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How Public Cash Managers Should Gird for Federal Debt Follies.

If a congressional debt ceiling deadlock persists and capital markets seize up, states and localities will still have to pay their bills. Public financiers need to be ready to adjust their portfolios to establish a liquid cash buffer.

It's *Groundhog Day* again on Capitol Hill as the perennial piñata of the federal debt ceiling has returned to center stage in the political theater. Meanwhile backstage, prudent public cash managers will be donning their risk manager hats to make sure government workers' paychecks don't bounce if a deadlock persists.

For those new to this dramaturgy, Congress has been setting a limit on the amount of federal debt outstanding since 1917, which invites perennial squawking by don't-tax-don't-spend fiscal hawks. Since 1960, the debt limit has been raised 78 times, 49 of them under Republican presidents and 29 times when Democrats occupied the White House. What's different this time, at least so far, is that a voting bloc in the House has elevated the issue to a stagy level that magnifies the risks to capital markets that could develop if the hawks are able to hold control of that chamber over the debt issue.

So far, it looks like the anti-spenders are trying to craft a proposal that would keep certain checks flowing for Social Security retirees, law enforcement, defense and other off-limits spending channels, while freezing or trimming everything else. How that would impact federal payments to the states — which account for a third of their total revenues — is beyond the scope of this column. Instead, let's focus on the implications for state and local cash and payroll managers of a debt ceiling crisis in capital markets if the U.S. Treasury debt market and operations of the Federal Reserve system are held hostage in the political fray.

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