AQUILA TAX-FREE TRUST OF ARIZONA

PORTFOLIO MANAGER COMMENTARY

April, 2021

A SHARES:	C SHARES:	Y SHARES:
AZTFX	**AZTCX**	**AZTYX**

ARIZONA AND NATIONAL MUNICIPAL MARKET

The supply of new issues in the Arizona market shrunk 10% to $1.887 billion during the first quarter of 2021. Of note was a jump in taxable muni issuance. Several local governments sold taxable municipal bond issues to capitalize on what are still historically low yields to advance refund older higher-cost bonds. These refinancings are presently prohibited from using tax-exempt issues to "pre-refund" bonds based on the 2017 Tax Cut and Jobs Act (for more insight into these unique circumstances see our recent publication "Taxable Municipal Bonds: Myths and Misperceptions")

Arizona issuers sold over $1.2 billion in taxable munis in the quarter. This included a wide array of borrowers including the Arizona Board of Regents, The cities of Tucson and Yuma, the Scottsdale Municipal Property Corp, and The Honor Health System. Although taxable munis accounted for 67% of Arizona issuance in the first quarter (and taxables were 31% of all new issues nationally in 2020) we don't believe it reflects a systematic shift by municipalities away from their traditional reliance on tax-exempt borrowing for core public infrastructure purposes.

ARIZONA AND NATIONAL ECONOMY

On March 11 The American Rescue Plan Act of 2021 (ARP) was signed into law. Out of this $1.9 trillion package, $650 billion is being directed towards public investment that supports U.S. public finance. Arizona is receiving approximately $15 billion of that total amount, which will provide a boost to municipal governments across the state. The $1.9 trillion stimulus package was the sixth major piece of U.S. fiscal policy enacted by lawmakers in response to COVID-19.

Arizona's economy has outperformed the national economy. The state had the third-best GDP performance in 2020, with a minor contraction of 0.9%, while the overall U.S. economy shrank by 3.5%. General Fund revenues for Fiscal Year 2021 through February have totaled $8.824 billion, an increase of 12.6% compared to the same period in Fiscal Year 2020 (this excluded the artificial gain from the deferral last year of the state's income tax filing due date from April 15 to July 15). The state's core revenue categories of sales tax revenue and individual income tax (IIT) withholding continue to perform well, driving economic growth. In particular, tax receipts from the Contracting sector (up 19.4% year-to-date) and Retail/ Remote Sales (up 16.6% year-to-date) have been very robust even taking into account the continued economic recovery.

The Phoenix metropolitan area and Arizona housing markets have been among the best performing in the nation, experiencing double-digit price appreciation throughout the past year. The momentum of the Arizona housing market is especially reflected in the pace of existing-home sales and new home construction. In January, Arizona's 12-month total of single-family building permits rose 24% to 41,941 from the prior year, while the average number of days on the market of existing homes for sale in the Phoenix area declined from 64 to 46 days during the same period.

Although the employment report in February showed Arizona with an unemployment rate of 6.9%, above the U.S. rate of 6.2%, it was primarily attributed to robust state population growth and expansion of the labor pool. The State's employment base has demonstrated resiliency and has been a significant driver in buttressing the State's revenues and budget. For example, the average annual employment rate in Arizona for all of 2020 was only 3.1% below the average for 2019 despite the initial shutdown of the economy last March and its resulting spike in job losses.

OUTLOOK AND STRATEGY

The Fund will look to maintain its high-quality credit focus while closely monitoring the health of the Arizona economy and issuers. Arizona vaccination rates are among the highest in the U.S. and are helping “amplify” the expanded “reopening” of businesses in Arizona. Aquila Tax-Free Trust of Arizona has benefitted from our emphasis on achieving broad diversification, especially across the maturity spectrum and yield curve. By proactively managing to extend maturity during windows of higher yields and casting a “wider net” across the yield curve to include both longer stated final maturity bonds and short-term bonds, erosion of the Fund’s monthly dividend income has been limited. Our active management during the protracted period of steadily declining municipal bond yields throughout 2019 and 2020 was the primary contributor to the moderation of the decline in the Fund’s monthly distribution. The Fed in its most recent meeting maintained its commitment to holding rates low in support of the economy. This will likely keep reinvestment risk elevated in the next 12-18 months, placing a premium on thoughtful, proactive management of maturity diversification while balancing interest rate risk.

For specific information about fund characteristics, holdings and performance please see the Fund Fact Sheet on our website at www.aquilafunds.com.

FUND FACTS AS OF 03/31/2021

LEAD PORTFOLIO MANAGER	INCEPTION DATE	TOTAL INVESTMENTS	NUMBER OF HOLDINGS
Anthony Tanner, CFA®	**3/14/1986**	**$281.9M**	**244**