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Record Muni-Bond Sales Surge Fueled by Borrowing for Budget Gaps.

- **Over 25% of big deals had deficit financing, MMA finds**
- **Such borrowing could slow on recovery, federal aid prospects**

The federal government isn't the only one running up debt to cover its budget deficits.

As states and cities braced for pandemic-related shutdowns to batter tax collections, many turned to the municipal-bond market to soften the hit, contributing to a record-setting surge in debt sales last year.

According to an analysis by Municipal Market Analytics, at least one quarter of state and local government debt sales over $100 million included some element of deficit financing in the second half of 2020.

Such deficit borrowing is relatively rare for state and local governments, which are typically required to balance their budgets each year and often need lawmakers' approval to issue debt to cover everyday bills.

But the severity of the economic slowdown last year — combined with a steep drop in interest rates — made that a more attractive option than cutting spending deeply amid an unprecedented pandemic. Among those who sold debt to plug deficits were New Jersey, which issued $3.7 billion of bonds to ease tax-revenue shortfalls, and Illinois, which tapped the Federal Reserve's emergency credit line.

Such deficit borrowing may ebb. The budget deficits governments anticipated in the middle of last year haven't been as severe as initially projected, giving some a temporary surplus of cash. At the same time, the Democrats who control Congress are likely to include aid for local governments in the next economic stimulus package, something Republicans opposed when they held the Senate last year.

"Absent some unexpected, much more severe lockdown of the economy, which is not our base case, I think you are going to see less of that this year," James Iselin, a portfolio manager at Neuberger Berman Group LLC, said of deficit borrowing.

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