The Municipal Market in 2025, Hilltop's Sector Credit Outlooks

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- The Golden Age of Public Finance is now over.
- A temporary upswing in municipal bond credit quality began in 2021 boosted by Federal fiscal policy. Four years later, municipal credit is now returning to normal levels.
- A more positive macro-economic backdrop exists to begin 2025 compared to last year.
- The potential impact of the new administration and 2025 fiscal policy remains a significant uncertainty as we begin the year.
- Specifically, we are concerned about the now imminent threat to the municipal bond tax-exemption.
- Our **State Government** sector outlook remains "Stable" with healthy total balances projected for fiscal year 2025, despite the ongoing normalization of municipal credit.
- Our **Local Government** sector outlook also remains "Stable" due the housing market's role as an economic stabilizer, and despite potential fiscal policy changes and immigration challenges.
- We lowered our School District sector outlook to "Cautious" from "Stable" due to factors like declining enrollment, expenditure pressures, and potential reductions in state aid.
- We kept our outlook for the **Community Facilities District** sector "Stable" due to robust housing demand, increasing residential property values, and stable commercial property values in California.
- U.S. airports are expected to see continued growth in passenger traffic and infrastructure improvements, supported by strong liquidity and solid balance sheets, leading to a "Stable" **Airport** sector outlook.
- Charter school enrollment continues to grow, creating opportunities and increasing issuance, leading to a "Stable" **Charter School** sector outlook for 2025.
- Entities in the **Health Care** sector are showing improved profit margins, robust patient volumes, and a more stable labor market, highlighting the sector's flexibility and adaptability causing us to raise our sector outlook to "Cautious" from "Negative."
- We lowered our sector outlooks for both the "Public" and the "Private" **Higher Education** sector to "Negative" due to severe systemic pressures, including declining enrollment, rising costs, and reduced government support, which are leading to significant credit stresses, especially for smaller private institutions.
- State Housing Finance Agencies are expected to maintain strong balance sheets and credit fundamentals in 2025 leading to a "Stable" **Housing** sector outlook.
- Rising energy and data center demand, and natural disaster risks and are key pressures for the **Public Power** sector, however we kept our "Stable" sector outlook.
- We raised our **Senior Living** sector outlook to "Stable" from "Cautious" due to increased occupancy, higher revenue, and stabilizing expenses, amid growing sector issuance and an aging population.
- The U.S. cigarette smoking rate hit an 80-year low in 2024, with regulatory risks and declining consumption helping to reinforce our "Negative" outlook on the **Tobacco** sector.

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- Our **Toll Facilities** sector outlook remains "Stable" due to rebounded vehicle-miles, steady economic growth, minimal impact from federal actions, and the ability of toll road systems to adapt to post-pandemic patterns and inflationary pressures.
- We lowered our outlook on the **Water and Sewer** sector to "Cautious" from "Stable" due to ongoing budget pressures, regulatory compliance costs, and workforce challenges.

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