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Failure is Not an Option (4/22/2020)

Summary - Under the CARES Act and other transfers, the Federal Government has provided billions to state and local governments including airports and mass transit to provide immediate relief. It is our understanding that Congress is now considering a further package to aid state and local government recovery efforts. Senate Majority Leader Mitch McConnell's comments earlier today, or rhetoric, regarding "bankruptcy" should be understood within this context. What he's attempting to do is lay the foundation to ensure that any further potential package does not include any bailout for "preexisting" fiscal problems. In short, he is telling profligate states that he would rather see them declare bankruptcy than hang taxpayers with their self-imposed fiscal ills.

On Wednesday April 22nd, Senate Majority Leader Mitch McConnell, in response to a question regarding the pandemic and high public pension costs in various states was quoted as saying, *"My guess is their first choice would be for the federal government to borrow money from future generations to send it down to them now so they don't have to do that,".* McConnell added, *"That's not something I'm going to be in favor of…There's not going to be any desire on the Republican side to bail out state pensions by borrowing money from future generations…**I would certainly be in favor of allowing states to use the bankruptcy route."***

Simply put, McConnell's comments should be construed as hyperbole.

On March 27th, as part of an effort to provide financial relief caused by the nationwide shutdown, Congress passed the $2.3 billion CARES Act (The Coronavirus Aid, Relief, and Economic Security Act). As part of the package, the Federal Government earmarked up to $454 billion in loans and loan guarantees to states and municipalities. The intent here was specifically to dull the impact of the decline in tax revenues during our "economic pause."

Aside from the monies negotiated to help offset a portion of the decline in tax revenues, several Governors have also been lobbying for additional funds to address their state's unfunded pension liabilities.

In RSW's 2008 commentaries, we pontificated that even if a State can declare bankruptcy (which they cannot), municipalities have no other means to fund their operations other than issuing tax-exempt debt. Not only would a bankruptcy preclude an issuer access to the markets for a long period of time, but the interest rate where they could borrow funds would soar.

In addition, long ago we had already surmised that a pension bailout is not in the cards. Consider these issues:

Lack of Congressional Support - The disinterest would cross party lines as the size of pension payments varies considerably in all states. Conservatively funded states will not look to bailout those states with generous but massive unfunded liabilities.

The American Public - Simply put, why would any taxpayer that does not share in this benefit want to foot this bill? How is this any different than asking a parent or a student who worked two jobs in order to forgo student loans to now pay for any proposal to cancel all student loan debt?

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