

Bond Case Briefs

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A Democrat-Run Congress Would Bolster Odds of State, City Aid.

- **Biden has called last stimulus measure ‘just a down payment’**
- **Republican Senate was roadblock to helping local governments**

Democrat Raphael Warnock claimed one of the two Senate seats in Georgia’s runoff election and Jon Ossoff held a lead over his Republican opponent Wednesday morning, raising the chance that Vice President-elect Kamala Harris will wield the tie-breaking power over an evenly divided Senate.

That would allow President-elect Joe Biden to push for another stimulus bill that would extend aid to states, cities and local transit agencies whose revenue was diminished after shutdowns to contain the virus sent the economy into the worst recession since World War II. Republicans have opposed such aid, characterizing it as a bailout for Democratic strongholds even though the impacts are being felt broadly across the country.

“That would really be, in my mind, considered an upside scenario for municipal credit,” said Tom Kozlik, head of municipal strategy and credit at Hilltop Securities, who said state and local governments may still struggle to return to pre-covid levels of stability even with aid. “But it is going to be a lot closer than what it would have been.”

Direct aid for state and cities was largely absent in the most recent stimulus legislation. Democrats included about \$1 trillion in the bill that passed the House last year, only to stall in the Republican-led Senate.

It remains to be seen what a Biden relief bill would look like, though he’s made it clear that he plans to push for one. Even without a large amount of direct aid, previous stimulus bills are helping states and cities by keeping the economy afloat and preventing tax collections from being reduced as much as once anticipated.

“I have long said that the bipartisan Covid-19 relief bill passed in December was just a down payment,” Biden said in a statement Wednesday. “We need urgent action on what comes next, because the Covid-19 crisis hits red states and blue states alike.”

The outlook for U.S. states and cities has improved dramatically since the onset of the pandemic, largely due to the help provided by the first stimulus package enacted in March. That means that the Biden administration could enact much less aid than was previously approved by the House.

Dan White, director of public sector research for Moody’s Analytics, said aid of about \$80 billion to \$100 billion could cover the firm’s forecast for the shortfall facing states and local governments through mid-2022. He said the firm’s estimate for those deficits has declined thanks to previous federal support, including \$82 billion for schools and universities in the package that lawmakers passed in December.

In the municipal-bond market, where states and cities raise money, yields may climb higher in

tandem with U.S. Treasuries as investors factor in the possibility of another economic stimulus package. Ten-year benchmark municipal yields inched up two basis points on Wednesday.

But investors are likely to welcome the impact of another aid package that would ease the risk of credit-rating downgrades to governments.

New York's Metropolitan Transportation Authority has been among those hardest hit as ridership on the city's buses, subways and commuter trains tumbled after the pandemic struck. While the agency received \$4 billion of aid in legislation approved last month, it faces an estimated \$8 billion deficit through 2024 and is counting on potential help should New York Senator Chuck Schumer become Senate Majority Leader.

New York City Mayor Bill de Blasio said Schumer's ascension as Senate leader would open "a whole new world of possibilities for this city and for this nation."

"Make cities, counties and states whole for what they've been through," de Blasio said. "Those are particularly urgent matters."

A Democratic Congress and White House would provide a "positive tailwind" to municipal bonds because of the prospect of additional aid, said Eric Glass, a portfolio manager for fixed income impact strategies at AllianceBernstein.

"From my perspective, this is nothing but a positive for munis," he said.

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