

# THE CORONAVIRUS AND IT'S GLOBAL IMPACT: PROVIDING WORKING CAPITAL TO STATE AND LOCAL GOVERNMENTS

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## COVID-19 – GLOBAL PANDEMIC

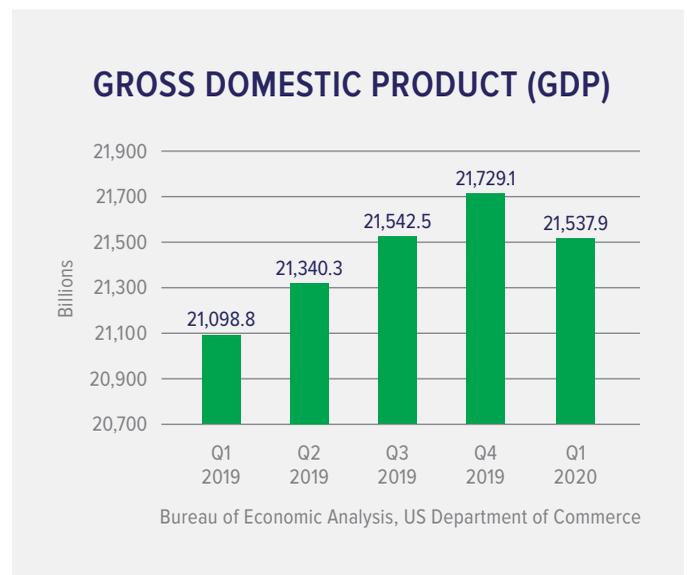
The Coronavirus originated in the City of Wuhan, Hubei Province of China in late 2019. The COVID-19 Global Pandemic began to garner public attention in January 2020. By March 2020, many thought leaders, politicians, and the media acknowledge the looming economic catastrophe that laid ahead. Nations began to close their borders, air travel dropped to 10% of capacity, factories came to a halt, and the already weakened retail segment would be decimated. The US and other global leaders would need to set aside their differences on global trade, culture, income, and religion, and focus their resources on defeating the COVID-19 virus, protecting the human race, and restoring their respective economies.

Testing for the virus and developing a vaccine quickly became the primary goals of wealthy nations to restoring public trust and safely getting people back to work. In underdeveloped countries, testing has been sporadic or nonexistent. Once a vaccine is created, a global vaccination program will need to be instituted worldwide. The Covid-19 Global Pandemic has already cost trillions of dollars, continues to escalate, and will change the way we live for generations to come.

## IMPACT ON THE US ECONOMY

In the US, federal and state & local politicians and health officials have urged or mandated social distancing and sheltering in place to reduce the spread of the virus. Businesses have responded with requiring as many workers as possible to work from home. Although, the US airline and retail sectors have been particularly hard hit with rising layoffs and furloughs, virtually every sector of the \$22 Trillion US economy has been dramatically impacted. The automotive industry closed factories, elective surgeries at hospitals have been postponed, demand for oil plummeted to record lows, restaurants closed, and hotels are empty.

The Trump Administration has responded with trillions of dollars in federal monetary and fiscal stimulus measures that include lowering interest rates, direct checks to middle to lower income citizens,

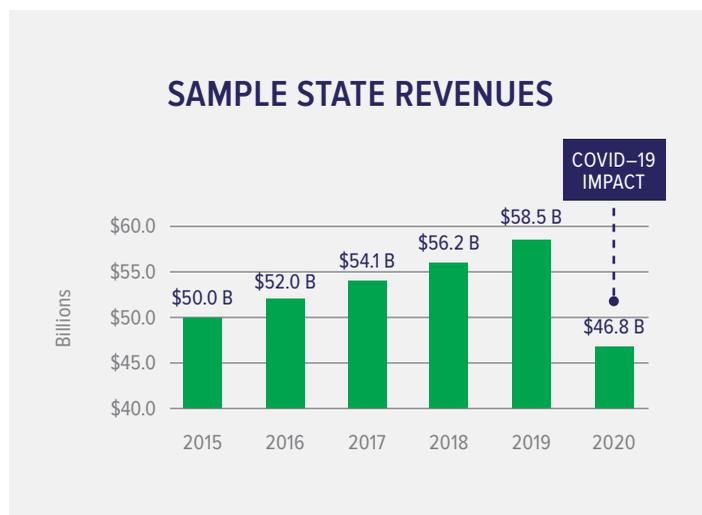


delaying IRS filings, deferring mortgage payments, and government grants and loans to small and large businesses. According to the Bureau of Labor Statistics, in April 2020, the US unemployment rate was 14.7%, compared to 3.6% in April 2019. There are approximately 40 Million Americans out of work. Many people in the US live paycheck to paycheck during good times and do not have the reserves to weather a long storm. Additional aid to American families will be needed until we restore the economy back to full employment.

## IMPACT ON STATE AND LOCAL GOVERNMENTS

The economic impact to state and local governments has been nothing short of devastating. Unlike the federal government, which can run deficits, state governments are required by law to balance their budget.

In an effort to balance their budgets, state and local governments rely on income, sales, business, and property taxes to fund teacher salaries, public safety, transportation, and public health. While property taxes can be stable, sales, business, and income tax revenues are less predictable and rely heavily on consumer spending.



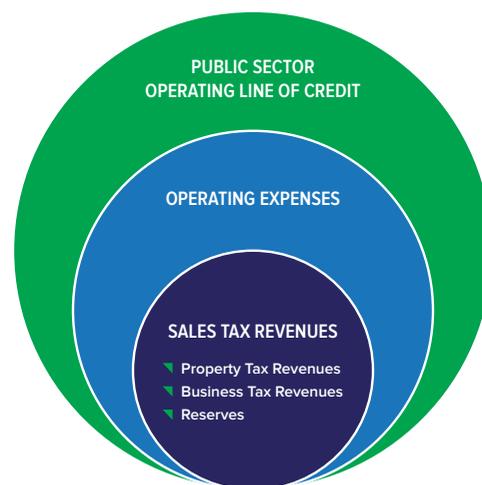
Many states are beginning to reexamine their 2020-2021 budget plans, and they are preparing tax increases and bracing for cuts to education, police, fire, and public health, without an additional federal aid package. Local governments have postponed billions in capital spending projects, which will sustain reserves, but slow economic development and cost jobs.

## PUBLIC SECTOR OPERATING LINE OF CREDIT

A public sector operating line of credit allows state and local governments, water providers, educational institutions, and health systems to quickly access capital to fund payroll, inventory, and operating expenditures to keep the government running. The interest rates are predicated on the municipalities' credit quality, which involves a thorough analysis of their revenue sources from property, income, sales, and business taxes. Borrower expenses are analyzed, which include public safety, public health, pension obligations, and capital spending. Ultimately, the goal is to gain an overall understanding of the borrower's surpluses, deficits, and available reserves.

Interest rates are determined by market conditions and the overall credit strength of the borrower. Rates are based upon an indexed or fixed and are either tax-exempt or taxable to the investor.

## CAPITAL RING OF PROTECTION



The lines can be secured by an asset or unsecured. Secured lines of credit can be collateralized with a fixed asset such as a school building, fleet of fire trucks, or administrative facility. The unsecured lines of credit increase the lender risk and are predicated on the borrower's reserves, free cash flow and understandably carry a higher interest rate.

## FLEXIBILITY

Interest on the line of credit is generally paid monthly. However, quarterly, semi-annual, and annual payment options are available. The principal can be drawn down or repaid at any time. Lines of credit range from \$1,000,000 to \$100,000,000 and are renewed over a 12 to 36-month period. At the end of the term, the line of credit can be repaid in full or converted into an installment loan and the payments could then be spread over one to twenty years. Thus, providing maximum flexibility to the borrower.

### OPERATING LINE OF CREDIT

- ▼ FUND PAYROLL
- ▼ FUND EXPECTED GRANTS
- ▼ INVENTORY
- ▼ PROJECT FUNDING

### BENEFITS

- ▼ BRIDGE CASH FLOW GAPS
- ▼ COMPETITIVE INTEREST RATES
- ▼ PROTECT MUNICIPAL RESERVES
- ▼ FLEXIBLE PRINCIPAL PAYDOWN
- ▼ SIMPLIFIED DOCUMENTATION
- ▼ PAY INTEREST ONLY

### END OF TERM OPTIONS

- ▼ PAYOFF LINE OF CREDIT
- ▼ CONVERT TO A TERM LOAN

## CONCLUSION

The COVID-19 Global Pandemic has created unprecedented disruption to the global supply chain, rising unemployment, a national shelter-in place strategy, and a decline in GDP. The combined effects are a drop in global and domestic trade and therefore a decline in consumer demand and tax revenues for federal and state & local governments.

Public agencies and health systems can utilize lines of credit to fund operating expenditures, restart capital spending, spur employment, and provide essential services to our citizens. They offer quick access to capital, flexible payment terms, and are easily converted to installment loans. Most importantly, lines of credit provide a defensive perimeter around your reserves to face unexpected challenges and revitalize America.



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Contact our finance specialist to learn more about our financing solutions.

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