



U.S. Municipal Bond Market

No Relief

Another Phase of COVID-19 Relief, None for State and Locals

Washington lawmakers, although they delayed their physical return to the confines of the capital beltway, have been busy constructing a fourth phase of relief to counter the dire economic situation. Included as of now is bipartisan support for workers, small businesses, and hospitals.

There is no bipartisan support for more state and local government relief at this time.

The total amount of fourth phase aid is expected to be between \$400 and \$500 billion. We are seeing there could be \$310 billion for the Paycheck Protection Program, \$60 billion for a small business emergency lending program, and \$100 billion for hospitals.¹ The U.S. Senate could potentially approve the plan today and the House could vote as early as Wednesday.²

Again, there is no bipartisan support for direct or any additional reinforcement for state and local government at this time. This is a significant credit negative for the municipal market bond market. The lack of assistance reiterates the idea we wrote about almost three weeks ago, that the threat from political risk is real and noteworthy.

State and local government credit quality is deteriorating, as is credit quality in every sector of the municipal bond market. Three weeks ago we wrote that we thought another \$300 to \$600 billion of relief would be needed. That estimate is now low. Last weekend, the National Governors Association asked for \$500 billion for states. The Center on Budget and Policy Priorities estimated state budget shortfalls would be \$500 billion as well. And Moody's Analytics (not the rating agency) projects state budget shortfalls of \$500 billion over the next two fiscal years. The New York MTA is also asking the federal government for additional aid. Every day the economy runs at a fraction of its capacity costs revenue. These numbers will continue to rise as the slowdown lasts.

Why No Additional Relief?

Why is there no additional relief? As with anything that happens in Washington, politics is key. This is proving to be true even during a global pandemic. Some are saying aid to governments should be delayed in order to motivate governors to open up state economies.³ It probably doesn't help state and local governments' cause that local lawmakers are, or may be, asking for federal relief to shore-up public pension plans, an often politically divisive line-item of spending.⁴

Hopefully this is just a delay, and more time is only needed to nail down specific numbers and garner support from across the country for the entities that are on the front line of this health crisis. Not only do they still need to provide the necessary public sector and related services, but demand for those services rise at times like this, and are needed more now than ever.

Tom Kozlik

Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

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¹ Simendinger, Alexis and Al Weaver; [The Hill's Morning Report – Trump, Congress close to deal on new coronavirus bill](#); The Hill; April 20, 2020.

² Carney, Jordain; [House prepared to vote on coronavirus aid package as soon as Wednesday](#); The Hill; April 19, 2020.

³ The Wall Street Journal Editorial Board; [Hold firm on PPP, Mr. Trump](#); The Wall Street Journal; April 17, 2020.

⁴ Williams Walsh, Mary; [Illinois Seeks a Bailout from Congress for Pensions and Cities](#); The New York Times; April 17, 2020.

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