

# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## 9 Big Public Finance Surprises in 2021.

**This year taught us to humbly expect the unexpected, from hundreds of billions in federal “helicopter money” to \$35,000 bonuses to lure back retired transit workers. And how is your public pension fund doing on something called ESG?**

Americans entered this year with hopes that COVID-19 would be vanquished and life would return to normal, but that didn't happen. Plenty of unexpected things did happen, as they always do of course, and much of it was felt by government, from insurrectionists storming the U.S. Capitol in January to some surprise upsets (and near-upsets) in last month's state and local elections. The world of public finance experienced its own twists and turns: Congress finally funded infrastructure, for example, but then stalled on tax provisions favorable to municipalities. Here's where the year brought results that few had predicted:

**1. Budget surpluses.** Economists almost universally expected that states and local governments would suffer revenue shortfalls as a result of the pandemic. Congress approved megabillion-dollar aid packages to bail them out from a pandemic recession that nobody had ever experienced. But a “fiscal trifecta” materialized: The federal helicopter money sent directly to households provided billions for spending that supported sales taxes. The stock market surged, which brought record income-tax receipts from investors' capital gains. And real estate prices zoomed, boosting property tax rolls. Most states ended fiscal 2021 with a budget surplus, not a deficit. One exception: Petroleum-producing states saw lower extraction revenues until oil prices rebounded late in the year.

**2. A property tax bonanza.** There is much ado in professional circles these days about “reimagining local government revenues.” Some of the targets for reform are fines and fees, which tend to burden lower-income residents disproportionately, and sales taxes are deemed regressive as well. But the big money driver across the municipal sector is in the property tax, which is also disliked by advocates of progressive taxation. Nevertheless, whether reformers like it or not, the stability and reliability of the property tax is now buttressed by surging home prices, which make it an unheralded growth engine in the local government revenue base. Although there will be some jurisdictions that now face property tax backlash if they don't cut tax rates to compensate for surging parcel assessments, reform advocates will face an uphill battle if they seek to displace reliance on today's power train in municipal budgets.

**3. The return of inflation.** Despite midyear assurances from federal officials and central bankers that inflation would be transitory, rising costs have persisted and worsened. November's consumer price index (CPI) readout of 6.8 percent was the highest in 39 years. Government purchasing departments have strained all year to outwit the pressures of sticker shock: The costs of everything from police cars to highway de-icing supplies went up and stayed up. A surging CPI also triggers higher salaries and pension costs. Even when supply chain snags are worked out, the costs of housing and rents continue skyward, and that will keep pressuring the inflation indexes in coming months because of lag effects in those data series. November's producer prices jumped 9 percent over last year, which will likewise pressure consumer prices early in 2022. Right now, inflation looks to be the top issue and biggest unknown in state and local finance next year.

**4. Resignation nation.** Pundits predicted that the workforce would change forever with remote work and hybrid office/home employment patterns becoming more prevalent, but nobody expected to see the level of job-jumping and “time out” workforce departures that are now driving human resources departments and municipal managers batty. Although some public services professions continue to draw new recruits, and have been more stable than the fickle hospitality industry workforce, the ground has shifted. Governments are no longer employers of last resort as the unemployment rate shrinks. Employee retention has become a nationwide challenge, and government employers are hardly immune. Inducements like child care and flexible work schedules must be accompanied by top-down efforts to make public agencies a happier place to work, because that is what more employees are demanding. Psychic income from public service alone is not a sufficient motivator anymore, unless it’s backed up by team engagement — and higher pay. New York has been paying \$35,000 rehiring bonuses for retired transit workers who fill vacancies, and the Big Apple is not alone. Some public employers are even using federal COVID-19 aid, directly or indirectly, to pay bonuses.

**5. Labor in the catbird seat.** With inflation and tight employment markets now the prevailing environment for labor negotiations, public-sector unions have more clout than they have seen since before the Great Recession. On the fiscal side, budgeters must now expect to see contract demands for “CPI plus X percent” and catch-up salary increases to compensate for a decade of frugality. As services-sector employers, state and local governments will now face mounting cost pressures. With all that (nonrecurring) federal fiscal assistance sloshing and swishing around, some of it will be expected to take the form of permanent wage increases. Next year looks to be a contentious one for public-sector labor negotiators and their budgeting sidekicks who run the numbers. Expect more compensation dispute arbitration in jurisdictions where rocks hit hard places.

**6. The muni bond market that Dems left at the altar.** Almost everybody in the public finance community who works in Washington, D.C., had high hopes that Congress’ tortured budget reconciliation bill would ultimately include goodies for the municipal bond market. Build America Bonds revival, advance refunding and enhanced bank eligibility for muni investments were all included in earlier drafts in the House, but they got scuttled when Senate centrists took the upper hand and sliced the size of the package, which in turn forced the tax committees to cut them out as revenue-losers. Like Detroit Lions and Seattle Mariners fans, it now looks like we’ll just have to wait for next year unless Christmas magic arrives on the Senate floor in coming days. In retrospect, the sad and inexplicable surprise here was that these low-cost muni bond market incentives were not embedded in the bipartisan infrastructure bill, to leverage and optimize federal outlays.

**7. Jerry-rigged SALT relief.** Rather than wait for Congress, [20 states crafted workaround schemes](#) for business owners to get credits for their state and local taxes at the state level. However, such Rube Goldberg schemes don’t help working middle-class households. Congressional SALT relief remains in “placeholder” status. Until and unless President Biden’s Build Back Better taxing-and-spending package clears the Senate, we won’t know for sure which, if any, federal taxpayers will see higher SALT deduction caps, and who gets left with coal in their stockings. (At this writing the SALT elves were still nagging Santa, but Beltway insiders now doubt a breakthrough this month.)

**8. Pensions:** big wins for ESG. Public pension plan trustees and advocacy groups had been increasingly focused on environmental, social and governance (ESG) considerations in their investment policies, but 2021 overshot most proponents’ expectations. European leaders, shareholders and courts successfully pressured Big Oil companies like Shell to migrate to a lower-carbon business model, and American activists won board seats at Exxon. Even the New York Stock Exchange now has a high-priority ESG initiative. As the tide turned, U.S. portfolio managers quickly gussied up their profiles and marketing pitches: ESG has become a hot strategy for mutual fund and

pension managers as younger investors increasingly demand that their investments align with their values. Proof of the pudding is that “zero-carbon offsets” are now trading on global financial exchanges and Big Money is buying them at scale. Expect to see ESG become a recurring agenda topic in pension-land as ESG mutual funds now quickly creep into 457, 403(b) and 401(a) retirement plan menus as the products du jour.

**9. And a leveraged CalPERS.** It’s still just top of their first inning in this new game, but a summary of surprises in 2021 cannot overlook the recent decision by the nation’s largest public pension fund to leverage its assets by borrowing about \$25 billion for investments aimed at increasing the portfolio’s returns. Critics say the California Public Employees’ Retirement System’s 6.8 percent target for compounding annual investment returns with this leveraging initiative is wishful and that trustees would rather play with fire than raise contribution rates. Although supporters claim it’s “diversification,” others would say this strategy is even more risky than issuing pension funding bonds. Would you take out a home equity loan to fund your IRA, in a year when stocks gained 20 percent and now trade near peak levels with lofty valuations? Or is this really just a savvy CalPERS shortcut to bigger positions in high-yielding asset categories like private lending as interest rates increase? Time will tell.

**[governing.com](https://www.governing.com)**

Dec. 21, 2021 • Girard Miller

Copyright © 2026 Bond Case Briefs | [bondcasebriefs.com](https://bondcasebriefs.com)