



Despite Senate Majority Leader Mitch McConnell's comments that he would favor allowing states to file for bankruptcy, APA believes that state and local governments will receive Congressional approval for additional funding. Amongst many reasons to be cautious about taking Senator McConnell's remarks about bankruptcy at face value, such action would require changes to the U.S. and state constitutions.

In a radio interview with Hugh Hewitt, Senator McConnell stated, "there is not going to be any desire on the Republican side to bail out state pensions by borrowing money from future generations." Adding that he "would certainly be in favor of allowing states to use the bankruptcy route."

APA sees Senator McConnell's comments as setting the stage for discussions about state aid in a future stimulus bill, and the guidelines Republicans are going to require for states to receive assistance. After seeing \$2.3 trillion in aid passed out thus far, we do not see states being left out to dry. For one, should states be forced into taking severe austerity measures, and potentially be pressed to lay off more workers, this would directly hinder the relief efforts in place.

There is currently no Senate plan to allow for state bankruptcies, and state bankruptcies are not allowed under the U.S. Constitution. Some local governments can use Chapter 9 municipal bankruptcy to restructure their debt if allowed by their respective states. The largest restructuring in the municipal market was seen in Puerto Rico, a U.S. commonwealth, which commenced only after receiving Congressional approval.

Furthermore, even in the event of a hypothetical senate bankruptcy bill, this would be a non-starter in the House of Representatives. House Speaker Nancy Pelosi said a "major package" of aid for state and local governments would be in the next stimulus legislation considered by Congress, which is in direct opposition to the Senate Majority Leader's remarks.

Finally, the comments conflict with those made this week by President Trump, which suggests support for state aid. Following a private White House meeting with New York Governor Andrew Cuomo, President Trump said, "we mentioned briefly the state aid," adding, "we talked about that -- Governor Cuomo and myself -- and I agree with him on that. And I think most Republicans agree too, and Democrats. And that's part of phase four."

Those municipal issuers coming into the COVID-19 pandemic with high liquidity, low debt levels, and high pension funding ratios are certainly better prepared to withstand a sustained economic shock. APA remains highly selective in states with low funding ratios, and we continue to focus on high-quality credits that we believe to be more insulated from pension risk. APA wrote about the risks associated with these underfunded pension obligations beginning with our white paper "Kentucky: the next Illinois?" in June 2015 and in many publications since. We continue to remain highly selective in states with low pension ratios like Illinois, Pennsylvania, New Jersey, and Kentucky, and believe those states have long needed to bring many parties to the table and discuss debt, pension, vendor payments, etc.



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