

## U.S. Municipal Bond Market Lines are Being Drawn

### Summary

- Talk about a Fourth Phase of COVID-19 relief began this week.
- Senate Minority Leader Chuck Schumer rallied Democrats together in a letter he sent today.
- Republican leaders met today at the White House and discussed their Fourth Phase priorities.
- Republicans are likely to release a proposal early to middle of this week that could amount to \$1 trillion, but will likely not include any new aid for state governments. Local government relief would be mostly tied to school reopenings.

### Senate, House, and White House

Policy-making almost always follows a difficult journey. This is proving especially true because trillions of dollars have already been spent, and trillions of taxpayer dollars are seemingly up for grabs. A complicating matter is a continued lack of clarity about each group's COVID-19 priorities, and there seems to be a different level of fluidity about the priorities that are expressed even when they do finally rise to the surface.

Today, there were finally some conversations which, if anything, reinforced the overall theme that the lines being drawn indicate the partisan divide in Washington, D.C. over funding for a potential fourth (or fifth) phase of COVID-19 relief.<sup>1</sup>

### Schumer's Letter to the Democrats

Senate Minority Leader Chuck Schumer sent a letter to the Democratic caucus today in anticipation of an opening gambit from Senate Republicans that is likely going to be much different (and less) than what Democrats are seeking in this fourth phase. Schumer wrote, "We will stand together again if we must. Our Democratic colleagues in the House are ready to work and we know that a bipartisan, bicameral process will result in a much better bill for the American people."<sup>2</sup>

### President Trump Met with Republican Leaders

Meanwhile, President Trump met with Republican leadership at the White House today to strategize. The White House and some Republicans are pushing for a payroll tax cut, but do not seemingly have complete buy-in across the party. All are in agreement about reducing unemployment insurance, and many want to see another round of direct payments.<sup>3</sup> Some Senate Republicans are pushing for more funding for testing and Centers for Disease Control and Prevention, but the White House does not agree.<sup>4</sup>

### What is the Republican Proposal Likely to Include?

We are expecting a draft of the Republican relief plan is likely to be released early to the middle of this week. The Republican plan is projected to be about \$1 trillion, but we will not know exact figures until we see more details. House Minority Leader Kevin McCarthy said the upcoming GOP proposal is going to focus on "getting the economy moving again" and "focused about the kids' safety and the teachers as well, [and] liability protection."<sup>5</sup>

The plan is not going to include specific aid for state governments. The only thing close to state aid is that lawmakers could potentially allow states to use the \$150 billion already approved under the CARES Act for broader use. Initially, the \$150 billion

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of CARES Act money could only be used by states for COVID-19 specific purposes. The fact that aid for states is not going to be included could be considered a blow to the prospects of state and local governments that are facing as much as \$1 trillion of budget and revenue shortfalls as a result of COVID-19 shutdowns. But, it could also mean that state and locals are going to find themselves directly in the middle of the lines being drawn on each side. It is still possible, if not likely, that talks will continue and state aid could be included. Aid for local governments in the GOP plan is likely to take the form of relief for schools' reopening plans.<sup>6</sup>

Speaker Nancy Pelosi has been adamant since the CARES Act was agreed upon in March about the need for state and local aid. The HEROES Act, approved by the House in May, included almost \$1 trillion for state and locals.

Much continues to be at stake for the near to medium term as it relates to potential relief for state and local governments. We expect to learn more as lawmakers continue discussions.

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<sup>1</sup> It seems most in Washington DC are referring to this as Round or Phase Four, not Phase Five. We will now call it Phase Four.

<sup>2</sup> Bolton, Alexander; [Schumer urges Democrats to unify against GOP coronavirus bill](#); *The Hill*; July 20, 2020.

<sup>3</sup> Bresnhan, John; Marianne Levin and Andrew Desiderio; [Trump and GOP split on payroll tax cut, testing as Covid talks kick off](#); *Politico*; July 20, 2020.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*

<sup>6</sup> Werner, Erica, Jeff Stein and Robert Costa; [GOP coronavirus bill likely to include payroll tax cut and tie school money to reopening plans](#); *the Washington Post*; July 20, 2020.

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