

Municipal Market Primer – Bond Sectors

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The municipal bond market is broken down into different segments. These market segments are defined based on the use of the borrowed funds. The funds borrowed may be for general purposes similar to debt issued by a corporation. However, in many cases, there is a specific use for the funds being borrowed. We are going to look at the different sectors within the municipal bond market for which bonds are used to help us understand the full scope of the muni market.

PUBLIC BUILDINGS

State and local governments build public buildings for all different purposes. Municipal bonds can be used to finance police and fire stations, jails, convention centers and museums, to name a few examples. These buildings are public in that they are owned by the state and local governments that build them and that they are used for public purposes.

EDUCATION

Municipal bonds are issued to help finance all aspects of education. The most common is the repair of existing facilities and for constructing new buildings. State and local municipalities sell bonds for educational uses at all levels from kindergarten through universities.

ENVIRONMENTAL FACILITIES

Environmental facility bonds are used to finance waste disposal such as municipal dumps, recycling plants and various types of resource recovery. There are also pollution control bonds, where the proceeds will be used for pollution abatement facilities and purposes.

ECONOMIC DEVELOPMENT

Economic development bonds are generally referred to as industrial development bonds (IDBs) or pollution control bonds (PCBs). These bonds are usually sold by a state or local entity on behalf of a private corporation. An example would be a corporation building a plant and agreeing to hire a number of people in the area of an economic development authority. The Authority (usually local or state) would then sell bonds at tax-exempt rates which are essentially corporate bonds but are sold into the municipal market.

HEALTHCARE

Private and Public hospitals are financed in the municipal bond market. Public hospitals can issue debt directly by the state, whereas private hospitals, nursing homes, and life-care communities are usually issued through a municipal conduit.

ELECTRIC POWER

Public power utilities are usually created when a private power source is either unavailable or when that private source does not meet the needs of the public sector. Public power utilities build facilities that generate and transmit power at the state and local level.

UTILITIES

All across the country, municipalities issue bonds to help finance the work of water and sewer utilities. In addition to water and sewer utilities, bonds are also sold to provide sanitation facilities, flood control, and many other local needs.

HOUSING

State and local housing authorities sell bonds to finance mortgage lending for single-family and multi-family housing units. The proceeds from the loans made to the homeowners will pay the bondholders back.

TRANSPORTATION

Infrastructure and development of transportation needs are very important to state and local governments. Over the years mass transit has involved some very large projects. State and local governments help finance airports, seaports, and various types of roads and bridges.

At 16th Amendment Advisors, one way we recommend clients can diversify their municipal holdings is through industry segments. There are times when an investor will want to be underweight and/or overweight in certain sectors within the municipal bond market. We advise clients to seek professional portfolio management where periodic portfolio reviews are common.

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