



U.S. Municipal Bond Market

The HEALS Act: Republicans' Fifth Phase Proposal, Almost Final

Health, Economic Assistance, Liability Protection and Schools (HEALS) Act

At the beginning of last week, lawmakers finally returned to Washington, D.C. after a three-week Fourth of July break. Many expected them to get right to work on a fifth phase of COVID-19 relief with a focus on individual unemployment benefits, employer liability protection, expanded small business relief, and aid for state and local governments.

Some initially expected the Republicans to release their version of CARES2, COVID5, or the Fifth Phase of COVID-19 relief at the beginning of the week, assuming inter-party negotiations had already occurred. The date for the bill unveiling was bumped to Thursday, and still no legislation. In fact, the inter-party negotiation seemed to continue until later this morning when word released about the expectation for the Republican's view on unemployment benefits was altered.

Finally this afternoon, the Republicans released details of their bill which is called the Health, Economic Assistance, Liability Protection and Schools (HEALS) Act. We have not actually seen the final version, but we are assuming that it includes about \$1 trillion of total relief spread across different spending priorities. Again, we wanted to get the details out but the below is not based on a view of the actual legislation. We will follow up this week with details if they have changed. So far, there are no surprises. The major items included in the HEALS Act are:

- Individual unemployment benefits: \$1,200 payment (\$500 per dependent) and \$200/week until a 70% of lost wages mechanism can be implemented by states;
- Employer liability reform/protection;
- Expanded small business relief in the form of additions and expansions to the Paycheck Protection Program (PPP) and;
- Aid for schools and higher education institutions (no new state aid was proposed)

HEALS Act New Fiscal Relief for State and Local Governments

Type	Amount (\$ in billions)
State Governments	\$0
Schools	105
Total Relief	\$105

Source: HilltopSecurities.

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HEALS Act School Relief Breakdown

Type	Amount (\$ in billions)
K-12 Public Schools	\$30
K-12 Private Schools	10
Schools that Reopen	30
Higher Education	30
K-12 or Higher-Ed	5
Total State & Local Relief	\$105

Source: HilltopSecurities.

There is no new U.S. state government aid included in the HEALS Act, as expected. Although state and local governments would be able to use any funds leftover from the \$150 billion from the CARES Act for expanded purposes, assuming some new limitations. We still expect there will be \$105 billion included in the HEALS Act for K-12 and higher education.

Both Sides Have Showed Their Hands, Let the Compromising Begin

In the middle of May, House Democrats proposed and then passed the Health and Economic Recovery Omnibus Emergency Solutions Act, or HEROES Act, which amounted to about \$3 trillion of relief spending that included almost \$1 trillion for state and local governments.

We continue to believe that a final package is likely to amount to somewhere between the Democrats' \$3 trillion proposal and the Republicans' \$1 trillion proposal. Further, it is likely that there will be state and local government aid, in total, that amounts to somewhere between \$500 billion and \$1 trillion. However, it may be necessary for lawmakers to compromise on a total amount of government aid that is closer to, or just below, the low end of our expectation.

We should keep in mind that the HEALS Act is as much a political document, or a political statement if you will. It represents where the Republican party is at this point in time. We also need to keep in mind that while all elections are meaningful, elections held during a Presidential cycle usually attract a higher turnout and this year—because of the circumstances—this election could be uniquely meaningful. A matter of months ago, it was a longshot that the Democrats could potentially take over the Senate. Now, where we stand at the end of July, it is very possible. Therefore, we expect a substantial amount of political maneuvering in the next two weeks, for sure.

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