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The boomer wealth transfer will test Florida's bond market

By Christina Georgacopoulos
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Local governments across Florida have issued record volumes of municipal bonds over the last five years to pay for key infrastructure projects like schools and public utilities as population growth has surged.

The market is breaking historic highs, and baby boomers, as the largest group of individual investors who buy municipal bonds, have been an essential component driving the momentum.

Demand for municipal bonds may not be as reliable over the next decade as trillions of dollars of wealth transfers to their millennial children, however, according to a senior underwriter at BAM Mutual, one of the country's largest municipal bond insurers.

For first-time millennial investors, buying municipal bonds can be intimidating, said Greg Pacifico, co-head of public finance at BAM. Plus, millennials will be entering the market during a period when a large number of financial advisers who specialize in municipal bond sales are expected to retire.

"These are historically very safe investments, but they're incredibly diverse. There are thousands and thousands of very unique municipal credits. That can make it more challenging, from an investor perspective, to truly appreciate what they're investing in," he said.

With importance rising around educating and engaging the next generation of investors. BAM recently launched an initiative to reach younger investors and advisers to ensure the demand side of the market endures the generational

wealth transfer, which is estimated to see $124 trillion worth of assets pass from baby boomers to younger generations between now and 2048.

Participation by retail investors — traditionally the most active buyers of municipal bonds — is essential for keeping borrowing prices low for local governments. A downward shift in demand would drive interest rates higher for issuers and potentially make municipal bonds a more challenging financing option, according to Pacifico.

Municipal bonds are more important than ever as cities and counties try to keep pace with post-pandemic population growth and development. Master-planned communities like Lakewood Ranch or The Villages have relied extensively on government-issued debt to support critical infrastructure upgrades.

New bond issues nationwide are on pace to eclipse $600 billion in 2026, which would be a third consecutive year of record-setting volume, according to Pacifico.

In Florida, BAM guarantees $4.3 billion worth of outstanding municipal bonds for 83 issuers across the state. Its portfolio includes several large projects in the Tampa Bay area, from upgrades to Tampa International Airport and the $200 million Fletcher District development at the University of South Florida's Tampa campus.

"Florida has a lot of very large issuers — countywide school districts, large cities — and, as a result, there are a lot of highly-rated and larger transactions. ... There is a big growth opportunity in the state," he said. "The muni market is incredibly efficient, but you need to make sure that the demand is there, and it's key to maintain a diverse base of buyers."