

MAGNY

COVID-19

IMPACT ON THE MUNICIPAL MARKETPLACE

MAY 1, 2020

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ANNOUNCEMENTS

May 6, noon – Cybersecurity Professionals on Municipal Cybersecurity Risks (ZOOM panel discussion)

Press Protocol – we welcome our friends from the press but all remarks are **off-the-record** during today's panel discussion

IN MEMORIAM



JIM SPIOTTO
1947 - 2020

PANELISTS

Tom Aaron – Moody's

Emily Brock – Government Finance Officers Association

Vincent Marriott – Ballard Spahr

Hector Negroni – FCO Advisors

Michael Imber – Conway MacKenzie (moderator)

CARES AND THE MUNI MARKET

Section 4003(b)(4): \$454B

- Federal government may financially intervene with states, local governments, instrumentalities and political subdivisions thereof
- Purchase publicly issued securities as a direct loan (direct placement)
- Purchase muni securities in the secondary market
- \$454B is total amount for corporate and state and local govt assistance
 - \$35B dedicated for s/l govt borrowing (leveraged to \$500B)

MUNICIPAL LIQUIDITY FUND

States and cities > 250M, counties >500M population can borrow up to 20% of their general fund revenue

Eligible entities can borrow on behalf of instrumentalities (e.g. states for smaller size local govts)

Can borrow only for 36 months

- risk is borne by the state, moral obligation of the state?
- potential uses include *deferred or reductions of tax and other revenues* or increases in expenses related to or resulting from the COVID-19 pandemic, and P&I on outstanding debt;
- Timing and available facilities



WHAT'S NEXT FOR DIRECT FUNDING?



NEW CARES-style funding for State and local governments without expense restrictions \$500B

NEW or ENHANCED CARES-style funding to those entities below the 500,000 restriction \$250B

Increase UI allocation by \$150B

This week's CARES 3.5 package did NOT contain aid for state and local governments

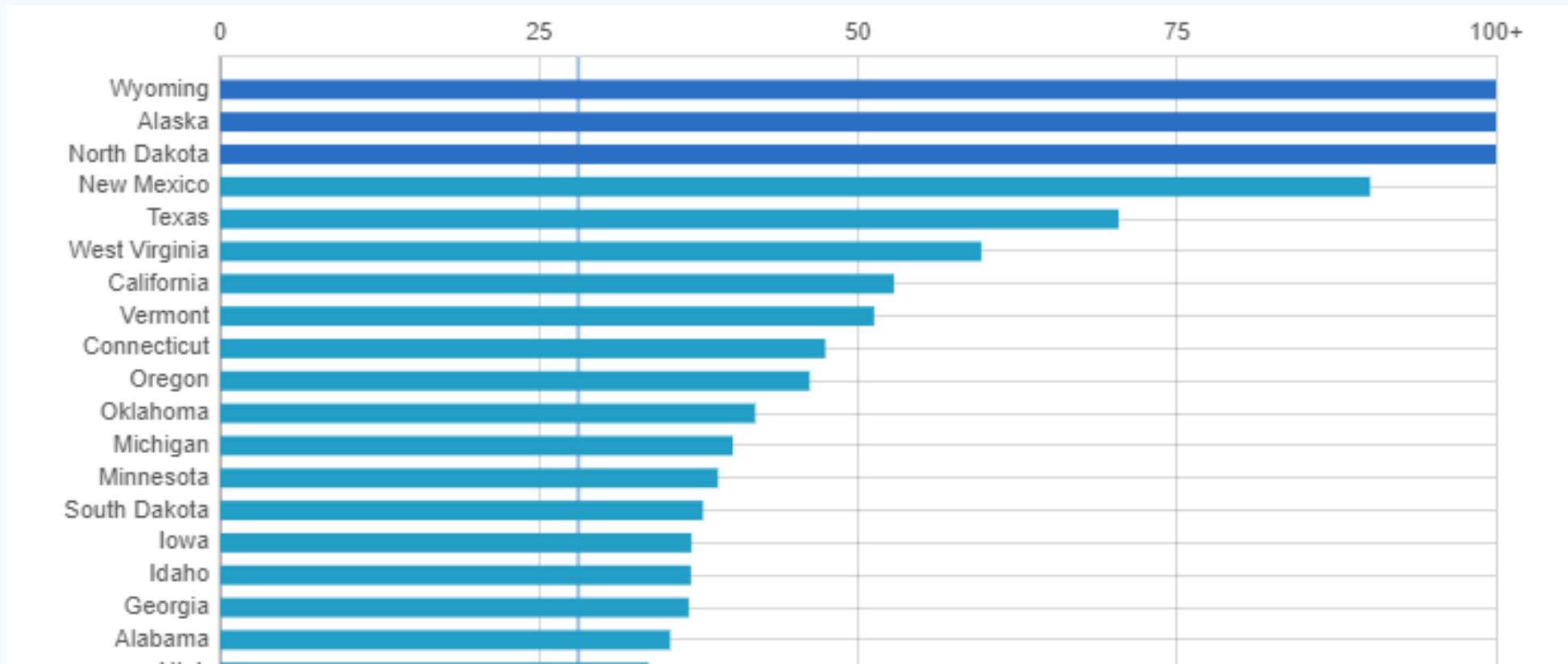
WHAT'S NEXT FOR MLF & MARKET?

MLF – GFOA has raised questions related to the facility's intentions:

- Pricing
- Eligibility
- Timing
- GFOA's Official Comments

Municipal Bond industry participants weigh in daily with Fed on MLF improvements and purchasing munis in the secondary market

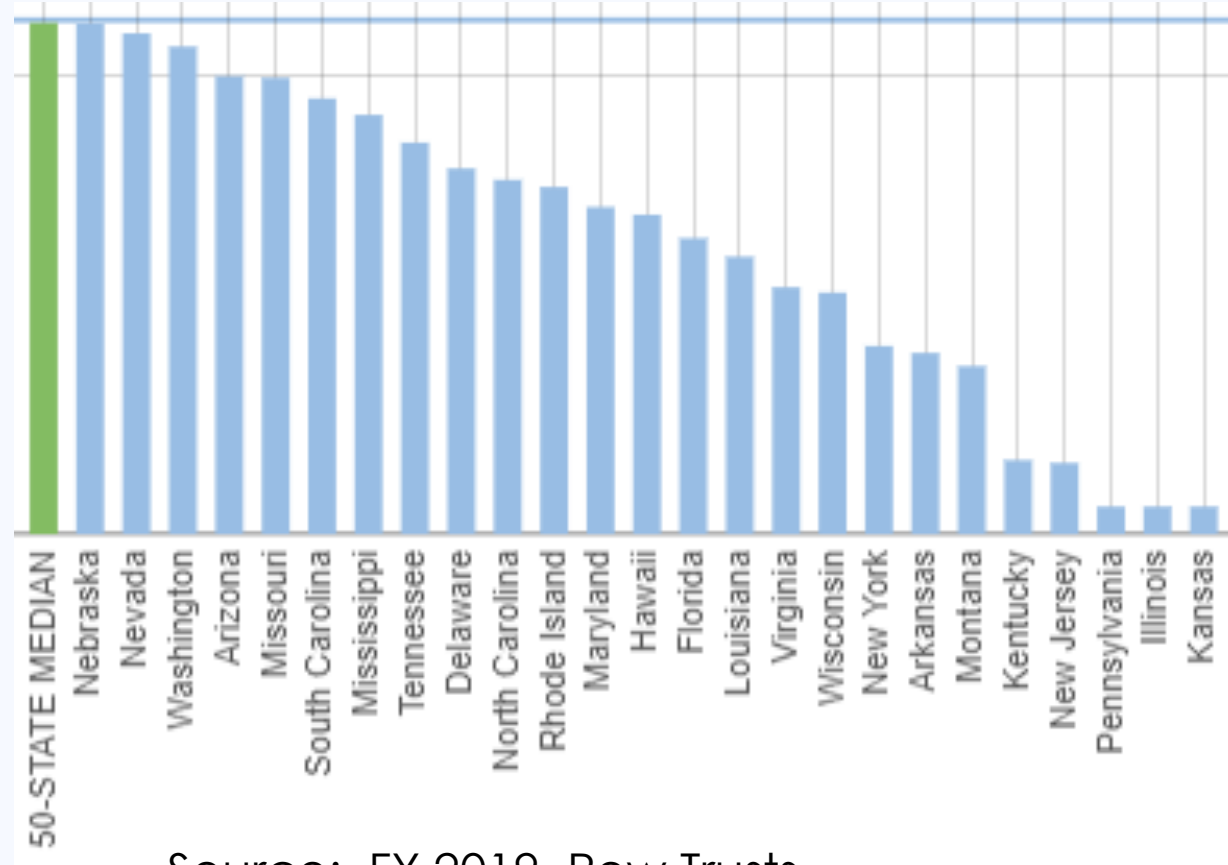
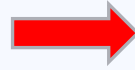
STRONGEST “RAINY DAY” RESERVE FUNDS (DAYS EXPENSES)



Source: FY 2019, Pew Trusts

WEAKEST "RAINY DAY" RESERVE FUNDS (DAYS EXPENSES)

50 STATE MEDIAN = 27.9



Source: FY 2019, Pew Trusts

SIMPLE MATH

50 STATE BUDGET SHORTFALLS (2 yrs)	\$650 BILLION
FEDERAL STIMULUS TO DATE	(\$65 BILLION)
RAINY DAY RESERVES	<u>(\$75 BILLION)</u>
50 STATE BUDGET SHORTFALL, net	\$510 BILLION

Source: Center on Budget and Policy Priorities, 04.29.20

A nighttime photograph of a city skyline, likely Dubai, featuring numerous illuminated skyscrapers and a complex multi-level highway interchange in the foreground. The scene is lit with a mix of warm yellow and cool blue lights.

Investment losses poised to accelerate pension challenges

May 1, 2020

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Pension risks higher in 2019 than years preceding the Great Recession

Larger unfunded liabilities

2019: \$4.1 trillion (19% of US GDP)

2007: \$1.6 trillion (11% of US GDP)

Similar scale of asset risk

2019 assets: \$4.8 trillion (22% of US GDP)
(62% corporate equities)

2007 assets: \$3.3 trillion (23% of US GDP)
(56% corporate equities)

Higher annual costs

Contributions relative to revenues at or near historical peaks for many...

...but often do not “tread water” under reported discount rates

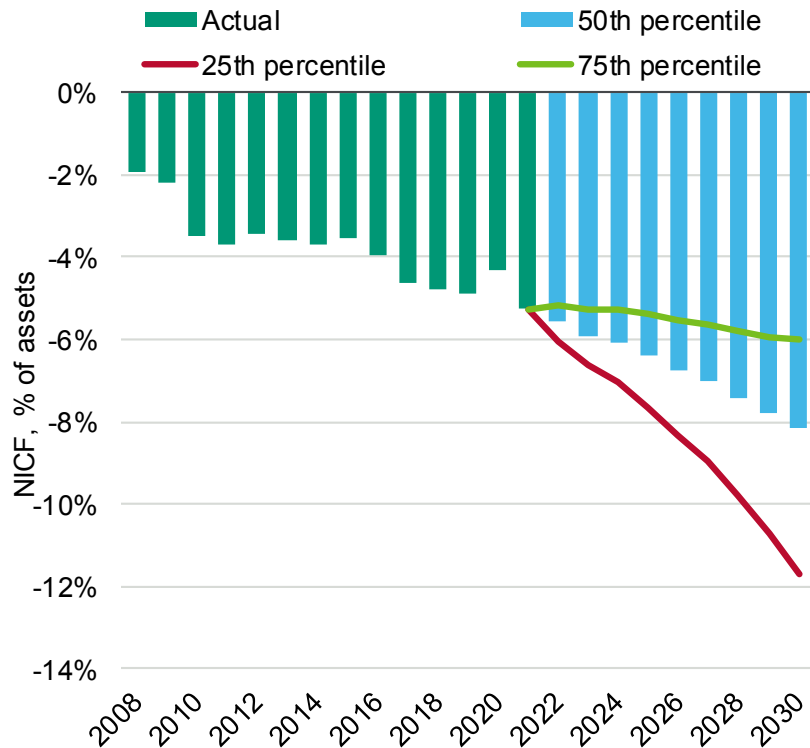
Weaker cash flow

Negative non-investment cash flow (NICF) likely to constrain asset accumulation without higher contributions

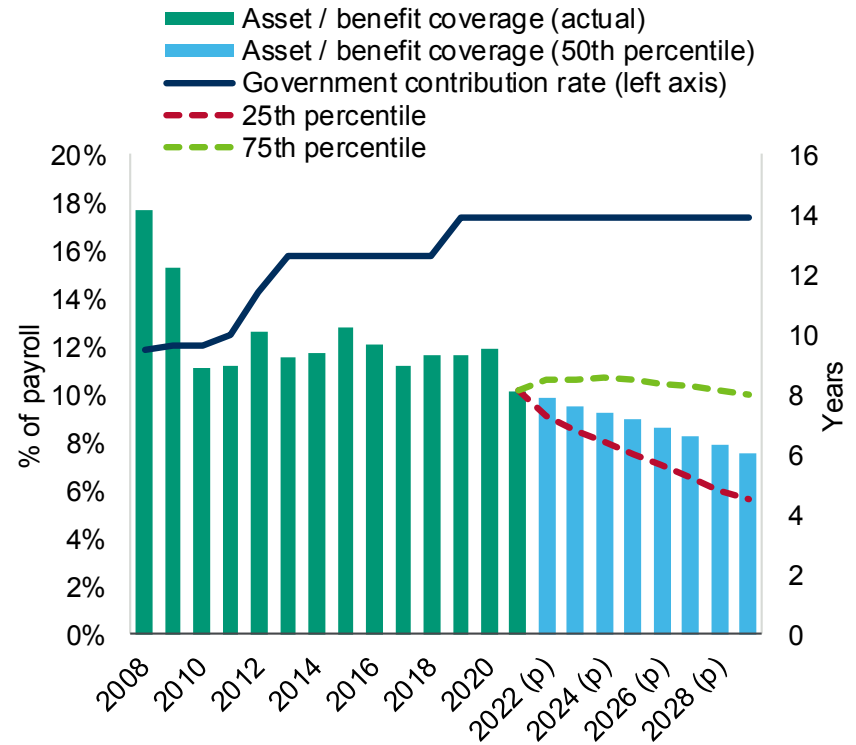
Less pension “smoothing capacity”

Negative NICF likely to constrain asset accumulation without higher contributions

Non-investment cash flow (NICF) as % of assets



Contributions and asset / benefit coverage



Source: Moody's Investors Service

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