



## U.S. Municipal Bond Market

# Agreement on the \$2+ Trillion CARES Act; Not Nearly Enough for State and Local Governments

### Summary, as of Wednesday, March 25

- There have been a total of 64,563 coronavirus cases reported in the U.S., 908 deaths, and 393 recoveries to date<sup>1</sup>
- Congress agreed on \$2+ trillion of CARES Act relief, but it is not nearly enough for what state and local governments and other municipal entities are currently and likely to be facing in coming weeks and months
- We summarize the municipal specific, housing related and general economic elements of the 2020 CARES Act below
- Market commentary: the tone in municipals is continuing to improve
- AAA MMD yields are lower again, this time by 65 basis points across the board
- SIFMA reset at a 4.71% today, compared to 5.20% last week.

### CARES Act Relief: It's Something, But It's Not Nearly Enough

Congress finally agreed upon the third phase of federal relief in response to the significant steps taken, practically nationwide, to contain the spread of COVID-19. The federal legislation is expected to amount to more than \$2 trillion and is being called the Coronavirus Aid, Relief, and Economic Stabilization Act (or CARES Act). Voting was set to begin late Wednesday or early Thursday morning, but we are now hearing more changes may be required and voting may not begin until Thursday. Currently a vote is not scheduled.

### In summary

The CARES Act's \$2+ trillion price tag is more than double the \$831 billion Congress approved for the American Recovery and Reinvestment Act of 2009 (2009 Recovery Act). The CARES Act is receiving some criticism for its lack of enormity, despite its record cost.<sup>2</sup> Below, we summarize and review elements of the CARES Act specific to state and local governments, the municipal market and housing, as well as some of the Act's general elements. In summary, we think the municipal market-specific provisions should help correct the market dislocation. But, the targeted relief for state and local government and other municipal entities' budget-related provisions really falls short of what is likely to be required under the current circumstances. We think this increases the odds of another relief, stimulus or spending package that may be needed, and potentially at an accelerated pace.

A little over 10 years ago, the 2009 Recovery Act included a portion to help stabilize state and local government budgets in the wake of the 2008 World Financial Crisis. The 2009 Recovery Act included \$282 billion of fiscal assistance for state and local governments.<sup>3</sup> It appears the existing plight facing state and local governments and other municipal entities is likely to be even more challenging than 10 years ago. Yet, a more limited amount of funds have been allocated and the use of those funds – especially in the case of the \$150 billion set for the Coronavirus Relief Fund – come with guidelines limiting their use. Our summary:

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### Summary of Municipal Market Elements of the CARES Act

- The CARES Act set up a Coronavirus Relief Fund in the amount of \$150 billion to make payments (appropriated) to states, tribal government, and units of local government.<sup>4</sup> We do not believe there is much flexibility with how this money can be spent. It can only be spent on activities that are directly related to COVID-19.
  - \$3 billion for: Washington D.C., Puerto Rico, Virgin Islands, Northern Mariana Islands, American Samoa.
  - \$8 billion for Tribal governments.
  - \$1.25 billion is the minimum for states; the final amount to states will be adjusted based on population.
  - Our feedback is that this \$150 billion is coming with a heavy use restriction. It can only be used for spending directly related to COVID-19 activities, for example. Also, \$150 billion is much less than what we had expected for state and local governments and is much less than what they received in the 2009 Recovery Act. We already read that New York State is likely to receive close to \$4 billion from the Relief Fund, but New York Governor Cuomo is saying he expects to see a budget shortfall of \$15 billion.<sup>5</sup>
- **\$454 billion** is being made available to the Federal Reserve to purchase business, state, or municipal securities directly from issuers or in the secondary market.<sup>6</sup> The aim, as indicated in the legislation, is to provide liquidity to the financial system that supports lending to states and municipalities.<sup>7</sup> The Treasury Department has 10 days to set up the procedures to purchase securities, but we believe efforts are ongoing to accelerate this time frame.
- **\$30.9 billion** - There will be an Education Stabilization Fund being set up and funds will go to states, local school districts, and higher education institutions.<sup>8</sup>
- **\$10 billion** - For the Federal Aviation Administration's Airport Improvement Program, funds will go to maintain operations at airports that have faced a drop in passengers.<sup>9</sup>
- **\$25 billion** - Transit providers, including state and local governments, will receive funding according to current Federal Transit Administration (FTA) formulas.<sup>10</sup>
- There are other provisions that are going to impact housing, education, health care, and Medicaid. These provisions will undoubtedly affect state and local governments and other the municipal entities directly or indirectly as well. But, the above seem to be the most significant for municipals.

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### Summary of Housing Elements of CARES Act

A little over \$17 billion is being allocated from the CARES Act to the Department of Housing and Urban Development (HUD). These are some of the more sizeable housing and HUD allocations:

- **\$5 billion** for Community Development Block Grants for COVID-19 related services
- **\$4 billion** for Homeless Assistance Grants for those who would be homeless due to coronavirus
- **\$1.25 billion** for Tenant-Based Rental Assistance - Section 8-related voucher assistance
- **\$1 billion** for Project-Based Rental Assistance - low-income assistance<sup>11</sup>

### Summary of General Elements of CARES Act

While not directly tied to state and local government and other municipal entities, there are other general elements that will flow through to municipals, so we are going to summarize these below. There is \$250 billion for direct payments to individuals, \$350 billion of small business loans, \$250 billion in unemployment insurance benefits, and \$500 billion in loans for business (overlaps with the above-mentioned \$454 billion for businesses, states and municipalities).<sup>12</sup>

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Some of the notable economic items include:

- Direct payments to lower- and middle-income Americans of \$1,200 for each adult, \$500 for each child
- Student loan relief in the form of a temporary suspension;
- Expansion of unemployment insurance
- Waives penalty to withdraw from 401(k)
- Small business Paycheck Protection Program loans
- Business tax relief, in different forms

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In addition, we have been calling the CARES Act the third phase of COVID-19 relief. The first two phases of coronavirus-related relief passed in recent weeks and is summarized below.

### **\$100 Billion for Testing and Paid Leave**

On Wednesday, March 18, President Trump signed a \$100 billion stimulus bill to fund free coronavirus testing and to pay for expanded emergency paid leave and insurance in response to the unprecedented steps taken in response to COVID-19.

### **Initial Prevention and Research Efforts Cost \$8.3 Billion**

The first swing at stimulus saw the President sign (Friday, March 6) into law an \$8.3 billion package focused on prevention and research efforts to combat COVID-19. Most of the funds are likely to flow to going to the U.S. Department of Health and Human Services.<sup>13</sup>

### **Market Commentary – Tone Improving**

We saw a significant level of improvement in market behavior that began yesterday. Municipal market dynamics are beginning to loosen up and activity is expanding. Until yesterday, there has been varying degrees of pressure on the municipal market. Last week, record outflows from municipal funds came in at an extraordinary \$12 billion. Just yesterday, the municipal market tone began to turn more positive. Municipal bond demand outstripped secondary market supply – a good sign that buyers are increasing their activity and demand is strengthening. There is potential for the primary market to begin to open-up, too. We saw more firms bid on more competitive issues yesterday than we have seen in some time. We expect this indicates primary market negotiated issues may start to see some demand as well, but we will have to see how the rest of this week evolves. The recent market dislocation created significant spreads to the AAA MMD yields almost across the board in municipals. M/T Ratios have also been at significant levels as well. We expect these municipal market indicators could fall as market demand increases and customary levels of activity gradually returns. For now, these indicators remain inflated.

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The Federal Reserve has taken unprecedented steps in recent days. While the municipal market may not have been initially included in the Fed's programs, they reacted very quickly to state and local government input and expanded programs to target municipals when needed. We expect these programs – along with what we end up seeing in the CARES Act – to significantly help liquidity and municipal market functioning.

### **MMD AAA Yields Fall Further on Wednesday, March 25**

MMD AAA yields continued to fall ending today 65 basis points lower across the yield curve. Today, 2 year AAA MMD came in at a 1.62%, 10 year was a 1.94% and 30 year AAA MMD was a 2.52%.

### **SIFMA Priced at 4.71%, Down Slightly**

The SIFMA Municipal Swap Index priced at a 5.20% last week, up from a 1.28% a week before, and a recent high of 1.61% before last week. We will continue to watch how this develops for sure as it will be a good indication of how effective the Fed's new program(s) are working.

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SIFMA reset at 4.71% this afternoon, March 25, 2020.

### Recent HilltopSecurities COVID-19 Municipal Commentary

- [Still Waiting on Congress, Looking for State and Local Government Stimulus](#), March 24, 2020
- [Congress Working on \\$2+ Trillion of Stimulus; Fed Provides More Targeted Support for Municipals](#), March 23, 2020
- [Tax Deferrals Could Create a Cashflow Crunch; Market Needs Help With Liquidity; Federal Government Provided Some, Working on More Targeted Support](#), March 20, 2020
- [\\$12 Billion Flows Out of Municipal Funds,Recent Monetary & Fiscal Policy](#), March 19, 2020
- [March 18 Market Activity – A Focus on the Significant Pressure in the VRDO Market](#), March 18, 2020
- [March 17 Market Activity](#), March 17, 2020
- [March 16 Market Activity: HilltopSecurities Lowers Credit Outlooks Due to Unprecedented Steps Taken to Contain COVID-19](#), March 16, 2020
- [Municipal Market Update: Week of March 16 Playbook](#), March 16, 2020
- [Municipal Market Update: COVID-19 Impact Worsens](#), March 12, 2020
- [Lowered Airport Sector Outlook: Recent COVID-19 Impact](#), March 11, 2020
- [Falling Confidence and No Federal Stimulus Increase to Start the Week](#), March 9, 2020
- [Uncertainty – What the Municipal Market Knows and Doesn't Know About COVID-19](#), March 4, 2020
- [Bracing for the Worst; the Coronavirus Market Effect – Status of the Coronavirus Impact on the US Municipal Bond Market \(page 2\)](#), Feb 26, 2020

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### Recent HilltopSecurities COVID-19 Economic Commentary

- [Staying Afloat Until the Storm Passes](#), March 23, 2020
- [Government Goes Big on Latest Rescue Plan](#), March 19, 2020
- [Serious Support on the Horizon](#), March 16, 2020
- [Waiting on Fiscal Policy as Aggressive Fed Move Falls Flat](#), March 16, 2020
- [Stocks Rebound as Central Banks Respond](#), March 13, 2020
- [On the Edge of Recession](#), March 12, 2020
- [Central Banks Rush to Mitigate Pandemic Fallout](#), March 11, 2020
- [Untying the Knot](#), March 10, 2020
- [Runaway Markets Ignore Massive Payroll Number](#), March 6, 2020
- [Bracing for Zero](#), March 5, 2020

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<sup>1</sup> Please see [Worldometers.info/coronavirus](http://Worldometers.info/coronavirus) for data updated hourly, last accessed 3/20/20 12:06pm central time.

<sup>2</sup> Dmitrieva, Katia; [Record \\$2 Trillion Stimulus Risks Falling Short of Full Relief](#); Bloomberg; March 25, 2020.

<sup>3</sup> [State and Local Governments – Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance](#); U.S. Government Accountability Office (GAO); March 2011.

<sup>4</sup> Almost final draft of CARES Act; (page 608 10:50am mostly final draft).

<sup>5</sup> Zremski, Jerry; [Stimulus to bring \\$40 billion to New York, but Cuomo calls it inadequate](#); The Buffalo News; March 25, 2020.

<sup>6</sup> Almost final draft of CARES Act; (page 514-515 10:50am mostly final draft).

<sup>7</sup> *Ibid* (p 525).

<sup>8</sup> [\\$340 billion Surge in Emergency Funding to Combat Coronavirus Outbreak](#); Senate Appropriations Committee; March 25, 2020; page 15 of 22.

<sup>9</sup> *Ibid* page 21.

<sup>10</sup> *Ibid* page 21.

<sup>11</sup> *Ibid* pages 21-22.

<sup>12</sup> Raju, Manu, Clare Foran, and Ted Barrett; [White House, Senate reach historic \\$2 trillion stimulus deal amid growing coronavirus fears](#); CNN; March 25, 2020.

<sup>13</sup> Simmons-Duffin, Selena; [Where That \\$8.3 Billion In U.S. Coronavirus Funding Will and Won't Go](#); NPR; March 6, 2020.

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