

## U.S. Municipal Bond Market

# “This is Not a Game,” Leader McConnell Said; Relief Talks Have Stopped, Not Stalled

### Relief Talks Have Not Stalled, They’ve Stopped

Lawmakers have not returned to the negotiating table this week. The U.S. House left Washington on Friday, July 31 and the Senate’s scheduled session ended Friday, August 7. It seems the chances for a fifth COVID-19 agreement coming together this week have faded as relief talks have not just stalled, but stopped. The U.S. capitol is being described as “empty” and there is “no stimulus bill in the works.”<sup>2</sup> In fact, the White House feels they have the upper hand politically as a result of President Trump’s executive actions issued over the weekend.<sup>2</sup> Politico correspondent Ben White wrote this morning:

In fact, we are told it could be weeks before any serious talks resume barring any significant events like Wall Street sell-offs or a run of truly dismal economic data.

There have been some sound bites exchanged in the press in recent hours but nothing that should make observers believe talks are close to resuming. Both legislative chambers are scheduled to return to Washington Tuesday, September 8, the day after the Labor Day holiday.

### Executive Actions Gave White House the Upper Hand

President Donald Trump did step in over the weekend and tried to do what Congress has not been able to accomplish since returning from their Fourth of July break on July 20. The President took executive action on Saturday signing one executive order and issued three executive memoranda.<sup>4,5</sup> A key issue, however, is that these executive actions do not have the influence of congressional policy. Frustration is building as lawmakers struggle to find common ground. “This is Not a Game,” Senate Majority Leader McConnell said about the status and press coverage of the recent relief talks.<sup>6</sup>

### What Does This Mean for State and Local Governments?

It means there is no federal relief coming anytime soon. It means they do not even have the ability to repurpose the \$139 billion allocated to them in the CARES Act. It may also mean that states will need to come up with the \$100/week of unemployment benefits proposed by the White House. Some state and local governments have already factored in federal relief to their budget plans. Others have been scaling back on their spending in different ways, including laying off workers. About 1 million state and local workers have been laid off since the beginning of the pandemic. This number could grow without federal aid as state and local governments are forced to match spending with new levels of incoming revenues.

### What Does No Relief Mean for State and Local Government Credit and Ratings?

Stalled or no relief is going to have a different impact across different sectors. Some sectors, such as airports, which are more heavily impacted are likely to continue to be more severely influenced. S&P last week placed all airport sectors rating on “CreditWatch Negative” due to severe passenger declines and weakening credit metrics. The rating agency also wrote, “The ongoing COVID-19 pandemic and global recession [will] continue to severely depress enplaned passenger levels at U.S.

Tom Kozlik

Head of Municipal Strategy & Credit  
214.859.9439  
tom.kozlik@hilltopsecurities.com

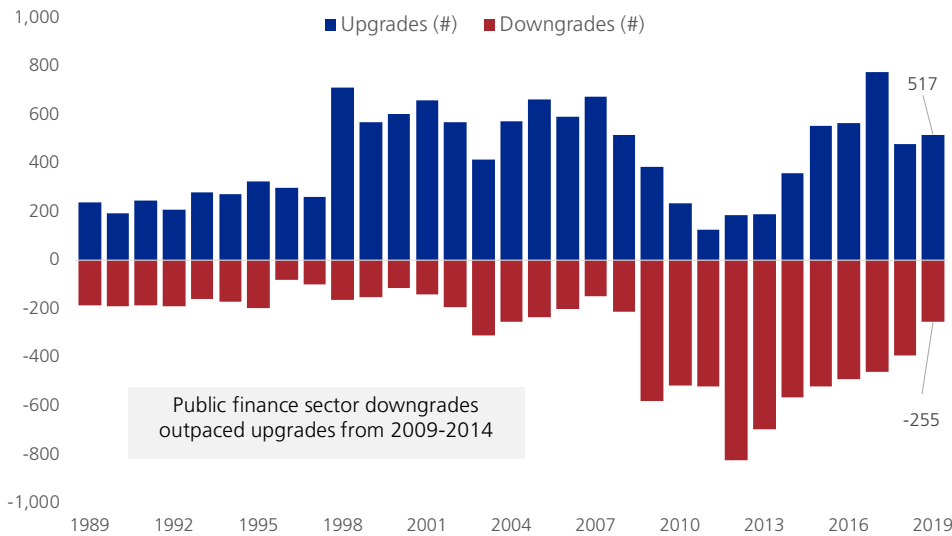
*It seems the chances for a fifth COVID-19 agreement coming together this week have faded as relief talks have not just stalled, but stopped. The U.S. capitol is being described as “empty” and there is “no stimulus bill in the works.”*

airports, which we expect will erode key credit metrics relative to historical levels for an extended period,” in their report “This Time Is Different: An Anemic And Uncertain Passenger Recovery Will challenge U.S. Airports’ Credit Quality.”

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So far in 2020, public finance rating agency actions have not been significant...not yet anyway, which boils down to a few reasons. Factors that most impact state and local government and other public finance entities credit quality typically do so on a lagged basis, and policy changes as a result of those factors also take time to implement. Additionally, disclosure from many municipal entities only occurs on a less than regular basis, and some data are now only reported on a semi-annual or annual basis. We can see how the general rating trends occurred in the wake of the last downturn by observing how Moody’s public finance rating upgrades and downgrades evolved after the Great Recession.

**Annual Public Finance Rating Revisions by Moody's**



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Source: Moody's and HilltopSecurities.

The first year Moody’s public finance downgrades outpaced upgrades was 2009, but downgrades did not peak until several years after the recession in 2012. In all, downgrades outpaced upgrades for a total of six years. While this time may be slightly different, this gives us an idea of the potential for a lagged impact on municipal credit quality.

<sup>1</sup> Sherman, Jake; Twitter Post. August 11, 2020, 8:07am. <https://twitter.com/JakeSherman/status/1293172177609662464>  
<sup>2</sup> White, Ben and Aubree Eliza Weaver; [No stimulus deal anytime soon](#); Politico; August 11, 2020 8:00am.  
<sup>3</sup> Ibid.  
<sup>4</sup> See more here about the difference between Presidential Executive Orders, Proclamations and Executive Memorandum; [Executive Order, Proclamation, or Executive Memorandum? A Beginners Guide](#); Library of congress; Accessed last on August 10, 2020. More on executive actions can be found in: [Executive Orders: Issuance, Modification, and Revocation](#); Congressional Research Service: April 16, 2014.  
<sup>5</sup> For more please see: Kozlik, Tom; [Something is Better than Nothing As President Attempts to Assist But Offers No Adequate Alternative to Congressional Action](#); HilltopSecurities; August 10, 2020.  
<sup>6</sup> Bobic, Igor; Twitter Post. August 11, 2020, 10:15am. <https://twitter.com/igorbobic/status/1293204295748386817>

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