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Municipal Bonds: Funding The Infrastructure Of Connections



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Municipal Bonds Connect People 123RF.COM

This is the third article in a series highlighting the most important aspect of municipal bonds: how the projects bonds finance help the community. It appropriately started with [Municipal Bonds: Investing In Our Communities](#). This piece looks at how these days, infrastructure isn't just traditional big public works projects.

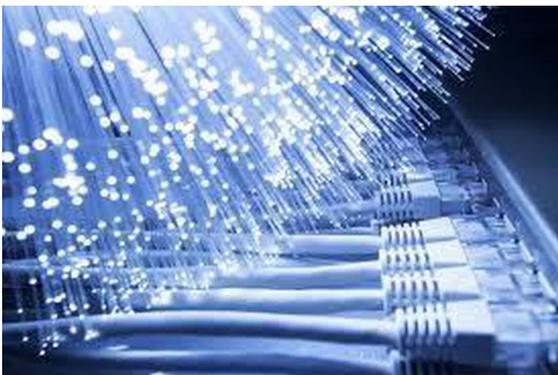
The Evolving Traditional Public Works Infrastructure

Infrastructure conjures visions of big public works projects: roads, bridges, tunnels, mass transit, and water and sewer lines. There is a reason for that. Every day in the U.S., we climb into our cars, trucks, SUVs and minivans to drive more than 8.4 billion miles on public roads, over bridges and through tunnels. Nearly 23 million people get on a train, bus or subway to connect with work, shops and family. An average of 2.1 million passengers catch a flight at the airport. More than 27 billion gallons of water gets used daily, an amount that could fill all the National Football League's stadiums in America four times over.

States, cities, counties and towns all issue municipal bonds to fund traditional infrastructure. In the past that usually meant plan-and-build. Today, public works projects integrate ESG (environment-social-governance) principles into design and use, taking into consideration that environmental impacts of projects can last for decades.

The New Infrastructure Of Technology

Technology is another rapidly emerging component to next-generation infrastructure, integrated into nearly all aspects of municipal service delivery. As municipalities research "smart city" technologies—using sensors and data analysis to develop evidence-based public policy to address critical issues—many find that they lack the necessary fiber-optic broadband infrastructure to support these new technologies.



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Fiber broadband networks are the most important foundation for every future-ready community: the key to better educational outcomes, greater economic opportunity and output, and the essential foundation for all next-generation infrastructure. Without this capacity, communities risk falling behind—separated by an ever-widening digital divide.

A group of communities in Utah saw this divide developing in their area: the population in the region, including Salt Lake City's suburbs and exurbs, experienced a 10% increase

in population since 2010, adding 43,800 people to a total of nearly 461,000. But there was no high-speed broadband internet.

Creating Fiber Bonds

The communities responded by forming the [Utah Infrastructure Agency](#) (Moody's: NR; Standard & Poor's: A+) and issued municipal bonds to finance a fiber network to homes. The proceeds of the borrowing paid for equipment, construction and onboarding service providers to offer voice, video streaming, data services and future content and smart home services. In addition to the lightning fast speeds precipitated by fiber, the UIA Network operates under an open access model allowing all qualified service providers to operate on the shared infrastructure—an arrangement that often lowers the price of services for consumers and benefits service providers by opening new markets that do not require their capital expenditure on the infrastructure.

The beneficial impact of fiber broadband connectivity on communities is immediate. Today, every business is a technology company in one form or another—from the local dentist office to the manufacturing plant. A high-speed, affordable and reliable internet connection is essential, not optional, for educational attainment, starting and growing businesses, attracting and retaining talent, and connecting the local economy to global opportunities.

Today's Highways--An Integration of Old And New

As fiber optic broadband connect people digitally, the nation's highways and byways connect people physically, linking them to jobs, school, work and recreation. These roads and tolls are as an “old school” a definition of municipal infrastructure as it gets!

Ohio, often called the crossroads of America, lives up to its name with 1,573 miles of highways crossing the state—the fourth largest interstate system in the country. Ohio takes a forward-looking approach to managing a system of this size—well beyond providing ongoing maintenance and repair.

Eager to apply technology to help manage that system, the governor of Ohio formed [DriveOhio](#) in 2018 as a collaboration between dozens of public and private entities

dedicated to finding tech solutions. With a long-term vision to create a fully technologically integrated highway system, Ohio is positioning itself as a leader in smart mobility.

The [Ohio Turnpike and Infrastructure Commission](#) (Aa2/AA-/AA), integral to the interstate system, is leading the charge in tech ground transportation solutions. The commission oversees the [Ohio Turnpike's 241 miles](#) stretching across the state from the Pennsylvania border in the East to Indiana in the West. Every year more than [56 million commercial and individual vehicles](#) drive on its six lanes through the state. It is widely acknowledged as a critical corridor in the national highway system. Fiber-optic cable run along the full length of this turnpike—future-ready with internet connectivity for whatever the internet of things may bring.

Corresponding, the Ohio Turnpike is one of the nation's leaders in testing and applying transportation technology. For these projects, immediate and long-term, large and small, the turnpike turns to the municipal bond market to fund its infrastructure needs, currently with six series of senior and junior lien bonds totaling \$1,588 million.

Investment Considerations

In the investment process, quantifying and analyzing the outcomes for a community of a project, program or service funded by municipal bonds is an important credit component. Financings that result in positive benefits for residents make those municipal bond issues inherently stronger credits.

Across the nation, states, counties, cities and towns use municipal bonds to fund both traditional and future-ready infrastructure in a myriad of projects to improve communities. Maintaining and improving infrastructure is a key credit positive. The alternative—a poorly maintained and deteriorating infrastructure—has negative credit implications. Both have a direct effect on investment performance. For investors seeking to fund infrastructure improvements, municipal bonds are a compelling option.

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The author's perspective comes from his over 30 years of municipal bond market experience in portfolio management and credit analysis. This article is for informational... **Read More**



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