

# **SEC Office of Municipal Securities: 2020 Municipal Disclosure Conference**

## **Municipal Event Disclosure During COVID-19**

Lisa Washburn

[lwashburn@mma-research.com](mailto:lwashburn@mma-research.com)

## COVID-19 Disclosure Trends by Sector (1 of 3)

Governments	Disclosure Themes	Impairment Trends - COVID-19 Related
States	<ul style="list-style-type: none"> <li>-Significant impact on revenues, particularly economically sensitive taxes</li> <li>-April worst month so far, declines from activity and extension of tax payments; May revenues are also down but a bit less so as state economies begin to reopen</li> <li>-Tourism and energy economies/revenues pinched more</li> <li>-Budget management information</li> <li>-Information on aid/funds from increase in FMAP %, CARES Act, and FEMA</li> <li>-Liquidity sources including reserves, other available funds, external liquidity, debt</li> <li>-Expense reductions (operating and capital)</li> </ul>	-No entrants into MMA's impairment database and none expected
Local Gov'ts	<ul style="list-style-type: none"> <li>-Stability in property taxes so far; longer term concerns about the impact of recession/unemployment on property values</li> <li>-Economically sensitive taxes and fee revenue negatively impacted; narrower pledges and those tied to tourism/entertainment more vulnerable</li> <li>-Concerns about potential for cuts in state aid</li> <li>-Uncertainty about impact of behavioral changes, post-pandemic</li> <li>-Expense reductions (operating and capital)</li> <li>-Information on reserves and liquidity</li> <li>-CARES Act funding for some; FEMA support</li> </ul>	<ul style="list-style-type: none"> <li>-No additions to MMA's database for local governments GO (and related) resulting from pandemic; a few new entrants for sales/special tax pledges</li> <li>-Expect that could be a modest uptick in impairments in the sector, likely among borrowers that were weak pre-pandemic and for debt with narrower pledges of economically sensitive taxes (HOT, Amusement/Entertainment taxes, TIF, etc).</li> </ul>
Transportation	Disclosure Themes	Impairment Trends - COVID-19 Related
Airports	<ul style="list-style-type: none"> <li>-Abrupt and sharp decline in enplanements and revenues</li> <li>-Expense reductions (operating and capital)</li> <li>-Information on addressing gap</li> <li>-CARES Act funding</li> <li>-Most report ample liquidity, securing additional facilities</li> <li>-Temporary relief for concessionaires, rental car companies, and airlines</li> <li>-Counterparty stress (e.g. Hertz)</li> <li>-Some rebound in activity reported for May off of April lows as economy begins to reopen</li> </ul>	<ul style="list-style-type: none"> <li>-Narrower pledges (e.g. CONRAC) reported the potential for issues to emerge</li> <li>-Otherwise no entrants into MMA's impairment database</li> </ul>
Toll Roads/Transit	<ul style="list-style-type: none"> <li>-Abrupt and sharp decline in traffic/ridership</li> <li>-Transit affected more severely than toll roads; passenger more than commercial traffic</li> <li>-Increase in expenses (mass transit)</li> <li>-Expense reductions (operating and capital)</li> <li>-Information on addressing gap</li> <li>-CARES Act funding</li> <li>-Reporting on liquidity, draw downs, securing additional facilities, debt issuance</li> <li>-Some rebound in activity reported for May off of April lows as economies reopen</li> </ul>	<ul style="list-style-type: none"> <li>-No pandemic-driven entrants into MMA's impairment database</li> <li>-Possibility of a modest increase in impairments in the sector, but those are likely to be covenant breaches or reserve draws</li> </ul>

## COVID-19 Disclosure Trends by Sector (2 of 3)

Healthcare	Disclosure Themes	Impairment Trends - COVID-19 Related
Hospitals	<ul style="list-style-type: none"> <li>-Negative revenue impact from cessation of higher margin elective surgeries and other services</li> <li>-Higher costs (labor and PPE)</li> <li>-Financial market impact</li> <li>-Expense reductions (operating and capital)</li> <li>-Information on available liquidity, securing additional facilities</li> <li>-Accessing CMS advance program</li> <li>-CARES Act funding</li> <li>-As state economies reopen and elective surgeries resume, revenues are improving off April lows</li> </ul>	<ul style="list-style-type: none"> <li>-A small number of new entrants into MMA's database since the start of the pandemic</li> <li>-New impairments are mainly covenant breaches, save one support draw</li> <li>-Expect that new impairments will be predominantly covenant breaches and draws on reserves</li> </ul>
Retirement	<ul style="list-style-type: none"> <li>-Higher costs (labor and PPE)</li> <li>-Lower admissions to skilled nursing because elective surgery cessation</li> <li>-Some softness for independent living (virus and financial markets)</li> <li>-Expense reductions</li> <li>-PPP loans</li> </ul>	<ul style="list-style-type: none"> <li>-Many new entrants into MMA's impairment database since start of pandemic</li> <li>-Rising impairments across all categories (default, support, other)</li> <li>-Early notification of pending trouble</li> <li>-Expect that impairments, including defaults, will continue to rise</li> </ul>
Higher Ed & Related	Disclosure Themes	Impairment Trends - COVID-19 Related
Higher Education & Related	<ul style="list-style-type: none"> <li>-Negative impact from closures and refunds for housing/dining and financial market volatility</li> <li>-Summer revenue losses</li> <li>-Concerns about fall enrollment and revenues, particularly if not back on campus</li> <li>-Uncertainty about international student attendance</li> <li>-Narrower pledges from auxillary revenues more challenged</li> <li>-Expense reductions (operating and capital)</li> <li>-Information on liquidity and bolstering cash through draws on liquidity facilities, obtaining additional facilities, debt issuance</li> <li>-CARES Act funding</li> </ul>	<ul style="list-style-type: none"> <li>-A single addition to MMA's impairment database for a covenant issue</li> <li>-More impairments expected in coming months, probably of increased severity</li> </ul>
Student Housing	<ul style="list-style-type: none"> <li>-Significant impact because of school closures and refunds</li> <li>-Divergence between projects; some schools supported or backfilled refunds, other projects received no support</li> <li>-Revenue loss for summer session</li> <li>-Risk if schools do not provide in-person classes</li> </ul>	<ul style="list-style-type: none"> <li>-Several new entrants into MMA's impairment database</li> <li>-More impairments expected in coming months, likely of increasing severity</li> </ul>

## COVID-19 Disclosure Trends by Sector (3 of 3)

Others Sectors	Disclosure Themes	Impairment Trends - COVID-19 Related
Charter Schools	<ul style="list-style-type: none"> <li>-No revenue impact from stay-at-home orders/pandemic, at least for now</li> <li>-State funding for schools reporting remained at pre-pandemic levels</li> <li>-Potential for cuts in state funding for next fiscal year</li> </ul>	<ul style="list-style-type: none"> <li>-Several additions to MMA's impairment database but for non-pandemic reasons</li> <li>-Pandemic related impairments, if any, are likely to be driven by specific state school funding reductions</li> </ul>
Others	<ul style="list-style-type: none"> <li>-Utilities: Modest negative impact reported by a few related to shifts in usage related to economic shut-down. Some concerns about potential increase for delinquencies/delays in payment because of downturn. Concentration to a particular customer or industry can be an additional risk</li> <li>- Hotel/Convention Center/Stadium Related: Shuttered facilities are causing revenue strains</li> <li>- Other Not-for-Profits: Many of these (cultural facilities, YMCA's etc.) have been closed because of the pandemic. Revenue and memberships have been negatively impacted</li> <li>- Start-Up/Speculative Project Financings: Economic shutdown, reduced operations/demand, growing difficulties in access to capital are accelerating stress for these credits</li> </ul>	<ul style="list-style-type: none"> <li>-Utilities: Expect that impairments, if any, will be temporary and skew toward covenant breaches and draws on reserves</li> <li>- Hotel/Convention Center/Stadium Related: Expect there will be rising impairments among these types of credits that do not benefit from governmental support</li> <li>- Other Not-for-Profits: Expect an uptick in impairments among these types of credits that do not benefit from strong philanthropy</li> <li>- Start-Up/Speculative Project Financings: Impairments for these types of credits are likely to accelerate</li> </ul>

## Municipal Borrowers Report a Growing Number of New Financial Obligations Amid Pandemic-Stress

Weekly (and Rolling Four Week) Number of Disclosures on EMMA:  
Financial Obligation - Incurrence or Agreement

