

Municipal Bonds 101

The Potential Opportunity



Steady/Predictable Income



Safe but with risk



Tax efficiency



Local investment

Background

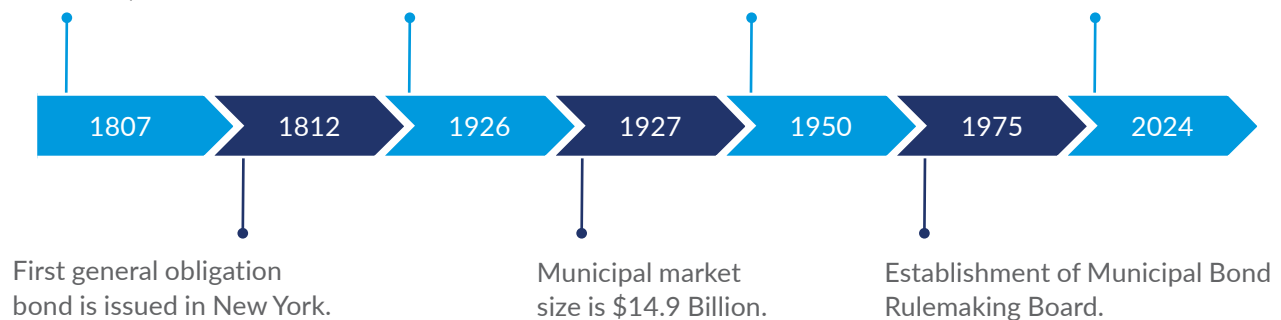
Municipal bonds (**munis**) have been utilized in the United States for nearly two centuries to **fund innovation and expansion**.

Municipal bonds are used to finance westward expansion (canals, roads, and railroads).

First revenue bond issued by New York State Port Authority.

Most U.S. states pass legislation to issue revenue bonds.

Municipal market is \$4.1 Trillion.¹



Source: Securities Industry and Financial Markets Association (SIFMA), U.S. Municipal Bond Statistics as of December 31, 2024.

By purchasing munis, investors are effectively **lending money to the municipality** in exchange for regular interest payments, usually semi-annually (twice per year), and repayment of their original investment, or principal.

Short-term bonds generally mature in one-to-three years, while **long-term bonds** usually don't mature for more than 10 years.

Types of Munis

The most common types of munis are:

1. **General Obligation (GO)** bonds are issued by states, cities or counties and are typically backed by taxes on residents to repay bondholders.
2. **Revenue** bonds are not backed by government's taxing power but by revenues from a specific project or source, such as highway tolls or lease fees.

Steady/Predictable Income

Muni bonds are popular with investors as a way of **earning a source of income** from their portfolio. Most municipal bonds pay interest twice a year, so barring default you know exactly how much to expect and when you'll receive it.

Tax efficiency

- Generally referred to as **tax-exempt bonds**.
- Interest often **excluded from gross income** for federal income tax purposes.
- Also generally **exempt from state and local income taxes** if the investor resides in the state where the bond was issued.
- But some municipal bonds are **not tax exempt**.

Safe but with risks

Munis are generally considered "**safe**" **investments** because default rates have been historically lower than those for comparable corporate bonds. (This is due, in part, to state governments not being allowed to declare bankruptcy under Chapter 9 of the U.S. bankruptcy code.)¹

However, GO bonds, when issued by municipalities such as cities and counties, **can default**. Additionally, some municipal bonds, such as high yield municipal bonds, **may be risky**. Investors need to review the specifics of any particular muni bonds to evaluate and assess the following associated risks:

- **Credit/Default**
- **Liquidity/Reinvestment**
- **Interest/Call**

Local investment

Municipal entities of all types including states, cities, counties, and towns use munis to **fund day-to-day operations and capital projects** such as schools, highways and, sewer systems.

¹ Federal Reserve Bank of Chicago, Chicago Fed Letter, No. 451, February 2021.

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