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Economic Recession and Mounting Strain on Unfunded Liabilities.

We often hear the phrase that the American economy is a consumer-driven economy and consumer spending makes up a large portion of the American GDP.

There are four main components when calculating the American GDP: personal consumption expenditures, business investment, government expenditures and net exports. Of these four components, consumer spending makes up 70% of the GDP calculations.

Now, with the current reality of COVID-19, the shelter-in-place orders throughout America are serving the biggest blow to this 70% component of the American GDP. In addition, we have mounting unemployment numbers, businesses are unable to sustain the financial pressures, and there is fear of the unknown pandemic until we have a viable vaccine or treatment in place.

For the local and state governments, we have started to see governors and local elected officials putting forward budget cuts due to the lost revenues and increased expenditure to tackle the COVID-19 threat. One important component that ties the struggles of all three levels of governments – federal, state and local – is again the consumer spending that in-turn generates the sales tax revenues. The revenue loss and lackluster performance of the financial markets is going to worsen the pre-existing issues for local governments. The main one being the unfunded pension liabilities.

In this article, we will take a closer look at how an economic recession can impact the unfunded pension liabilities for local governments in the United States.

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May 22, 2020