Florida-based nonprofit green bank known as SELF that operates in four states.

SELF has financed about $31 million in projects, focusing on helping low-income homeowners replace inefficient air conditioners, water heaters, roofs and insulation. Such upgrades can help residents make their homes better candidates for solar projects.

Hundt, with the Coalition for Green Capital, said several other states have reached out to his group with growing interest.

More than 20 green banks currently operate throughout the country. Some are within state agencies, while others work at the city or county level. Nonprofit green banks sometimes receive state funding and policy backing, while others have no ties to their state government. The Coalition for Green Capital estimates that its members have provided about $2 billion to finance clean energy projects while attracting another $7 billion in private capital.

The initial outlay from the new federal fund, combined with the private capital it's likely to attract, could trigger as much as $250 billion in climate investments by 2035, Hundt said.

Success Stories

Established green banks say their successes should prompt more states to follow suit.

"The clean energy projects pay for themselves," said Jeff Diehl, CEO and executive director of the Rhode Island Infrastructure Bank, which was established as a clean water program decades ago but has taken on energy and climate authorities in recent years. "The energy that's being created through renewable assets or money that is saved through energy efficiency upgrades pays for the financing."

The bank finances projects that include water infrastructure, transportation, clean energy, climate resiliency and brownfield remediation.

In Illinois, lawmakers passed legislation in 2021 to designate the Illinois Finance Authority as the state's climate bank, while Maryland lawmakers established a Climate Catalytic Capital Fund last year.

The Hawaii Green Infrastructure Authority, established in 2014, has helped residents install rooftop solar panels, which has allowed them to shrink their utility bills even as energy costs have soared. It also has created a program to allow renters to pay for energy upgrades with a charge on their utility accounts.

"We try to leverage financing mechanisms that mitigate risk and invite private capital in," said Gwen Yamamoto Lau, the bank's executive director.

The Pew Charitable Trusts

By Alex Brown

January 9, 2023

How Two Years of Federal Funds Are Being Used by States.

CARES. ARPA. IIJA. These bills and more have put billions into the state and local government market. We break down the major federal funding packages and how they're being put to use.

Since the pandemic began, the U.S. government has passed four laws that approve spending $7.6 trillion in pandemic relief, infrastructure investment and economic stimulus.

When the U.S. Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act in March 2020, it was the largest spending bill ever passed by the federal government, allocating $2.2 trillion in economic stimulus money. In December of that year, Congress broke that recently set record with a consolidated appropriations package that totaled $2.3 trillion, made up of $1.4 trillion in routine funding and $900 billion in economic stimulus. A few months later, in March 2021, Congress passed the American Rescue Plan Act (ARPA), which authorized $1.9 trillion in stimulus. And in November 2021, they passed the $1.2 trillion Infrastructure Investment and Jobs Act (IIJA).

To illustrate the scale of this spending, it is roughly equivalent to 30 percent of the gross domestic product (GDP) of the United States, a little bit over twice the GDP of India and equivalent to the combined GDP of the world's 147 poorest countries, using the latest figures from the International Monetary Fund's World Economic Outlook.

Continue reading.

governing.com

by Andrew Adams

Jan. 11, 2023

Mass Teacher Exodus Weighs Down State, Local Jobs Recovery.

- **Local education payrolls are down 3% since February 2020**
- **Teacher shortage may have serious ramifications for economy**

Overall, the US job market ended 2022 at a near record for growth but one area in particular underscores how some parts of the economy still lag far behind pre-pandemic levels.

State and city payrolls have only recovered 70% of the jobs lost during the pandemic in December, trailing the broader economic rebound. The slow crawl is largely due to one industry — education — making up more than half of the jobs lost. As K-12 teachers grapple with post-Covid burnout and low pay, there has been a mass exodus of educators, leaving school districts with mounting vacancies to fill.

"Some can't find enough willing bodies to take the jobs," Mikhail Foux, head of municipal strategy at Barclays Plc., said. "For this sector, these people are not coming back."

Continue reading.

The Wall Street Journal

By Carrington York

January 12, 2023

Fitch: Investment Value Declines Erode Not-for-Profit Hospitals' Liquidity

Fitch Ratings-Austin/New York-10 January 2023: Not-for-profit hospitals' financial reserves have declined from 2021 peaks as a result of investment losses and increased liquidity demands to cover rising expenses, Fitch Ratings says. Not-for-profit hospitals generally have strong liquidity relative to debt repayment obligations and business risk, but recent unrestricted liquidity erosion is expected to bring balance sheet metrics more in line with pre-pandemic historical averages. Lower liquidity and lower operating margins could begin to have a negative effect on hospitals' credit profiles. As part of its rating analysis, Fitch assesses the size and allocation of a hospital's combined cash and investment portfolio to determine how cyclical market changes affect liquidity.

Equity markets appreciated meaningfully in 2021, pushing liquidity to all-time highs, with the median days' cash on hand reaching 260 days. Cash and investment portfolios have provided a significant rating cushion and helped hospitals weather significant operational challenges in 2022. This cushion has diminished with lower portfolio values as a result of market declines, causing key liquidity metrics to soften relative to an especially strong 2021.

Operating margins have compressed over the past year due to cost inflation, particularly staffing, and weaker liquidity will mean operations may have even less flexibility to address higher expenses. While cashflow generation may mitigate portfolio declines and bolster key leverage metrics, the expectation of continued expense pressures in 2023 may constrain cashflow generation. Health systems with comparatively weaker balance sheets for the rating category are more likely to face negative rating pressure in the current environment.

Higher-rated credits generally have stronger balance sheets, with cash to adjusted debt of 249.1% for 'AA' category credits, versus 102.3% for 'BBB' category credits (based on our 2021 medians). Higher-rated credits also tend to be larger, scaled systems with competitive positioning that mitigates balance sheet compression if investment performance weakens. While not as common, smaller organizations may have large financial cushion indicative of high-investment-grade ratings that may afford more flexibility to withstand higher asset volatility in investment portfolios.

While alternative investments can be part of a wider investment strategy, non-fixed-income asset classes have increased as a percentage of highly rated issuer portfolios over the past few years in the search for yield. An aggressive portfolio allocation is likely to result in more balance sheet volatility in a stressed economic environment.

Fitch conducts a sensitivity analysis on a hospital's investment portfolio using our portfolio analysis model (PAM) to assess changes in portfolio value, and therefore liquidity, through a typical economic cycle. Because our ratings reflect normal cyclical valuation changes, plausible market declines on their own should generally not affect ratings. The estimated portfolio value changes are considered in our analysis of an issuer's balance sheet to determine financial resiliency to market declines. Sustained declines beyond our expectations could result in negative rating action for credits with already weak liquidity.

PAM assesses the expected return and volatility of an issuer's portfolio by asset class, according to issuer specific return estimates in a base case and stress case, based on historic market return assumptions, and the percent of an issuer's holdings for those asset categories. The model then combines the results with operational scenarios and capital spending estimates, to generate an estimate of overall portfolio value over the course of five years.

Over the past few years, median investment income has been generally around 2% of revenue, measured as operating revenue and non-operating gains, for all Fitch-rated NFP hospitals. Overall, median investment income as a percent of total revenue and of EBITDA is generally higher for higher-rated entities due to larger balance sheets and investment portfolios. Conversely, median investment income as a percent of net income goes up as we move down the rating scale, as net income from operations is generally weaker at lower ratings.

For more information, please attend Fitch's 2023 Outlook – Not For Profit Hospitals discussion. Registration information can be found at events.fitchratings.com/2023outlooknotforprofithospitals

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[Take Advantage of the CDFA Community Facilities Technical Assistance Program.]

The CDFA Community Facilities Technical Assistance Program brings together CDFA's knowledge of development finance programs, along with the strategic support from private sector partners, to create a transferrable toolkit of finance programs and other resources capable of leveraging community facilities infrastructure in rural communities throughout the nation. This program includes resources accessible to every rural community, including a Rural Finance Resource Center, Rural Finance Newsletter, and Rural Finance Toolkit, along with targeted technical assistance support to six rural communities.

CDFA has worked with the USDA to develop an innovative technical assistance approach to support rural communities that have recently experienced a natural disaster. The goal of this program is to help rural communities utilize the USDA's Community Facilities Program along with identifying other potential development finance tools to aid in the rebuild and recovery after a natural disaster.

Key program elements include:

Community Technical Assistance
CDFA will provide technical assistance to communities from a dedicated team of two-three development finance experts. The selected communities will receive one on-site visit to discuss how the USDA Community Facilities Program can be used, a roadmap outlining recommendations and potential next steps, and ongoing support to apply for the USDA's Community Facilities Program. Eligible communities must have a population of no more than 20,000 and have a Major Disaster Declaration from the Federal Emergency Management Agency (FEMA) for hurricanes or wildfires in 2018 or floods or tornadoes in 2019. CDFA maintains a list of eligible states and counties for this program, and rural communities are encouraged to contact CDFA to determine eligibility.
Apply for Technical Assistance

Rural Finance Toolkit
The Rural Finance Toolkit is a printable guide that provides rural communities with an easy-to-use, best practices resource on development finance tools.

Rural Development Finance Resource Center
The Rural Development Finance Resource Center is a searchable online tool available on the CDFA website to learn about rural development finance programs at the federal, state, and local levels, as well as resources and best practices from communities.
View Rural Development Finance Resource Center

Rural Finance Newsletter
The Rural Finance Newsletter is a periodic newsletter covering the latest headlines, developments, best practices and case studies related to development finance initiatives in rural communities.
View Rural Finance Newsletter

Rural Development Finance Webinar Series
The CDFA Rural Development Finance Webinar Series is a three-part series providing information and best practices about financing tools and programs specifically targeted for rural communities. View the webinar recordings below:

- Financing Disaster Resiliency in Rural Communities
- Assembling Capital for Rural Development
- Best Practices for Rural Development Finance Agencies

Fitch: U.S. Gateway Airports to Benefit from Lifting of China Travel Restrictions

Fitch Ratings-Austin/New York-12 January 2023: The lifting of China’s Covid-19 travel restrictions will boost international air travel, accelerating air traffic recovery and buttressing revenues at select U.S. major-hub international gateway airports such as Los Angeles, San Francisco and New York that have established operations across Asian markets, Fitch Ratings says.

In a sharp policy reversal, China announced at the end of December that it was eliminating almost all international travel restrictions and quarantine requirements put in place to contain Covid-19 outbreaks. China’s reopening in January follows similar relaxing of travel restrictions in other Asian countries in late 2022 and essentially ends the last Covid-related restriction on a major global travel market. Before the pandemic, China travel typically represented just a low to mid-single-digit percent of gateway airports’ respective total passenger levels. Still, the growth potential is strong given the building economic ties and leisure-oriented demand.

China’s underlying travel demand is diverse, and the reopening underway is expected to benefit both business and leisure travel. This combined demand should be a growth catalyst to large hub airports with sizable business and international travel segments and whose air traffic recovery has previously lagged domestic-focused, regional airports reliant on leisure travel. Increased China travel will add to airports’ operating revenue base through greater gate and landing fee revenue and concession spending, solidifying international gateway airports’ finances and supporting credit at current rating levels. International airlines usually pay considerably higher fees to airports than domestic airlines.

Full China air traffic recovery to the U.S. will likely take one to two years before the resumption of normal organic growth, consistent with recovery timeframes for other global regions when travel restrictions eased following Covid-19 lockdowns. In most cases, international markets that reopened in early 2021 have nearly recovered to pre-pandemic levels heading into 2023. News reports indicate that the Civil Aviation Administration of China would like passenger traffic to grow to 75% of pre-pandemic levels this year.

Prior to the pandemic, the trend in Asia travel growth was positive, with the leading U.S. gateway airports gaining Asian destinations and flight frequencies. U.S. domestic and foreign-flag operators increased scheduled services. Specific to China, U.S. gateway airports typically supported service from three to five Chinese-based carriers, with operations on a daily or several times per week basis.

China, along with other Asian countries such as Japan, South Korea and Taiwan, are key sources of international traffic for several U.S. international gateway airports, particularly Los Angeles International (LAX; AA/AA-/Stable), San Francisco International (SFO; A+/Stable), and John F. Kennedy’s (JFK) privately operated international terminals, which have the largest share of Asia traffic of all U.S. airports.

For SFO, one of the largest North American gateways to Asia, international traffic is traditionally around 25% of its total traffic, of which Asia is 40%.Asia-region traffic at SFO had only recovered to 22% of 2019 levels in FY22 (ending June 30), but is expected to roughly triple in FY23. In FY19, Hong Kong, China accounted for 3.7% of SFO’s international origination and destination passenger bookings, second only to the greater London region airports with 5.5%.

Based on TSA screenings, overall air traffic in the U.S. recovered to 90% of 2019 levels for calendar year 2022. We have a neutral sector outlook on U.S. airports for 2023 based on our expectation of mild volume growth, with full recovery to 2019 levels expected by 2024.

For more information, please attend Fitch's 2023 Outlook – US Transportation discussion. Registration information can be found at events.fitchratings.com/2023outlookustransportation.

S&P Outlook For U.S. Municipal Utilities: Stable, Though Risks Are Rising

Sector View: Stable

Although cost pressures are mounting, cash reserves have grown, and rate-setting flexibility is strong. But there are some pockets of credit pressure, especially for utilities with substantial deferred maintenance or limited economic underpinnings.

Continue reading.

12 Jan, 2023

S&P U.S. Transportation Infrastructure 2023 Activity Estimates Show Air Travel Likely To Fully Recover, With Transit Ridership Still Lagging.

Key Takeaways

- Although we expect U.S. air travel, as measured by passengers, will return to pre-pandemic levels in 2023, evolving remote or hybrid work practices and other factors will continue to drag on the recovery in public transit ridership compared with other U.S. not-for-profit transportation infrastructure asset classes.
- Our updated activity estimates reflect the effects of expected recessionary pressures in 2023.
- Our baseline activity estimates show public transit recapturing about 70% of pre-pandemic activity by the end of 2023 and only about 85% by the end of 2026; and U.S. systemwide enplanements returning to near pre-pandemic levels in 2023.
- Our downside activity estimates show public transit ridership returning to only 80% of pre-pandemic levels by the end of 2026, and U.S. systemwide enplanements still returning to near pre-pandemic levels in 2023.

Continue reading.

9 Jan, 2023

S&P Outlook For U.S. Not-For-Profit Transportation Infrastructure: COVID In The Rearview Mirror, Yet Transit Stuck In Second Gear

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

Our view of business conditions and credit quality across the U.S. not-for-profit transportation infrastructure sector in 2023 is stable for airports (and related special facilities), toll roads, ports, parking and all federal grant-secured credits. We have revised our sector view for mass transit to negative from stable to reflect financial pressures facing operators with a historical reliance on fare revenues, and other headwinds.

[Continue reading.](#)

11 Jan, 2023

How Better Payment Systems Can Improve Public Transportation.

SUMMARY

America's payment system is transforming as methods of transacting digitally grow. Digital transactions offer the opportunity to move money faster, cheaper, and more conveniently for customers and businesses. Digital transactions can also unlock new methods for businesses to operate; the online economy is only possible because of online payments.

Our current payment system has solved one set of challenges to unlock the new economy, but the system causes significant problems for others. The current system has a cost structure that is expensive for digital micro-payments, which are small dollar payments. Furthermore, digital payments require accessing digital currency which is easy for the wealthy but can be expensive for those with less income. Finally, digital payment acceptance is fragmented, cumbersome, and slow, creating delays.

These problems form a perfect storm when it comes to transit agencies. Public transit has a large share of low-dollar, high-volume payments. Transit agencies face unique challenges in adapting their fare payment systems to best meet the needs of riders while simultaneously solving concerns regarding user ease, speed, interoperability, and costs. Public transit is generally funded by a combination of user fees and subsidies by multiple levels of government. Federal, state, and local governments have all embraced public transit to serve multiple goals of providing basic mobility, supporting equity, catalyzing economic growth, and creating a more sustainable transportation system. The federal government's recent infrastructure legislation is a historic investment in transit that provides transit agencies a unique opportunity to improve payment collection systems. To achieve this, payment systems have to become more efficient and effective for low-dollar, high-volume transactions, a key characteristic of transit fare payments.

Enhancing payment efficiency for low-dollar, high-volume payments offers benefits beyond public transit as America's infrastructure and mobility methods rapidly evolve. Electric vehicle charging, e-bikes, scooters, tolls, and even traditional parking meters have moved into digital payments, which, similar to transit, often result in low-dollar, high-volume transactions. Transportation technology is rapidly evolving in a direction that involves greater use of micro-payments which exposes many problems in America's payment system.

A payment is comprised of two parts: the transfer of money and the information necessary to conduct that transfer (e.g., who is paying whom, how much, from where, and when). While the information necessary for a payment often goes through non-bank firms, the settlement of money is currently bank-centric with most funds flowing through financial institutions. Non-bank companies, including technology firms providing card systems, messaging firms providing information services, and processing firms, have played critical roles in managing the flow of information and the methods in which payments are transacted, although increasingly, they are also participating in the flow of funds.

Download the full paper.

The Brookings Institution

by Aaron Klein

January 9, 2023

Housing Programs Nationwide See Big Infusion of Earmark Cash.

The largest increase for housing and community development in the latest federal spending bill came from earmarks, where lawmakers direct funding to specific projects in their states.

People have been moving away from parts of Columbus, Mississippi, in recent years, leaving behind empty houses with sheets of plywood covering doors and windows.

The city's mayor, Keith Gaskin, said in an email that about 2,300 homes—or nearly a fifth of the homes in the city—are now sitting vacant, creating what he described as urban blight that's increasing crime and reducing property values for people who have stayed behind. "Our declining population has slowly changed the appearance of our community," he said.

Meanwhile, nearly 1,000 miles to the northeast, the Riverside neighborhood in Wilmington, Delaware, is dealing with similar struggles that, according to community activists there, reflect systemic racism and the nation's legacy of discriminatory housing policy.

Continue reading.

Route Fifty

by Kery Murakami

JAN 10, 2023

EPA Unveils $100 Million in Environmental Justice Grants.

The Environmental Protection Agency announcement is part of a larger effort by the Biden administration to fight climate change and curb environmental harm in long-neglected communities.

The U.S. Environmental Protection Agency invited states, cities, community organizations and tribal nations Tuesday to apply for $100 million in federal grants to advance environmental justice initiatives.

The funds, provided under last year's landmark climate package, will be administered across two programs and represent "the largest investment for environmental justice grants ever offered" by the agency, EPA Administrator Michael Regan said in a call with reporters.

The funding advances the Biden administration's Justice40 initiative, which aims to direct 40% of overall benefits from certain federal investments toward long-neglected communities that often bear the brunt of the health and environmental fallout from industry and climate change.

Continue reading.

Route Fifty

by Molly Bolan

JAN 10, 2023

Major Hurricane Ian: How Good Is Your Climate Risk Model? - Moody's

As the need to understand climate risk grows ever more urgent, asset managers, lenders, corporates, and businesses all need to be confident that their climate risk models can capture the complexity of climate and weather events – in order to satisfy their regulators, boards, and shareholders.

Moody's Climate on Demand has led the way in the provision of climate risk analytics, and during 2023 this innovative solution will deliver new risk metrics that capture the financial impacts of climate risk by integrating the expertise of Moody's RMS market-leading climate risk modeling capabilities.

But how can users distinguish what makes a good climate risk model versus an inadequate one? Let's take the case study of Hurricane Ian in 2022 to examine how well a climate risk model can reflect the reality and complexity of climate and weather events both now and in the future.

Major Hurricane Ian was an extremely large and devastating "all perils" Category 4 hurricane that struck Florida in September 2022 and will be ranked as one of the costliest hurricanes to ever affect the U.S.

Its size and intensity brought significant damage to Florida's manufacturing, agriculture, tourism, and distribution sectors. Transportation continues to be affected months after as infrastructure is repaired, and the cost of property repairs will be one of the highest ever – and not all will be covered by insurance.

To accurately model the impact of extreme weather events such as Hurricane Ian and how they will change in the future requires a tried-and-tested, sophisticated and multi-dimensional approach.

Only Moody's RMS delivers forward-looking climate risk models which combine best-in-class catastrophe models from the (re)insurance industry together with climate model outputs and the latest peer-reviewed scientific consensus. This helps capture the full range of possible events and their impacts that can occur now and in the future.

Impact of Hurricane Ian

Ian was the latest in a series of hurricanes that rapidly intensify immediately before landfall, bringing extensive rain and flooding across Florida on top of severe wind and storm surge damage in the landfall area; all trends which are expected to continue due to climate change.

Storms such as Ian in 2022, Ida in 2021, Harvey and Irma in 2017, Sandy in 2012, Ike in 2008, and Katrina in 2005 show the importance of utilizing climate risk models which account for all drivers of impact across multiple hazards.

The models can then establish the impact of these hazards on different asset types, and incorporate the current background of economic stress and inflation, the amplifying effects of extensive infrastructure damage on business interruption and downtime, together with the compounding effect on the overall loss from the many assets and businesses all being affected at the same time across the state.

Moody's RMS models account for all these factors due to our physical climate risk modeling framework which has led the way in assessing the financial impacts of physical climate risk for the past 30 years in the (re)insurance industry.

These models are now being embraced by other sectors, which recognize that understanding the impact of events such as Ian requires the use of sophisticated risk models which capture the complexity of weather events and how climate change will affect them in the future.

By climate conditioning our catastrophe models and re-simulating the hazard to account for future climate impacts, for example, sea level rise, ocean waves, and coastal flooding, our climate risk models bring the best of both worlds to the industry.

While Ian made landfall in a similar area as Hurricane Charley in 2004, the storm was more than double Charley's size with four times the destructive potential[1], making Ian's impacts significantly more material and demonstrating the impossibility of predicting future damage from past storms.

Moody's RMS models account for the full range of possible hurricanes that can strike the U.S. in terms of location and strength, and how climate change may affect these factors in the future. In addition, our impact scores and financial loss metrics account for all aspects of hazard, such as the impacts of tornadoes, rainfall ingress through damaged roofs, and wind-blown debris as well as the major driving factors of wind, storm surge, and flooding.

As well as catastrophic damage to properties, Ian caused destruction to large amounts of infrastructure such as roads, bridges, and power networks. More than 2.6 million people were without power across Florida following the storm's landfall.

The considerable infrastructure damage, particularly in the hardest-impacted areas like Fort Myers and Cape Coral, will slow down the recovery and increase repair costs and losses, especially for islands disconnected from the mainland due to bridges and piers being washed out, such as Sanibel Island. The full recovery could take a few years in these areas, and some businesses and residents may never return, as witnessed after Hurricane Katrina hit New Orleans in 2005.

On top of such a destructive hurricane, the impact of recent inflationary trends will further increase losses. Shortages of materials, qualified contractors, and insurance claims adjusters in Florida add to the near-record inflationary trends being experienced in both the domestic and global economy.

The level and extent of disruption to water, sewage, and electricity supplies, extensive infrastructure damage, and delayed repairs due to residents unable to return to the area, all start to drive long-term consequences.

A loss of income for businesses and increased costs for residents who have to move elsewhere for weeks and months, means they are unable to start the process of repair and recovery. RMS modeling accounts for the various ways in which these costs and losses escalate within a major catastrophe through economic demand surge and super-catastrophe compounding effects.

The repair and recovery from Ian will take many months, and for some, years. However, what is clear is that without a deep understanding of all the drivers of impact and loss, you may be underestimating the risk of such events in the future.

Moody's

by Claire Souch

January 09, 2023

Bond Markets Flash Warning About Environmental Catastrophes.

Investors in the $35 billion catastrophe bond market are demanding the highest premiums in years to cover issuers against disasters, as weather events become more extreme while interest rates rise.

Margins on new issuances of catastrophe bonds covering US wind events are now at the highest since 2019, at 5.3%, according to a report from reinsurance broker Gallagher Re. For other risks the premiums offered are at the highest since at least 2017.

The rise in margins comes after disasters including Hurricane Ian — the costliest storm for insurers since Katrina — saddled catastrophe bond holders with losses last year. An index by reinsurer Swiss Re AG which tracks the total return of such bonds, also known as cat bonds, tumbled 10% after the hurricane struck, causing devastation along the coastline of Florida.

And unfortunately for cat bonds, the hurricane, along with other natural disasters, happened during a year when global central banks hiked interest rates aggressively to combat soaring inflation. That means that safe corporate bonds now offer a yield of 5% globally, and come without complex risks like flooding and volcanoes to consider.

"Extreme weather events have led to high insured losses in 2022, underpinning a risk on the rise and unfolding on every continent," Martin Bertogg, head of catastrophe perils at Swiss Re, wrote in a recent report. "When Hurricane Andrew struck 30 years ago, a $20 billion loss event had never occurred before – now there have been seven such hurricanes in just the past six years."

Catastrophe bonds are issued to backstop risks that could include anything from natural disasters to lapses in the judgment of Credit Suisse Group AG's risk managers. The instruments generally have short maturity dates and promise returns to investors outside of the insurance industry by taking on the risk that their principal could be wiped out by a severe event. The value of such bonds outstanding last month was around $35 billion, according to Gallagher's report.

Rising interest rates might also affect issuance in the cat bond market this year, according to DBRS Morningstar.

"In an environment of higher interest rates, the cat bond market is going to have a tough time," said Marcos Alvarez, head of insurance at DBRS Morningstar. At least $10 billion worth of cat bonds have been issued each year since 2017, but that number will probably fall this year, according to Alvarez. Some deals failed to materialize last year, with issuers turning to traditional reinsurance instead, he said.

Natural catastrophes caused at least $115 billion of insured losses in 2022, well above the average over the last ten years and including an estimated insured loss of up to $65 billion from Hurricane Ian alone, according to Swiss Re's report. That adds to a longer-term trend of an estimated 5% to 7% annual increase in insured losses over the past decade, the reinsurer said.

The increasing threat of losses from disasters make issuing new cat bonds all the more important for the insurance industry, but it might be difficult to find enough investors.

The Cat bond pipeline is "quite strong" into 2023, Gallagher said in its report. However, demand constraints "may make it difficult for some of the deals to succeed."

Bloomberg Markets

by Lucca de Paoli and Tasos Vossos

Tue, January 10, 2023

[Reinsurers Defend Against Rising Tide of Natural Catastrophe Losses, for Now.]

Severe weather events are happening more often. Recently in the US, atmospheric river storms have been battering Northern California with heavy precipitation, major flooding, fierce winds and mudslides. These followed December's deadly winter storm Elliott, whose heavy snowfall, powerful winds and extreme cold temperatures caused estimated insured losses of approximately $5.4 billion according to risk modeler Karen Clark and Co.

Climate change, which has led to increased frequency and severity of weather-related natural catastrophes, also poses a significant risk to insurers and reinsurers. Global insured natural catastrophe losses have averaged about $100 billion over the past five years. Reinsurers in particular are feeling the heat as they accumulate losses from primary companies. To counter this, many are raising prices, limiting coverage and even exiting some markets to improve returns.

Economic losses from natural catastrophes rise across the globe

Cumulative natural catastrophes that caused $1 billion or greater in damages

Continue reading.

SPECIAL REPORT BY MOODY'S INVESTORS SERVICE

Jan. 10, 2023

[Market Losses Deal Heavy Dent to State and Local Pensions.]

Last year saw unfunded liabilities for the nation's largest public retirement plans climb by roughly a half-trillion dollars.

The market turmoil of 2022 was tough on public pension plans. Following record investment gains in

2021, most top state and local retirement systems saw nearly half of those earnings wiped away, according to the New York-based nonprofit Equable Institute.

The group's year-end [report on the state of pensions in 2022] found that the average funded ratio for state and large municipal plans declined from 83.9% in 2021 to 77.3% in 2022, based on available data through Dec. 31.

The market forced the funds' unfunded liabilities to climb to $1.45 trillion last year, a roughly half-trillion dollar increase from 2021 in the gap between assets and what's owed to retirees in the years ahead.

Continue reading.

Route Fifty

By Elizabeth Daigneau,
Managing Editor, Route Fifty

JAN 12, 2023

Average Funded Status of Local, State Retirement Systems Declined 6% in 2022.

Coming off a strong 2021, the economy was hit hard last year, making it difficult for administrators to effectively manage retirement system and pension fund assets. The average funded status for the top state and local retirement systems dropped by a little more than 6 percent in 2022, according to a research brief from the nonprofit Equable Institute, "The State of Pensions 2022: Year End Update."

"Fortunately, the investment losses in 2022 didn't wipe out all the funded status gains from 2021. Unfortunately, the sharp losses this year have exposed—yet again—the lack of resilience plaguing many public pension plans," the report reads. "Once all public pension plans release their 2022 data, we estimate that the combined funded status for the top state and local retirement systems will be 77.3%."

Driven by poor investment returns, the pension funding shortfall increased nationally to $1.4 trillion during 2022 after dipping below $1 trillion in 2021. A pension's funded ratio reflects its financial health. Pension plans with a funded ratio above at least 80% are considered healthy.

Continue reading.

americancityandcounty.com

Written by Andy Castillo

9th January 2023

[For Closed-End Fund Investors, Paper Losses Turn Real.]

Municipal-bond funds have been especially hard-hit amid market slump

Investors in closed-end funds are feeling a painful consequence of the historic market slump: cuts to their monthly payouts.

A Pacific Investment Management Co. California municipal-bond fund slashed dividends by 45% this month, while a Nuveen LLC stock fund endured a 7% cut. Eaton Vance Management in November cut distributions across six stock funds by as much as 24%. Six BlackRock muni funds endured at least two payout cuts last year, with dividends falling by as much as 38% in total.

The falling payouts are yet another way that investors are getting squeezed as Federal Reserve efforts to control inflation enter a second year. Many closed-end funds try to amp up returns by investing borrowed money. That risk generally paid off over the past decade, but has backfired in the face of rising rates and ensuing stock and bond losses.

Continue reading.

The Wall Street Journal

By Heather Gillers

Jan. 12, 2023

Sky-High Muni Trading Seen Cooling as Fed's Rate Path Eyed.

- **Trading volume hit highest since 2008 on rate hikes, outflows**
- **Barclays, Parametric and Neuberger Berman expect lower volume**

Municipal bond market analysts expect trading volume in the market to ease in 2023 after more than $3.5 trillion in securities traded hands last year — the biggest surge since the global financial crisis — spurred on by rate hikes and persistent mutual fund outflows.

Average daily trading volume jumped by more than 50% to $14 billion in 2022 compared with volumes a year earlier, according to Municipal Securities Rulemaking Board data analyzed by Bloomberg.

Meanwhile, daily trading volume in the secondary market surpassed $20 billion par seven times last year, a level never breached in 2021, according to MSRB data. The Federal Reserve's interest rate hikes also brought volatility to the muni market, said Kimberly Olsan, senior vice president of municipal bond trading at FHN.

Continue reading.

Bloomberg Markets

By Shruti Singh

January 11, 2023

Should I Invest in Municipal Bonds During Rate Hikes?

Municipal bonds, or “munis,” are popular investments for a few reasons. Most notably, as a government bond, they can be the closest thing to a safe asset that the market offers. And, investors typically pay no federal taxes on the income that these bonds generate, creating an effective boost to their otherwise relatively low rate of return. Ordinarily, this can be a very stable section of the market. But during Federal Reserve interest rate hikes, bond payments can rise and prices fall. This can result in higher yields and lower returns overall, although municipal bonds don’t always follow this rule. Here’s how it works.

How Bond Yields and Returns Work

All bonds, whether government or corporate, are debt instruments that have three essential elements: par value, market price and coupon rate.

Continue reading.

yahoo.com

by Eric Reed

January 12, 2023

MacKay Municipal Managers Announces Top Five Municipal Market Insights For 2023.

PRINCETON, N.J. and LOS ANGELES, Jan. 12, 2023 /PRNewswire/ — MacKay Municipal Managers™, the municipal bond team of MacKay Shields LLC, today published its top five insights for the municipal bond market in 2023.

John Loffredo and Robert DiMella, co-Heads of MacKay Municipal Managers, said on the insights: “We are optimistic about the 2023 municipal market. We believe that preparation will help seize opportunities with higher accruals setting the pace. Disciplined portfolio management sets the stage for 2023 as higher tax free income streams, once again, provide a strong foundation from which relative value decisions can enhance performance”.

MacKay Municipal Managers – Top Five Municipal Market Insights for 2023

Tax-Exempt Accrual Plays a Key Role in Total Return. Income has regained its prominence in municipal bond total return. Municipal investors can now realize much higher income accruals due to 2022’s sharp rise in rates. Top income tax bracket investors, and especially those living in high income tax states, should find the higher tax-exempt income levels attractive on a taxable equivalent basis versus other asset classes. Raising accrual rates tends to reward investors who reinvest their dividends through the compounding effect of buying more shares at relatively lower average prices. We believe higher income levels can also better stabilize returns compared to the last several years, when low coupons and yields offered little cushion against price declines. Additionally, we believe investors who remained in passive strategies have missed this opportunity while hoping the market would recover. Raising accrual rates required actively replacing low book yield positions with much lower priced, higher yielding bonds, trades typically known as tax swaps. We believe investors can benefit from current market accrual rates in 2023 and beyond.

Overweight General Obligation and Essential Service Bonds. We believe essential investment grade sectors, such as General Obligation bonds and Water & Sewer bonds, will regain favor with investors in 2023. We expect greater demand for traditional municipal bonds such as bonds backed by the taxing power of general obligation issuers or secured by the revenues of essential service providers like public water and sewer authorities. We anticipate continued investor uncertainty over the path of inflation, the Federal Reserve's policy decisions, and the potential for a recession will be the reason why investors find comfort in the core municipal sectors. In addition, investors should favor shifting to higher quality sectors that now pay higher accrual rates. We believe core sectors of the municipal market outperform in 2023.

In a Bifurcated High Yield Municipal Market, Liquidity Drives Performance. We believe a disciplined pursuit of liquidity will be rewarded in the 2023 high yield municipal market. In 2022, the massive wave of high yield fund redemptions resulted in an equally sized selloff of bonds as funds sought liquidity. High yield municipal funds primarily sold their more widely held and better quality positions to meet those redemptions resulting in those more liquid bonds underperforming relative to holdings that did not trade throughout the year. In anticipation of a healthier market in 2023, we believe those underperforming bonds now provide the opportunity to outperform as investment discipline re-emerges. In our opinion, discipline in the high yield municipal market goes beyond credit research to include an understanding of liquidity, tradability, and the investor base. We expect inflows will return to the high yield municipal market and issuance will be light. As a result, we believe the more liquid part of the high yield municipal market outperforms in 2023.

Fund Flows Drive Recovery in Long Municipal Bond Prices. We believe exposure to longer-term bonds drives return in 2023. Municipal mutual funds and Exchange Traded Funds are the natural buyer of the long end of the municipal curve. We expect a return to positive mutual fund flows results in the outperformance of longer-term bonds. Additionally, mutual funds will likely seek to increase their distribution yields, causing them to extend the maturity and duration profile of purchases. As a result, bond structures with long durations and discount prices enhance return potential relative to shorter duration, premium structures. Finally, the municipal to Treasury yield ratio curve remains steep, indicating that the longer end of the municipal market offers better value opportunities. Long municipal bonds with ratios in the mid 90% range are cheap on a relative basis. We believe portfolios with exposure to longer maturities outperform.

Thinking Outside the Box – Using Short Taxable Municipals to Enhance After-Tax Performance. We believe shorter-term taxable municipal bonds provide better after-tax value than comparable maturity tax-exempt bonds. Investing in shorter term municipal bonds, a tactic used to add liquidity and/or manage duration in a portfolio, becomes more difficult when such bonds are overpriced. Shorter-term tax-exempt bonds have risen in price beyond fair value primarily due to passive investor demand. In 2023, we expect demand for shorter-term tax-exempt bonds to continue unabated and we do not expect that new issuance sufficiently offsets that demand. As a result, we believe shorter-term tax-free municipal to Treasury yield ratios remain rich through the year. Comparable maturity taxable municipal yields, however, offer better value on an after-tax basis. The taxable municipal market's continuing expansion, in both size and breadth, has brought a new dimension to relative value trading in the municipal market. We believe investors should favor shorter-term taxable municipal bonds because they provide competitive after-tax yields, attractive spreads to Treasuries and the same high credit quality of the tax-exempt municipal asset class.

About MacKay Shields LLC

MacKay Shields LLC (together with its subsidiaries, "MacKay")*, a New York Life Investments Company, is a global asset management firm with $126 billion in assets under management as of September 30, 2022. MacKay manages fixed income and equity strategies for high-net worth individuals and institutional clients through separately managed accounts and collective investment vehicles including private funds, UCITS, ETFs, closed end funds and mutual funds. MacKay maintains offices in New York City, Princeton, Los Angeles, London and Dublin. For more information, please visit www.mackayshields.com or follow us on Twitter or LinkedIn.

Why Income Investors Should Revisit Municipal Bond ETFs.

Investors should consider the opportunities in the municipal bond market and turn to related exchange traded fund strategies to diversify back into this fixed income category.

In the recent webcast, Munis Positioned to Shine in 2023, Michael Cohick, director of product management at VanEck; and Tamara Lowin, senior analyst, municipal bonds at VanEck, pointed out that municipal bonds now offer yields not seen in more than a decade, aside from a spike at the onset of the pandemic. Investors need to pay attention to these higher income levels as they consider portfolio positioning for 2023. In addition to attractive yields, supportive market dynamics, resilient credit quality, and important tax benefits make munis a key asset class to own.

The strategists argued that a difficult year in 2022 has resulted in the highest muni yields in over a decade and these highs may present a good buying opportunity for a variety of investors. Historically, municipals have experienced a strong recovery in years following large drawdowns, so this bond segment may be poised to shine in 2023.

The inverted yield curve could also point to better returns in 2023. In 2000 when the U.S. yield curve or 2-10 year slope was -49 basis points, the following year broad municipal bond market returned about 4.5%. More recently in 2019 when the year curve slope was -5 basis points, the following year's return for the broad muni market was 5.0%.

Meanwhile, yields in the munis market are much more attractive and are above their 10-year averages, with investment-grade munis showing a 3.5% yield and high-yield munis putting out a 5.9% yield.

Fundamentals could also support the muni outlook after a severely muted supply and massive fund outflows. On the demand side, we just saw $111 billion pulled out of mutual funds, ETFs, and money market funds belonging to the Municipal Bond Morningstar US Category Group in 2022. On the supply side, new issuance over 2022 was down 25% year-over-year and fell below the long-term average.

While the economy may be slowing, default risk remains low in the munis segment. Specifically, we only saw 52 municipal bond defaults in 2022 and the VanEck strategists projected that we are not likely to see a substantial increase in 2023 either. Many municipalities are flush with cash, with only Nevada seeing below 0% tax revenues generated over the rolling four quarters. Tax revenues in most states even outperformed pre-pandemic levels.

To cover the full spectrum of risk/reward opportunities in the munis space, VanEck offers a suite of municipal bond-related ETFs. For example, the VanEck Vectors Short Muni ETF (SMB), the VanEck Vectors AMT-Free Intermediate Municipal Index ETF (CBOE: ITM), and the VanEck Vectors Long Muni ETF (MLN) can help investors focus on varying points across the yield curve.

The VanEck High Yield Muni ETF (HYD) and the VanEck Short High Yield Muni ETF (SHYD) offer targeted plays on credit quality to focus on high-yield debt.

The VanEck HIP Sustainable Muni ETF (SMI), which debuted as the first exchange traded fund dedicated to green municipal bonds, seeks current income generally exempt from federal income tax by investing in investment-grade municipal debt securities that have been issued to fund operations or projects that support or advance sustainable development, as well as promote positive social and environmental outcomes.

The VanEck Vectors Municipal Allocation ETF (Cboe: MAAX) can provide maximum long-term after-tax return consisting of capital appreciation and income generally exempt from federal income tax. In pursuing long-term total return, the fund seeks to reduce duration and/or credit risk during appropriate times by allocating primarily to VanEck municipal exchange traded products that invest in tax-exempt bonds.

Lastly, the VanEck Vectors CEF Municipal Income ETF (XMPT) seeks to replicate the performance of the S-Network Municipal Bond Closed-End Fund Index (CEFMXTR), which is intended to track the overall performance of the U.S.-listed closed-end funds that invest in U.S. dollar-denominated tax-exempt market.

ETF TRENDS

by MAX CHEN

JANUARY 12, 2023

The Public Finance Outlook for 2023: Prepare to Slog

Disinflation and economic deceleration will dominate state and local budgets and investments. Cash is king, at least for a while. Payroll costs will outrace revenues. It's going to be a year for muddling through.

Last year's New Year's column capsulized the outlook for public finance for 2022 in one word: inflation. For 2023, it's almost the reverse, as disinflation — a slowing in the rise of prices — will be the backstory. But it will be a sticky and murky disinflation. With 12-month CPI measures still running hot, workers are not going to sit still for 2 percent pay increases, as much as the Federal Reserve might aspire to that number as its long-term inflation target.

Meanwhile, state and local government budget squeezes are coming, as softer revenues are expected from income, sales and property taxes. A soft landing for the economy is possible, but there is still a credible risk of worse. By spring, the global economy and business environment will feel like a muddy, mucky Ukrainian battlefield: prepare to slog.

Although it's now highly probable that the Federal Reserve will soon be able to escalate its overnight Fed funds interest rate to levels higher than the latest core inflation rates, that is just the first salvo in the central bank's battle to tame the multi-headed inflation hydra. As long as workers expect to see 5 percent pay raises this year, the overnight interest rate needs to hover at that level or above. Whether that pinches pocketbooks enough to auger a soft landing or pushes the U.S. economy into a recession, nobody truly knows. The two most important and encouraging mile markers that I'm now watching are the M2 money supply, which has gone flatline for six months now, and the private sector’s unit labor cost increases, which declined to 2.4 percent in the third quarter. Now, that’s genuine disinflation, which tells me we’re on the right and cautious path.

Continue reading.

governing.com

Jan. 3, 2023 • Girard Miller

S&P Outlook For U.S. States: Rainy Day Funds Will Support Credit In A Shallow Recession

Sector View: Stable

The shallow recession forecast for the first half does not equate to a hurricane for states’ finances. Although certain revenue and expenditure assumptions may get dampened, states’ generally strong reserves will function as a credit-stabilizing umbrella.

Continue reading. [Free registration required.]

5 Jan, 2023

Fitch Ratings’ 2023 Outlook: Public Finance Stable Amid Weakening Macro Environment

Fitch Ratings-New York-05 January 2023: Fitch Ratings has assigned a deteriorating asset performance outlook for 2023 to the majority of public finance (PF) sectors, reflecting a negative trend in core credit drivers for these sectors relative to 2022. Worsening macroeconomic conditions will weaken tax and other revenues, while inflation that leads to higher operating expenses, including labor costs, and higher rates affecting borrowing costs will also pressure budgets. Despite the deteriorating macro environment, most Rating Outlooks across our PF portfolio are Stable given broad budget and revenue raising flexibility, strong reserves, and/or government support.

Downside risks, including deeper and prolonged recessionary conditions with higher inflation and policy rates, a sharp and sustained housing downturn, shifts in government policies or geopolitical risks could weaken financial cushions and credit quality.

The vast majority of U.S. state and local government Rating Outlooks are Stable, reflecting broad and diverse revenue bases, control over revenues and spending, moderate long-term liabilities and sound financial cushions. State and local governments built robust reserves over the past few years, strengthening their resilience.

Fitch-rated Canadian provinces have Stable Rating Outlooks and are entering 2023 with significant fiscal momentum. Most provinces benefit from robust and diverse economies and have broad discretion to respond to changing fiscal circumstances. Debt burdens increased less than anticipated through the pandemic, and liquidity is solid.

Slowing economic growth and rising inflation are negative for EMEA government-related entities' (GRE) standalone credit profiles; however, GRE ratings are mostly driven by government support, which undergirds GREs' ability to withstand stress and meet debt-servicing obligations. About half of EMEA local and regional government (LRG) issuers are capped by or equalized with the respective sovereign international default rating (IDR). About 70% of Fitch's LRG portfolio are on Stable Outlook, and with more than a quarter on Negative Outlook.

Fitch's sector outlook for Latin American LRGs is neutral due to our expectation that trends in key rating drivers will largely remain unchanged. In the region, 71.1% of LRG IDRs are either linked or equalized to the corresponding sovereign rating.

In APAC, all Rating Outlooks across both Australian and New Zealand LRG portfolios are Stable, reflecting the resilience of LRGs to the fiscal pressures and balance sheet capacity to absorb further economic shocks. Chinese policy remains supportive of local-government financing vehicles (LGFVs) in light of their economic development role. The Rating Outlook on the majority of our China LGFV ratings is Stable, with the exception of four LGFVs with a Negative Outlook, which largely reflects the relevant LRG Rating Outlook.

Fitch's deteriorating sector outlooks for US water and sewer, public power and higher education sectors indicate our expectations that economic and business conditions will create a more challenging operating environment in 2023 relative to 2022. Higher costs and slower economic growth are expected to contribute to softening operating performance, which could lead to a weakening in credit quality across these entities absent efforts to reduce or recover operating costs and increase rates to preserve margins. Despite these pressures, Rating Outlooks across our rated portfolio of higher education and water and sewer and public power utilities are predominantly Stable, as most credits manage operational and capital spending to preserve some budgetary flexibility and have headroom to absorb higher costs.

The U.S. not-for-profit healthcare sector's core credit drivers will remain under pressure in 2023. Inflation, especially labor costs, is compressing margins, with investment losses compounding fiscal pressures, although record levels of cash accumulated through much of 2021 provide a buffer. We anticipate that downgrades and Negative Outlooks will outpace upgrades and Positive Outlooks in 2023, although the vast majority of Rating Outlooks are currently Stable.

NASBO Fiscal Survey of States - Fall 2022

With data gathered from all 50 state budget offices, this semi-annual report provides a narrative analysis of the fiscal condition of the states and data summaries of state general fund revenues, expenditures, and balances. The spring edition details governors' proposed budgets; the fall edition details enacted budgets.

Overview – Fall 2022

Enacted budgets for fiscal 2023 provide for general fund spending of **$1.16 trillion**, a 6.7 percent increase over fiscal 2022. This follows fiscal 2022, when states recorded spending growth of **18.3 percent**, the highest annual increase in spending recorded in the Fiscal Survey of States since its inception in 1979. Adjusted for inflation, general fund spending in fiscal 2022 increased **9.6 percent**.

Other key highlights from the report:

- General fund revenue grew **14.5 percent** year-over-year to total **$1.17 trillion** in fiscal 2022, following a **16.6 percent** increase in fiscal 2021.
- **49 states** reported fiscal 2022 general fund revenue collections exceeded enacted budget forecasts, with collections in the aggregate exceeding original projections by **20.5 percent**.
- Revenue projections in fiscal 2023 enacted budgets are **3.1 percent** below preliminary actual collections for fiscal 2022, but more recent revenue data suggest that revenue will continue to grow in fiscal 2023, with **33 states** reporting collections exceeding budget forecasts.
- States enacted net tax cuts in fiscal 2022 totaling **$16.2 billion** for all state funds and **$15.5 billion** for general funds (**1.4 percent** as a share of forecasted general fund revenue).
- Rainy day fund balances continued to grow in fiscal 2022 after increasing 58 percent in fiscal 2021, and the median balance as a share of general fund spending is projected to be **11.9 percent** in fiscal 2023.
- Total balances have seen tremendous growth recently, roughly tripling in size over the past two years after revenues far exceeded enacted budget forecasts in fiscal 2021 and fiscal 2022. At the end of fiscal 2022, they totaled **$343 billion**.

Continue reading.

Kentucky Is Latest State to Blacklist Financial Institutions Over ESG Policies: Cadwalader

To ring in the new year, Kentucky's Treasurer, Allison Ball, announced a list of eleven financial institutions that she claims are engaged in "energy company boycotts." According to Ball, the list "was crafted after careful review of publicly available statements and commitments made by the companies." The list includes Blackrock, BNP Paribas, Citigroup, HSBC and JPMorgan Chase, among others. Kentucky enacted a law in July 2022 requiring the treasurer to prepare and maintain such a list. The new law defines an energy company boycott as:

without an ordinary business purpose, refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company because the company: 1. Engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law; or 2. Does business with a company described in subparagraph 1. of this paragraph;

KRS 41.42. A financial institution has ninety days from receiving notice of its inclusion on the list to "cease engaging in energy company boycotts in order to avoid becoming subject to divestment by state government entities."

For many of the impacted financial institutions, this situation is, unfortunately, not their first rodeo, and they previously have responded by objecting to characterizations of their relationship with the oil and gas industry. In September, for instance, Blackrock published a letter in response to an August 4 letter from 19 Republican state attorneys general, critical of Blackrock's ESG positions. Blackrock observed, among other things, that:

- Blackrock's participation in "various ESG-related initiatives" is "entirely consistent with our fiduciary obligations."
- "We believe investors and companies that take a forward-looking position with respect to climate risk and its implications for the energy transition will generate better long-term financial

outcomes."
- "Climate risk and the economic opportunities from the energy transition have become a top concern for many of our clients."
- "As the recent historic floods across the country as well as the droughts and wildfires throughout the West and around the world this past year have shown, climate change is testing the resilience of many industries and businesses."
- "As prudent risk managers and stewards of our clients' assets, it is imperative that we seek to understand and assess how these risks and opportunities will impact the companies in which we invest on our clients' behalf."
- "BlackRock does not boycott energy companies or any other sector or industry. As we have noted previously, BlackRock, on behalf of our clients, is among the largest investors in public energy companies, and has hundreds of billions of dollars invested in these companies globally, with approximately $170 billion invested in US companies."

Taking The Temperature: Kentucky is not alone in seeking to financially punish banks deemed insufficiently supportive of the energy industry. West Virginia and Texas have similar laws, and numerous other states, including Arizona, Florida, Louisiana, Missouri, South Carolina, and Utah, have announced that they may or will divest from banks or cease other financial activities with financial services firms (such as underwriting municipal securities) that are engaging in "energy boycotts." Pressure also has been exerted by the Minority Staff of the U.S. Senate Banking Committee, Republican members of the House Judiciary Committee, and the Ranking Member of the Senate Banking Committee. But as we have articulated, investment managers have fiduciary duties to clients that they likely would breach if they ignored a material issue, including climate change.

We also question how state treasurers are arriving at a conclusion that a financial institution is engaged in an energy boycott, which is vaguely defined in the applicable state laws, especially given the basis for the decision as to any particular institution is not publicly articulated in a meaningful way. Ball's press release, for instance, states that her conclusions were based on a "thorough review of publicly available statements, commitments, and/or an institution's failure to respond to inquiry." The West Virginia Treasurer's press release stated that "each financial institution placed on the Restricted Financial Institution List today has published written environmental or social policies categorically limiting commercial relations with energy companies engaged in certain coal mining, extraction or utilization activities, rather than considering the financial or risk profile for each company," and "these policies explicitly limit commercial engagement with an entire energy sector based on subjective environmental and social policies." The absence of a publicized rationale for placing a particular institution on a boycott list implies that these decisions are largely subjective, and poorly supported, and it leaves financial institutions without insight into how their conduct could potentially impact their ability to keep or win state business.

Cadwalader Wickersham & Taft LLP – Jason M. Halper

January 6 2023

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

View the list.

5 Jan, 2023

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

View the list.

5 Jan, 2023

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

View the list.

5 Jan, 2023

A ‘Bootcamp’ to Help Smaller Cities Win Infrastructure Grants.

Small and midsize localities tend to lack the dedicated grant-writing teams and expertise that bigger towns use to score federal dollars. A new–and free–initiative aims to get them onto more equal footing competing for the funding.

Smaller-sized cities are often at a disadvantage competing for federal grants, lacking the staff, in-house knowhow and other resources that their larger peers can depend on when going after the money.

But now, with billions of dollars of the grants available to local governments in the 2021 infrastructure law, the National League of Cities, with support of philanthropic backers, is trying to change that dynamic and give smaller cities a better shot at winning federal dollars. The group is running a series grant application “bootcamps” for 30 different infrastructure law programs. The new initiative, open to cities with fewer than 150,000 residents, kicked off late last year, with a second round about to get underway later this month.

Robert Blaine, director of the Institute for Youth, Education and Families at NLC, explained that the League decided to launch the project because of the vast amount of grant dollars in the $1.2 trillion public works law, and concerns that smaller cities would miss out on the money. Many observers describe the law as a historic chance for cities to score funding that can help with projects in areas ranging from flood protection, to electric vehicle chargers, to street safety.

Continue reading.

ROUTE FIFTY

by BILL LUCIA

JANUARY 8, 2023

[Fitch Ratings Updates U.S. HFA General Obligation Rating Criteria.]

Fitch Ratings-New York/San Francisco-05 January 2023: Fitch Ratings has published an updated criteria report titled 'U.S. Housing Finance Agencies General Obligation Rating Criteria.' The report replaces the existing criteria of the same name dated Jan. 13, 2021.

Minor editorial revisions were made to the criteria. There have been no material changes to Fitch's underlying methodology, and no rating actions are expected as a result of the application of the updated criteria.

The criteria report is available at 'www.fitchratings.com/criteria/us-public-finance.'

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Additional information is available on www.fitchratings.com

[BlackRock, Citigroup Among Firms Named Fossil-Fuel Boycotters by Kentucky.]

- **BlackRock, Citigroup, and JPMorgan among the companies listed**
- **Move is the latest step in the GOP fight against ESG investing**

BlackRock Inc., Citigroup Inc., and JPMorgan Chase & Co are among 11 financial institutions that are facing pushback from Kentucky after being deemed hostile to the fossil fuel industry.

Kentucky Treasurer Allison Ball put the firms on a "Restricted Financial Institutions" list compiled in accordance with state law, saying they're engaged in "energy company boycotts."

The legislation, which resembles actions taken by Republican-led states including West Virginia and Texas, will require state entities to divest from the blacklisted firms, with certain exceptions.

"When companies boycott fossil fuels, they intentionally choke off the lifeblood of capital to Kentucky's signature industries," Ball said in a press release on Tuesday.

The move is the latest in the GOP fight against what Republicans perceive to be liberal-leaning financial practices. The strategy known as environmental, social and governance investing has drawn intense scrutiny as critics say it's part of a broader Democratic effort to prioritize climate change and other societal issues to the detriment of the fossil-fuel industry.

Ball said in an interview that the law won't prevent banks on the list from underwriting most municipal debt in Kentucky. That has emerged as a major concern in Texas, one of the country's largest markets for such sales. She said the Kentucky legislation is a "different situation" than the Texas law.

Ball also said it was too early to estimate how much money may be at risk of divestment.

JPMorgan and Citigroup were among the top financiers of the fossil fuel industry in 2021, according to a report by groups including the Sierra Club and Rainforest Action Network.

"The fact is that we are among the largest financers of the U.S. traditional and renewable energy industries, including in Kentucky, where we serve some of its largest energy companies and utilities," said Trish Wexler, a spokesperson for JPMorgan, in an emailed statement. "We believe our business practices are in line with Kentucky law, and we are hopeful a deeper look at these facts would lead to reconsideration."

BlackRock said the company's "only agenda" is to deliver the best financial results for its clients.

"On behalf of our clients, we have invested approximately $276 billion in energy companies globally," Christopher Van Es, spokesperson for BlackRock, said in an emailed statement. "BlackRock does not boycott energy companies and will continue to be investors across the energy sector."

Mark Costiglio, a spokesperson for Citigroup, declined to comment.

Kentucky governmental entities have 30 days to notify both the Treasurer's office and companies of any holdings. Named institutions have 90 days from that point to "cease engaging" in boycotts to avoid divestment, according to a notice on the Treasurer's website. Listed firms will have an opportunity to "clarify" whether they boycott energy companies.

Governmental entities are required to sell, redeem, divest or withdraw all publicly traded securities of companies that continue boycotts within a year, though the law makes some exceptions like if divestment would result in a loss.

The full list of firms is below:

BlackRock, Inc.
BNP Paribas SA
Citigroup Inc.
Climate First Bank
Danske Bank A/S
HSBC PLC
JPMorgan Chase & Co.
Nordea Bank ABP
Schroders PLC
Svenska Handelsbanken AB
Swedbank AB

Bloomberg Politics

By Nic Querolo

January 3, 2023

— With assistance by Silla Brush

Expert Panel Highlights Best Practices for Successful P3 Approaches: Nossaman

On December 1, 2022, Nossaman partner Simon Santiago moderated a panel at the 2022 P3 Government Conference held in Arlington, Virginia, titled, "Best Practices for Successful P3 Procurements: Identify the Appropriate P3 Process for Your P3 Approach." The panelists, comprised of Jack Callahan (Partner and Construction Industry Practice Leader, CohnReznick); Michael Kerrigan (Principal, Delgany Advisory); and Brandey McDonald (Project Director, Infrastructure Asset Management, Fengate), offered a variety of perspectives from the lens of legal, technical and equity provider perspectives.

The panel examined the key issues that public agencies must consider when structuring a P3 process, starting with project planning, transitioning into procurement activities, and then implementing and administering the P3 project. Below are key takeaways from the panel discussion:

Upfront Planning

- In order to identify project goals and objectives, it is necessary to have candid and transparent conversations amongst all stakeholders. Clear communication is crucial to properly define the project scope, achieve the project objectives, and effectively collaborate. Failing to effectively communicate at the outset can result in setbacks later down the line.
- A diligent analysis of the anticipated project risks will help public agencies assess the viability of a P3 project. As an owner, due diligence is critical for gaining market support for a P3 project, including by providing investigatory information on key technical risks and taking proactive measures to mitigate risks prior to initiating a procurement.

Structuring a Procurement Process

- Establishing a procurement process that recognizes the time and effort required for proposers to submit a proposal can help maximize participation. When developing the procurement documents, public owners should ask for information that is most relevant to assessing the capability of a proposer and avoid onerous submittal requirements. Also, owners should offer a stipend that takes into account the level of effort required to submit a proposal.
- The procurement documents and evaluation criteria should be structured to promote and reward innovation. There should be flexibility in design, construction, operation and maintenance scope and standards.

Project Implementation

- Public agencies should employ oversight and monitoring measures that properly balances the public's need for accountability and the private sector's need to control and manage its own resources.
- It is essential for the public and private sector to work collaboratively to ensure that contractual obligations are being met and that performance is reported accurately.

Throughout the session, the panelists stressed the importance of retaining and consulting with experienced advisors early on and at every stage of the P3 process.

In conclusion, as a driving point, the panelists wanted audience members to remember that a successful approach to a P3 procurement is not a one-size-fits-all approach. The panelists emphasized that if you have overseen one successful P3 project, that you've only seen *just one*. Every project is distinct; thus, it is important to recall best practices when identifying the appropriate P3 process for every new project.

By Adeyemi Ojudun on 12.29.2022

Nosssaman LLP

[Fitch U.S. Public Finance & Infrastructure 2022 Rating Action Summary.]

U.S. Public Finance & Infrastructure Weekly Rating Actions Report – December 26 to December 30, 2022

ACCESS REPORT

Tue 03 Jan, 2023

A Federal Court Ruling Imperils the Charter-School Movement.

The Fourth Circuit holds our school is a 'state actor,' even though the law makes its independence clear.

A ruling in a federal court case could spell trouble for the charter-school movement. The case began in 2015 when the American Civil Liberties Union, representing three female students, sued our school.

The plaintiffs in *Peltier v. Charter Day School, Inc.* allege that our uniform policy—which requires girls to wear jumpers, skirts or "skorts" (skirtlike shorts) on most days—violates the girls' rights under the 14th Amendment's Equal Protection Clause. After a mixed decision in federal district court, the Fourth U.S. Circuit Court of Appeals ruled in June for the plaintiffs.

By a 10-6 vote, the full court held that CDS is a "state actor," constitutionally indistinguishable from government-run public schools. That is counter to North Carolina law. CDS is a private nonprofit corporation—a legal requirement for operating a charter school under the state's Charter School Act. That law specifically empowered charters to set their own rules about comportment, curriculum, appropriate dress and other matters.

Continue reading.

The Wall Street Journal

By Baker A. Mitchell and Robert P. Spencer

Jan. 3, 2023

[And Just Like That, America Becomes More Rural.]

Census update of a century-old definition highlights the arbitrary nature of urban-rural distinction

With so much attention on the U.S.'s urban-rural divide, you might soon hear that the rural population in 2020 was much larger than in 2010.

That isn't because people moved en masse to the country during the pandemic. It's because the U.S. Census Bureau is updating its definition of an urban area, from one with 2,500 people to one with 5,000. That reclassified 4.2 million people, living in 1,140 areas of the U.S., from urban to rural.

This has real-world consequences: Access to many federal and state programs is based on whether an area is defined as rural or urban.

Continue reading.

The Wall Street Journal

By Josh Zumbrun

Jan. 6, 2023

Making Room for Housing near Transit: Zoning's Promise and Barriers

An Examination of Policy and Outcomes in the Puget Sound

Nestled between the Cascades and the Olympic Mountains, blessed with moderate weather, and home to a strong job market, the Puget Sound is one of the most attractive metropolitan areas in the United States. These conditions have encouraged growth: among the country's 50 largest cities, Seattle grew faster than all but Fort Worth and Austin from 2010 to 2020. This momentum, however, has had negative consequences. Affordability has declined, and the region does not have adequate hosing to meet demand, reducing its ability to attract residents or retain its existing population.

WHY THIS MATTERS

Recent approval of major taxpayer-supported transit investments will expand access to mobility for residents in communities throughout the Puget Sound region, as $54 billion in planned expenditures will add dozens of new light rail and bus rapid transit stations between 2023 and 2044. These projects will speed commutes for residents and workers, offering them affordable, environmentally sustainable travel options.

These new transit investments could set the stage for more housing options in the region, but much of the land near stations is now zoned to limit housing construction or housing density. About one third of station-adjacent land is zoned for only single-family homes; almost 50 percent requires at least one parking spot per unit. Both zoning restrictions add to housing costs, making new construction more difficult and new homes more expensive. And zoning allowances for new housing are not proportionate to real estate demand, with many of the region's most popular jurisdictions subject to stringent land-use regulations.

Continue reading.

The Urban Institute

by Yonah Freemark, Lydia Lo, Olivia Fiol, Gabe Samuels, Andrew Trueblood

January 5, 2023

Pimco Cuts Payouts as Much as 45% on Muni Closed-End Fund Shares.

- **Asset manager cuts monthly payouts on 9 muni closed-end funds**
- **Distribution cuts range from 20% to 45% as leverage costs soar**

Pacific Investment Management Co. cut monthly payouts on nine municipal bond closed-end funds by as much as 45% after a sharp jump in short-term rates increased borrowing costs.

The money manager cut the distributions on the $199 million Pimco California Municipal Income Fund to 3.6 cents per share from 6.5 cents per share, according to a statement Tuesday. Short term-borrowing costs on the fund surged as high as 8.25% in December. The fund trades at a 29% premium to its net asset value while the yield on the closed-end fund's portfolio is about 4%, according to data compiled by Bloomberg.

Shares of the California fund fell as much as 15% to $12.97 in Wednesday trading, the biggest intraday drop since 2008.

The Newport Beach, California-based asset manager also cut distributions on two other California funds, three New York funds and three national funds. Agnes Crane, a Pimco spokeswoman, declined to comment.

Dividend cuts by closed-end funds can punish fund shares, particularly if they trade at a premium. Muni closed-end funds borrow in the floating-rate tax-exempt market to finance the purchases of higher-yielding long-term bonds, seeking to profit from the difference. However, with the cost of leverage surging, that spread has disappeared or turned negative, which have led to distribution cuts.

Closed-end funds raise a fixed amount of money from shareholders in a public offering, unlike mutual funds, which continually sell and redeem shares. Closed-end funds are traded on stock exchanges and can trade at premiums or discounts to their net asset value.

Invesco Ltd, BlackRock Inc., Nuveen LLC and Eaton Vance Corp. all cut distributions on their muni closed-end funds last year.

In contrast to most muni-closed end funds, Pimco uses preferred shares for leverage. Yields on the shares, set by weekly auctions rather than by dealers, are even higher than variable-rate bonds.

Weekly benchmark yields in the variable-rate tax-exempt bond market surged to 3.8% last month as dealers sought to offload inventory amid heavy outflows from tax-exempt money market funds.

Yields have since fallen to 3.66%.

Yields on preferred shares for Pimco's muni closed-end funds currently range from 5.82% to 6.05%, according to data compiled by Bloomberg.

Leveraged municipal-bond closed-end funds, which purchase long-duration bonds, were crushed in 2022 as rising inflation sparked a rise in yields and a drop in prices. VanEck's CEF Muni Income ETF, which seeks to track the performance of a muni-bond closed-end fund index lost 24% in 2022, compared with 8.5% for the broader muni market.

Bloomberg Markets

By Martin Z Braun

January 4, 2023

What Are Baby Bonds, And How Do They work?

- A "baby bond" is a bond with a face value that falls below $1,000 — typically $25 or $50.
- Anyone can invest in baby bonds as long as they meet the associated minimum requirement.
- Baby bonds are unsecured, meaning you aren't guaranteed payment in the event of a default.

Continue reading.

businessinsider.com

by Rickie Houston

Jan 5, 2023, 1:49 PM

High-Quality Munis Could Be High-Quality Idea in 2023.

The Bloomberg US Aggregate Bond Index is coming off its worst annual performance since inception in 1976, and municipal bonds of various credit qualities were caught up in that mess. Blame the Federal Reserve's seven interest rate hikes.

Still, the widely observed ICE AMT-Free US National Municipal Index was significantly less worse than the "Agg" last year, indicating that municipal bonds could deliver for risk-averse income investors this year. That could be good news for the related exchange traded funds, including the VanEck Intermediate Muni ETF (ITM).

ITM, which follows the ICE Intermediate AMT-Free Broad National Municipal Index, also outperformed the Agg last year. With a lineup that's more than 90% investment-grade, the VanEck ETF could be poised for even better things in 2022.

Continue reading.

etftrends.com

by Tom Lydon

January 6, 2023

[A Big-Picture Year in Public Finance.]()

Inflation punished Wall Street and Main Street, and public financiers who ignored it squandered billions. Congress passed two bills important to states and localities. And pensions took a hit, but taxpayers won't feel that pain for years.

As the year comes to a close, it's my tradition to look back at the biggest stories in public finance and hold them up against my forecast for the year. Sprinkling in some impactful surprises from Capitol Hill, it was a memorable year for state and local governments on several levels, both sweet and sour:

Inflation's eruption: Although global pandemic-generated supply chain interruptions and Russia's invasion of Ukraine certainly didn't help, the seeds of America's inflation problem date back to 2021's injection of fiscal and monetary stimulus to counter the COVID-19 shutdowns. The U.S. money supply surged, as my 2022 New Year's column pointed out, and too much cheap money sloshed around the economy, chasing too little stuff including housing. Inflation rates unseen in 40 years erupted, and that caused bond and stock market reactions, unprecedented public-sector cash management blunders, pension fund headaches and public employee compensation issues.

Continue reading.

governing.com

by Girard Miller

Dec. 20, 2022

Republicans Ramp Up Anti-ESG Campaign for 2023.

But while rising GOP leaders tout efforts to derail sustainable investing, pushback from pension officials and banking associations is growing.

The investing strategy known as ESG is under attack, and virtually no one expects the backlash to die down.

More than a dozen Republican state attorneys general have blasted ESG financial practices, while Republicans in Congress plan to increase their scrutiny of what they call "woke capitalism." One of their main complaints is that environmental, social and governance investing is part of a broader Democratic effort to prioritize climate change and other societal issues to the detriment of the fossil-fuel industry.

The political assault by the right is backed by some of the party's biggest names, including former Vice President Mike Pence and the governors of Florida and Texas, Ron DeSantis and Greg Abbott. Pence and DeSantis are widely seen as potential 2024 presidential candidates. Wealthy GOP supporters such as Peter Thiel, as well as billionaire Elon Musk, also have criticized ESG. And there's a long list of right-wing activists such as Leonard Leo who have spoken out against BlackRock Inc. and other Wall Street giants they claim are catering to a Democratic agenda.

[Continue reading.]

Bloomberg Green

By Saijel Kishan and Danielle Moran

December 29, 2022

[The Hidden Marketplace: A Municipal Bond "Broker's Broker" Exchange]

While it is common to hear about daily fluctuations in the various market exchanges, such as NASDAQ or DOW, few investors are aware of a fluid exchange taking place daily between fixed-income broker-dealer trading desks and their competitors. This exchange is an over-the-counter marketplace where bond dealers come together via the "broker's broker platform" to buy and sell securities with one another.

The broker's broker (BB) is an intermediary/negotiator for buyers and sellers of municipal (muni) bonds in the secondary marketplace. Like a real estate broker, the BB does not own any securities but acts as an agent, representing buyers and sellers of muni bonds. These agents help facilitate the trading flow in the $4 trillion municipal bond market.

This platform consists of firms that compete for bonds and clients, and the BB acts as a facilitator between the firms so dealers can buy what they do not have or sell what they do not want. The parties involved in the trades remain anonymous, but each must be a registered broker-dealer to participate.

So, why should your financial advisor's Broker Dealer use a BB? And how does using a BB affect the individual investor?

To answer these questions, you must understand that the buying and selling of municipal bonds is done in an over-the-counter marketplace. In the past, players would wait for the morning delivery of a publication called "The Blue List." This publication listed municipal offerings by state and included the selling firm's name. Because anonymity is a valuable negotiating tool, a dealer would enlist a BB to entertain a bid for the bond of their liking. Thus, the negotiating began, and if all parties agreed, a trade occurred. Neither buyer nor seller knew who was on the other side of the transaction, and the BB worked with each firm to facilitate the transaction.

These firms across the U.S. would interact with the BB by phone numerous times a day, trading bonds. Today, dealers work with more sophisticated electronic trading platforms called electronic communication networks (ECNs). These systems allow dealers to advertise offerings, execute trades, and buy and sell on the auction platform — all without ever picking up the phone. This method has added greater visibility to muni products advertised in the marketplace while saving valuable time.

An attempt has been made to move municipal trading to a more generic valuing system, but that hasn't proven easy because of the unique differences among municipalities and their financial circumstances. Nevertheless, the electronic trading network (ETN) has come a long way and offers a considerable efficiency level.

The advantage of having your financial advisor's Broker Dealer firm work through a BB can be beneficial in multiple ways. First, if your financial advisor (FA) is looking for a specific type of bond for you and does not have it in inventory, they must go into the marketplace to source it. In this instance, enlisting a BB to find that specific bond is advantageous to the dealer. Dealers always seek to give their clients as close to what they request as possible, and the BB can show you bonds that might fit your clients' requirements.

This situation can also work in reverse. If a client has a bond their FA firm would not usually purchase, this dealer can go to a BB and get a bid for these bonds from another dealer who traffics in that type of paper. In these cases, the dealer satisfies the investment objectives. Using a BB can also assure you that when you sell bonds, the price you are quoted represents what the marketplace pays that day, not just the in-house bid from your FA.

When selling your securities, the BB provides auction-like services by asking marketplace participants to bid on your bonds. This format assures the seller that their bonds are shown to dealers all over the U.S. If the price is right, a trade ensues. An attractive block of bonds can receive upwards of 10 bids, which would save you from calling more than 10 firms yourself to ask for a value on your securities. BBs provide an assurance that the bid price you receive is not just representative of your FA firm's price level but that of the entire marketplace on that day.

Dealers who actively participate in daily bond auctions have an opportunity to bring value to their clients by purchasing bonds on the "bid side" of the market instead of the "offering side." This method is beneficial to the individual investor because it ensures the best execution — and higher returns.

As with all investing, knowledge is power. Knowing more about the functioning of the muni marketplace is not only advantageous but essential to achieving your investment objectives. Discussing these issues with your fixed-income advisor is always time well spent.

At The DRL Group, we specialize in helping high-net-worth investors maximize their tax-free returns by proactively maintaining their custom bond portfolios through all market conditions. For more information on how we can help, please visit us at [Yield-Day.com]() or contact one of our specialists at 281-398-8600.

municipalbonds.com

by David Loesch

Dec 22, 2022

The information provided here is not investment, tax or financial advice. You should consult with a licensed professional for advice concerning your specific situation.

Your State is Getting Rich Off the Inflation That is Making You Poorer.

State governments emerging from the coronavirus pandemic built historic cash surpluses as inflation in prices and wages drove up sales and income tax collections.

Now many states are reaping another reward: banking millions of dollars off those surpluses as the Federal Reserve fights inflation with higher interest rates.

“We’re catching both ends of it,” said Missouri Treasurer Scott Fitzpatrick, a Republican.

First, “we received a lot of extra money,” he said. “Now, nominally, we’re benefiting from the increase in interest rates from the Fed.”

Continue reading.

BY DAVID A. LIEB AND THE ASSOCIATED PRESS

December 27, 2022 at 11:13 AM PST

Crypto in the Public Capital Markets: Opportunities and Challenges - Katten Muchin Rosenman

On October 20, Mark Wood, co-head of Katten’s National Capital Markets practice, alongside representatives from investment bank H.C. Wainwright & Co., LLC and leading publicly traded Bitcoin miner Bitfarms Ltd., discussed the status of cryptocurrencies and capital raising by crypto-focused market participants as part of Katten’s 2022 “Crypto with Katten” annual symposium (you can view the agenda for the symposium here). Below are highlights from the presentation.

Crypto in the US Public Capital Markets

A wide variety of companies in the crypto space have “gone public” in recent years — listing their common stock for trading on a securities exchange in the United States — including cryptocurrency mining companies, e-commerce and crypto- payment platforms, cryptocurrency exchanges and other financial services companies focusing on the evolving crypto ecosystem. Significantly, many overseas crypto businesses have also chosen to tap the United States capital markets for equity financing or chosen to list their stock on United States stock exchanges, including many of the largest crypto miners by market cap.i

From Record Highs to Challenging Markets

Publicly listed crypto companies experienced record growth through the end of 2021, with the market cap of publicly traded crypto miners alone exceeding $16.5 billion by the end of the year. Indeed, during 2021, the stock of many crypto-oriented listed companies appreciated at a faster rate than even the price of Bitcoin itself during the same time period. However, prices of “crypto” stocks have fallen alongside the general market in 2022, with the three largest publicly traded Bitcoin mining companies losing more than $4.5 billion in market cap, spurred on by the collapse of cryptocurrency prices generally in addition to the rising costs of electricity and general economic and inflationary pressures. Year to date, the price of Bitcoin has fallen approximately 65 percent, with many leading Bitcoin mining companies experiencing percentage market cap declines of 74–90 percent over the same time period.

Continue reading.

by Michael Tremeski, Mark Wood

December 26, 2022

Katten Muchin Rosenman LLP

[Orrick: School Bond Election Timeline for 2024 Election]()

For school districts and community college districts considering 2024 bond elections, remember that the March 2024 primary election is fast approaching! Even if you are planning for November 2024, it's never too early to get your professional team in place. When engaged early, your Orrick bond counsel can advise on the ballot language to help optimize the polling process.

[Click here for a printable version of the 2024 timelines.]()

December.20.2022

[Taxpayers are Paying Billions for the Renovations and Construction of NFL Stadiums. Here's How.]()

In 2022, the Tennessee Titans of the NFL unveiled their plans for a new stadium in the heart of Nashville. The 1.7 million-square-foot stadium can house 60,000 screaming football fans and is estimated to cost $2.1 billion.

The public would fund more than half of the stadium through a one-time contribution from the state of $500 million and $760 million through revenue bonds issued by Nashville's Metropolitan Sports Authority.

Since 2000, public funds diverted to helping build professional sports stadiums and arenas have cost taxpayers $4.3 billion. While the NFL and team owners contend that building stadiums will provide economic growth for a city, economists and urban planners think otherwise.

[Continue reading.]()

CNBC.com

THU, DEC 22 20228:00 AM EST

[After Muni-Bond 'Bloodbath,' Expectations for 2023 Are Muted.]()

Buy-and-hold investing gains appeal as interest rates rise

State and local government bonds are on track to post their worst yearly performance since 1981, a deep slump for an investment prized for safety and stability.

"This year was a bloodbath," said Nicholos Venditti, a municipal bond fund portfolio manager with Allspring Global Investments. "It was a bloodbath in munis the same way it was across all asset classes."

Munis lost 8.5% through Dec. 29, according to Bloomberg index data, driving the total value of the market below $4 trillion for the first time since 2014, as the Federal Reserve pushed interest rates higher to fight inflation.

Continue reading.

The Wall Street Journal

By Heather Gillers

Dec. 30, 2022

Vanguard to Launch New Bond ETF.

Vanguard says it will roll out a new fixed income ETF in the first quarter of 2023.

The Vanguard Short-Term Tax-Exempt Bond ETF (VTES), a municipal bond index ETF, is set to have an estimated expense ratio of 0.07%. It will mainly invest in short-term municipal bonds and will track the S&P 0-7 Year AMT-Free Muni Bond Index.

Stephen McFee, a portfolio manager in Vanguard Fixed Income Group who joined the firm in 2005, will manage the new fund. Among the municipal bond funds he currently manages is the Vanguard Tax-Exempt Bond Index Fund.

Continue reading.

ThinkAdvisor

By Janet Levaux

Dec 22, 2022

Like Closed-End Muni Funds? Early January Could Be a Great Time for Buying.

Constant readers might have discerned certain peculiar predilections in this space, among them an unusual fondness for an odd corner of the investment world: closed-end funds.

They are treated with varying degrees of disdain or a simple lack of interest among most investors, who tend to be drawn to more conventional pooled investments, such as mutual funds or their trendier offspring, exchange-traded funds. The wallflower status of closed-ends results in their chronic mispricing, which sets them apart from other, usually efficiently priced, instruments.

Richard Thaler, who won the Nobel Prize in economics for his study of behavioral economics, has observed that individual investors' irrationality results in closed-end funds selling at discounts or premiums to their underlying net asset values. Depressed attitudes result in wide discounts as individual investors—who hold the lion's share of the asset class—dump them.

Continue reading.

Barron's

By Randall W. Forsyth

Dec. 30, 2022

NASBO 2022 Fall Fiscal Survey of States.

Overview – Fall 2022

Enacted budgets for fiscal 2023 provide for general fund spending of **$1.16 trillion**, a 6.7 percent increase over fiscal 2022. This follows fiscal 2022, when states recorded spending growth of **18.3 percent**, the highest annual increase in spending recorded in the Fiscal Survey of States since its inception in 1979. Adjusted for inflation, general fund spending in fiscal 2022 increased **9.6 percent**.

Other key highlights from the report:

- General fund revenue grew **14.5 percent** year-over-year to total **$1.17 trillion** in fiscal 2022, following a **16.6 percent** increase in fiscal 2021.
- **49 states** reported fiscal 2022 general fund revenue collections exceeded enacted budget forecasts, with collections in the aggregate exceeding original projections by **20.5 percent**.
- Revenue projections in fiscal 2023 enacted budgets are **3.1 percent** below preliminary actual collections for fiscal 2022, but more recent revenue data suggest that revenue will continue to grow in fiscal 2023, with **33 states** reporting collections exceeding budget forecasts.
- States enacted net tax cuts in fiscal 2022 totaling **$16.2 billion** for all state funds and **$15.5 billion** for general funds (**1.4 percent** as a share of forecasted general fund revenue).
- Rainy day fund balances continued to grow in fiscal 2022 after increasing 58 percent in fiscal 2021, and the median balance as a share of general fund spending is projected to be **11.9 percent** in fiscal 2023.
- Total balances have seen tremendous growth recently, roughly tripling in size over the past two years after revenues far exceeded enacted budget forecasts in fiscal 2021 and fiscal 2022. At the end of fiscal 2022, they totaled **$343 billion**.

View the full report.

The Outlook for State Budgets Heading into 2023.

Many states are on solid footing and expect to enjoy surpluses. But a couple are staring down sizable budget gaps.

With a few major exceptions, state officials expect their budgets to be in strong positions for the coming year. The robust projections come even as worries linger about the health of the nation's economy overall.

“The economy has proved much more resilient than anybody expected,” said Shelby Kerns, the executive director of the National Association of State Budget Officers.

Governors and lawmakers have been cautious in spending new revenue, given recent disruptions in the economy. They’ve watched warily to see how the pandemic, supply chain disruptions, record-setting inflation and increased borrowing costs would affect state budgets, she said.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

DECEMBER 16, 2022

S&P: As Threats Rise, U.S. Public Finance Entities Take On Mounting Challenges To Secure The Digital Front Line

Key Takeaways

- S&P Global Ratings continues to see an increasing number of attacks on U.S. public finance entities, to where cyber is now a daily part of risk management and operations for most issuers.
- Cyber risk has moved beyond a specialized aspect to a near-ubiquitous priority that is integral to risk-management frameworks, but adoption of baseline cyber-security standards and frameworks still varies across public finance entities.
- Evolving credit risks include the changing nature of threats, rising cyber-insurance costs, third-party vendor exposure, and regulatory uncertainty. We think issuers will need to adapt to maintain credit quality.
- USPF issuers that exhibit inadequate cyber-risk management and oversight that is ineffective in mitigating risk is incorporated into our credit rating analysis, and it could result in a negative rating action.

Continue reading.

13 Dec, 2022

Startup Uses Blockchain for Muni-Bond Deals in an Industry First.

- **Three issuers in NY sold bonds through Alphaledger’s platform**
- **Deals mark latest step in push to modernize a stodgy market**

A startup is modernizing the stodgy world of municipal bonds by using blockchain to originate deals. The company said it is a first in the $4 trillion market.

Alphaledger recently acted as the underwriter for three debt sales in New York, documenting the deals on its platform based on blockchain, the technology used for verifying and recording transactions that’s at the heart of Bitcoin. More municipal sales are in the works, company leadership said.

Until now, the Poulsbo, Washington-based company, founded in 2019, had used its platform mainly for direct lending to cities and localities. But that corner of the market is far smaller than its latest endeavor. Banks held $209 billion of direct loans to municipalities as of the third quarter, a fraction of the public-debt market, according to Municipal Market Analytics.

Continue reading.

Bloomberg Markets

By Nic Querolo

December 16, 2022
