Muni Bond And REIT Investor Alert: Beware The Amazon Effect

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Disruptors are everywhere. Forbes has been in the forefront reporting on major disruptors. Think Uber and Lyft annihilating the taxi and rental car space. Amazon has become the go-to retailer, obliterating many brick and mortar retailers into bankruptcy. The collateral damage is deep. Even so, one area where the damage is not so obvious is in the municipal bond space.

Due to huge unfunded pension liabilities owed by states, cities, school districts, etc., tax-free municipal revenue bonds have been among my investments of choice over the past four years. Notice the paradigm shift of linking the source of municipal income with the dedicated revenue stream that good quality revenue bonds provide. That being said, not all revenue bonds are equal.

Pre-Internet municipal bonds backed by sales tax revenues were once considered safe. That's no longer always the case. As the most recent Rockefeller Institute ***of Government State Revenue Report*** **describes:**

> ***The weakness in sales tax collections is a least partially attributable to tax dollars owed but not collected on online sales. The online sales tax loophole has been an ongoing debate in the states and some states have adopted measures such as nexus or "Amazon" laws to address the issue. However, state efforts alone have had limited effectiveness and it may not be possible to fully stem revenue losses without Congressional action.***

As the Internet accounts for ever more consumer sales while Congress dithers, municipal sales tax revenue bonds should be low on investors' wish list.

What should be on that list? PIT bonds—Personal Income Tax bonds—is one. New York State is a big PIT issuer. Bonds are authorized through one of four conduit agencies like the New York State Thruway Authority or NY State Urban Development Corporation. Bonds are secured by financing agreement payments from the deposit of 25% of NY State Personal Income Tax Receipts.

If for some reason the deposit is insufficient—or the fund gets depleted—the state comptroller is required to immediately transfer enough money from the general fund to cure any shortfall. This is a clear way to connect one's sources of municipal income without the angst of another large retailer in your state filing for bankruptcy due to competitive Internet sales.

Other words of caution due to the Internet sales disruptor: Reexamine your REITs and REIT bonds and make sure the mall REIT securities in your portfolio are of the high-end quality. That won't insulate you 100% from anchor stores suffering declining sales. Just look at how Saks Fifth Avenue and Neiman Marcus sales are limping along.