
Bonds Backed By Special Taxes Hit By Virus, Moody's Says.

The economic slowdown resulting from the COVID-19 pandemic will challenge state and local governments to service their municipal bonds, especially those secured by taxes on hospitality, travel and leisure businesses, a report by Moody's has said.

Tax revenues from hotel occupancy and restaurant sales are the most vulnerable to the slowdown, with monthly collections expected to fall by up to 85% through midsummer and not recover until March 2021, the report issued Monday by Moody's Investors Service said.

Sales and income tax revenues will decline to a lesser extent because they rest on broader tax bases, the report added.

Municipal special tax revenue will be sharply curtailed by "unprecedented restrictions" on social interaction and travel, the report said. The downturn will be especially strong in economic areas connected to the hospitality industry: hotels, casinos, car rentals, parking, and food and beverage services, it said.

Declines in consumption will be marginally offset by federal stimulus measures such as the Coronavirus Aid, Relief and Economic Security Act, it said.

Most bonds backed by special taxes have a reserve for debt service that boosts their creditworthiness against a temporary tax revenue shortfall, Moody's said.

If state or local governments lack the reserves to make bond payments, their willingness to cover any shortfalls can boost a bond's ratings, the report said. A parent government's willingness to step in is not guaranteed, however, and depends on political factors and others that are unpredictable, the report said.

How long the decline lasts depends on the steps taken to contain the virus, Moody's said. It has already projected a 4.3% decline in the U.S. economy for the first two quarters of 2020 and a 2% drop for all of 2020, it said.

A Moody's representative did not respond to requests for comment.

State and local governments have reported tax revenues declining due to the COVID-19 pandemic. New York state's tax receipts will fall by at least $4 billion for the 2020-21 budget year, Comptroller Thomas P. DiNapoli said in March. A more severe decline in stock markets or a sharp recession could lower revenue by up to $7 billion, he said.

Florida also faces a decline in sales tax revenues as business for its tourist attractions dries up from the COVID-19 pandemic. The state will need to draw from its $4 billion reserve fund to make up the shortfall, a sales tax compliance expert recently told Law360.

Law 360 Tax Authority

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