

# **Bond Case Briefs**

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## **America's Cities Fret as Stimulus Talks Collapse.**

- **Absent aid, states and cities warn of spending cuts, tax hikes**
- **Nuveen's Miller says delay not major concern for muni market**

President Donald Trump's decision to halt coronavirus stimulus talks with Congress means America's pandemic-stricken states and cities aren't likely to get any financial help soon, virtually ensuring additional rounds of spending cuts, layoffs and tax increases that will deal a fresh hit to any economic recovery.

Trump on Tuesday abruptly announced on Twitter that he was calling off talks with Democrats until after the election amid a dispute over how much aid should be given to state and local governments, which saw revenue plummet this year as the pandemic shuttered large swaths of the economy.

"America's cities, towns and villages are reeling from the financial impact of the pandemic while continuing to expend significant resources to combat ongoing cases of COVID-19, recover from natural disasters and provide essentials services to their residents," Clarence Anthony, chief executive officer of the National League of Cities, said in a statement. "We can expect severe economic consequences from the failed negotiations, including more businesses closing and more public and private sector layoffs."

Trump said if he wins reelection he'll bring a new stimulus proposal forward. If Joe Biden wins the White House, states and cities would have to wait until he takes office toward the end of January before he could offer up his plan to Congress, though Democrats would likely extend a large amount of aid.

Pittsburgh, Pennsylvania, is facing a \$100 million deficit — after depleting its reserves — that it must close during the fiscal year starting in January. Mayor William Peduto said in an emailed statement on Tuesday that the lack of aid this fall is "devastating" for cities like his.

"It is forcing us to look at layoffs and cuts to city services at a time when we're already spread dangerously thin, and our residents need our help more than ever," he said in a statement.

### **Economic Drag**

The president has mischaracterized the effort to mitigate the tax loss caused by the worst recession since World War II as a bailout for mismanaged cities and states run by Democrats, echoing a line of political attack used by Tea Party-backed Republicans after the downturn caused by the housing market crash.

Lobbying groups including the National Governors Association have pressed for a bipartisan agreement on stimulus package, saying the failure to provide enough aid to states and local governments after the Great Recession slowed the nation's growth for a decade.

A group of Democratic governors on Tuesday criticized the president, saying that every state needs help.

“This is not an attempt to ‘bail out’ any state,” the governors said in a statement through the Democratic Governors Association. “The pandemic has done untold damage to budgets in both red and blue states. This is money needed to boost the economy, maintain critical services, and beat back the virus.”

New York’s Metropolitan Transportation Authority, the nation’s largest mass-transit system, has warned for months that it will be forced to cut service, fire workers and boost planned fare hikes if the agency failed to receive \$12 billion to cover budget shortfalls this year and next. Those changes could result in a nearly \$100 billion loss of economic activity in the region and affect about 350,000 jobs, based on preliminary analysis, Pat Foye, MTA’s chief executive officer, said last month.

“This decision is an insulting slap in the face to our heroic transit workers who continue to show up during this once-in-a-hundred year pandemic to keep the economy moving,” Foye said in a statement Tuesday. “We urge the President to return to the negotiating table and deliver relief for the country.”

Signs that Wall Street was becoming increasingly concerned that stimulus talks would falter were already materializing before Trump’s surprise move. The \$3.9 trillion municipal market, where states and local governments raise funds, has seen yields edge up amid concerns over a stimulus package, with the 10-year benchmark rising about 10 basis points since the start of last week.

Delaying the talks until after the election is a “temporary setback” for stimulus talks rather than the death knell for the next package, said John Miller, head of municipals at Nuveen, which had \$188 billion in municipal assets under management as of June 30.

The delay is “not too concerning” because budgetary gaps have been smaller than forecast earlier this year, Miller said. He also said the Federal Reserve’s \$500 billion Municipal Liquidity Facility has “plenty of capacity available” to make loans to cash-strapped borrowers.

“Even before the announcement, it felt like the odds were against passage of another stimulus package this year,” said John Ceffalio, municipal credit research analyst at AllianceBernstein, which has about \$50 billion in municipal securities under management.

## **Bloomberg Markets**

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