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## Muni-Bond Buyers Get a Coronavirus Warning in California Sale.

- **An economic crimp caused by virus could stunt budget**
- **State about to sell \$2.2 billion of general-obligation bonds**

It didn't take long for an issuer in the \$3.8 trillion municipal-bond market to warn investors that the coronavirus rapidly spreading around the globe has the potential to wreak fiscal havoc closer to home.

California, the home of the world's fifth largest economy, told prospective buyers of the \$2.2 billion of general-obligation bonds that will be sold next week that a stock-market decline or a virus-triggered recession have the potential to stunt California's revenue.

"There can be no assurances that the spread of a novel strain of coronavirus called COVID-19 will not materially impact the state and national economies and, accordingly, materially adversely impact the general fund," California said in offering documents circulated to investors ahead of the bond sale. "While the effects of COVID-19 on the state may be temporary, it appears to be altering the behavior of businesses and people in a manner that may have negative impacts on global and local economies."

California's warning comes as governments globally are trying to come to grips with the virus before the world economy tips into recession. The concerns sent the Dow falling 12% last week, including the single biggest point drop in history. Yields on top-rated U.S. state and local debt maturing in 30 years fell about 18 points last week, the biggest drop since September 2013, as investors plowed into safe havens like bonds sold by California.

While California has enjoyed a robust recovery from the recession, with credit ratings the highest in nearly 20 years and unemployment at a record low, it is vulnerable to market declines because of its reliance on the wealthy for a significant chunk of its tax revenue.

About 70% of the state's general fund comes from personal income-tax receipts and the top 1% of taxpayers accounted for 47% of such collections in 2017, the bond documents say. Such people have their fortunes tied to the stock market, with capital gains accounting for about 10% of the state's annual revenue this year. That leads to volatility generally, and "stock markets in the U.S. and globally have seen significant recent declines that have been attributed to coronavirus concerns," California said in the documents.

The state, where about 40 people are being treated for the illness, told investors that while the impact is "currently uncertain," it may factor into Governor Gavin Newsom's updated budget for the next fiscal year to be released in May.

Despite the state's warning, the bond sale will likely see strong demand from buyers, given the continuing need to invest and shelter income from taxes, said Dora Lee, vice president at Belle Haven Investments.

California 10-year general-obligations are yielding just 7 basis points over top-rated bonds and new securities from the state have been snapped up since the federal tax overhaul capped state and local tax deductions.

Newsom's administration expects to have \$18 billion in the state's rainy day fund next year, from \$16 billion this year, and that could cushion the state somewhat from a recession.

California "is in a better position financially to handle the outbreak than it was even a few years before," Lee said.

## **Bloomberg Markets**

By Romy Varghese

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