The Municipal Market in 2023, Hilltop's Municipal Sector Credit Outlooks

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- There are more questions about the economic backdrop to begin 2023 compared to a year ago. This is despite the near-term positive economic tone we see to begin January.
- The Golden Age of Public Finance will continue into 2023, but there are threats, some developing others already entrenched, stressing public finance sectors.
- We are lowering our **State Government** outlook to "Stable" from "Positive." We are not expecting credit deterioration, we simply believe most upgrades have occurred already.
- Our **Local Government** sector outlook remains "Positive." We believe public finance rating upgrades will outpace downgrades in 2023 and many of those upgrades will occur in this sector.
- Healthy state balance sheets should keep K-12 funding steady even if recessionary conditions develop. We are watching legacy liabilities, operational and workforce factors closely in the **School District** sector as well.
- Passenger enplanements are recovering but, labor and capacity constraints, combined with the potential for a softening economy could moderate the **Airport** sector's revival.
- **Charter Schools** have benefitted from increased enrollment and revenues which have muted the impact of expense pressures allowing for generally stable financial operations.
- Our initial "Stable" outlook for the **Community Facilities District** sector is concentrated on activity in California, where property values remain relatively stable and housing demand endures.
- The **investment grade Health Care** sector was experiencing fiscal pressures before the COVID crisis, and those pressures are likely to continue into 2023 and the near-term.
- **Sub and non-investment grade Health Care** entities are more vulnerable to expense pressures given little revenue flexibility and generally less liquidity.
- Sluggish operating revenue growth, declining student enrollment, changing consumer preferences, along with heightened inflationary & cost pressures challenge **Higher Education**.
- We lowered our **Housing** sector outlook to "Stable" from "Positive," because of a slowdown in activity. Downgrades are not likely in the sector. Margins will remain healthy.
- The **Public Power** sector's cash position and metrics are under pressure from rising costs.
- **Senior Living** expenses have been pressured by wage and food increases while rental rate increases have been more muted resulting in margin compression and thus our "Negative" outlook.
- The **Tobacco** securitization sector continues to experience consumption declines and event risk.
- **Toll Facilities** activity is rebounding and we expect the recovery to be supported by stable-to-growing commercial vehicle traffic and a steady return of passenger travel.

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- **Water and Sewer** sector: Though an essential service, the rate of increase in consumers' water bills has outstripped that of comparable services, personal real income and inflation for decades.

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