

## U.S. Municipal Bond Market

# The HEROES Act: The House Democrats' Opening Proposition

You can call it the next phase of COVID-19 relief; call it CARES Act II. Or, call it by its legislative title: the [Health and Economic Recovery Omnibus Emergency Solutions Act](#) or the HEROES Act, which is how most will refer to it. What it is called is not going to matter, frankly. What matters is that it amounts to about \$3 trillion of federal relief, and what matters most to the municipal bond market is that it includes provisions that could potentially bolster credit quality.

Speaker Nancy Pelosi made good on her promise to put state and local governments at the center of the next round of federal relief. The key provisions in this proposal that are related to state and local governments include:

- Almost \$1 trillion of state and local government relief (see below and next page for more detail of this breakdown);
- Proposes to suspend the state and local tax (SALT) deduction cap for two years.<sup>1</sup>

### HEROES Act Fiscal Relief for State and Local Governments

Type	Amount (\$ in billions)
State Governments	\$500
Local Governments	375
U.S. Territories	20
Tribal Governments	20
<b>Total State &amp; Local Relief</b>	<b>\$915</b>

Source: [Summary of legislation](#) and HilltopSecurities.

### Other meaningful provisions included in the HEROES Act proposal:<sup>2</sup>

- \$100 billion in education support for school districts and higher education;
- \$100 billion of emergency rental assistance;
- \$15 billion in grants for highways;
- \$15 billion in transit agency grants;
- \$6 billion in public housing agency (PHA) relief and aid;
- \$1 billion in support for community development financial institutions (CDFIs);
- \$100 billion of grants for hospitals and health-care providers;
- \$75 billion for testing and tracing;
- \$1,200 cash payments to individuals and children (up to \$6,000 per household);
- Extended unemployment insurance to January 2021;
- \$75 billion of homeowner assistance;
- \$200 billion in hazard pay for essential workers;
- Up to \$10,000 of student loans payments would be made through Sept 2021;
- Assorted changes to tax provisions.<sup>3</sup>

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Remember, market observers need to keep in mind that this is only the beginning of what could be a lengthy and tumultuous political negotiation. This is one side's opening proposal. Early indications are that Senate Republicans do not share the same enthusiasm for this type of relief.<sup>4</sup> The House is expected to vote on the legislation as early as this Friday as observers wait on the next step in the policymaking process.

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### Summary of How \$915 Billion of HEROES Act Fiscal Relief Funds Could Be Allocated

<b>States – \$500 billion</b>
\$250 billion awarded within 30 days of enactment to the 50 states and DC
\$51 billion divided equally among 50 states and DC
\$49 billion awarded based on the state's share of COVID cases
\$150 billion awarded based on the state's share of population
\$250 billion awarded by May 3, 2021 to the 50 states and DC
\$51 billion divided equally among 50 states and DC
\$199 billion based on the state's share of unemployed individuals
<b>Local governments – \$375 billion</b>
\$250 billion awarded within 30 days of enactment to all municipalities and counties
\$125 billion to municipalities using a modified CDBG formula
\$87.5 billion to entitlement municipalities (generally defined as those with populations of at least 50k)
\$37.5 billion to non-entitlement municipalities (generally defined as those with populations of less than 50k). These funds will be awarded to states, which must make awards to non-entitlement cities based solely on population within 30 days of receipt.
\$125 billion to counties based on population
\$125 billion awarded one year after the date of enactment to all municipalities and counties
\$62.5 billion to municipalities using a modified CDBG formula
\$43.75 billion to entitlement municipalities (generally defined as those with populations of at least 50k)
\$18.75 billion to non-entitlement municipalities (generally defined as those with populations of less than 50k). These funds will be awarded to states, which must make awards to non-entitlement cities based solely on population within 30 days of receipt.
\$63 billion to counties based on population
<b>U.S. Territories – \$20 billion</b>
<b>U.S. Tribal Governments (federally recognized) – \$20 billion</b>

Source: [Summary of legislation](#) and HilltopSecurities.

<sup>1</sup> Wasson, Erik and Laura Davison; *House Democrats Unveil \$3 Trillion Aid Bill With Cash for States*; Bloomberg; May 12, 2020.

<sup>2</sup> See more detail in the [Title by Title Summary of the legislation](#), also one of our sources.

<sup>3</sup> See more details in *ibid*.

<sup>4</sup> Mascaro, Lisa and Andrew Taylor; *Pelosi unveils \$3T virus bill, warns inaction costs more*, Associated Press; May 12, 2020.

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