

U.S. Municipal Bond Market

D.C. Nears an Almost \$1 Trillion Fifth Phase COVID-19 Relief Compromise, Will Not Include State and Local Govt. Aid

Summary

- This morning, the Congressional leadership is on the verge of finding middle ground on a fifth phase COVID-19 relief package totaling almost one trillion dollars.
- The compromise will not include aid for state and local governments.
- Targeted relief for education, transportation, health care, and housing is expected to be included.
- Key takeaway: the prospective agreement should be considered a gain for some sectors in public finance even without state and local government aid.

D.C. Lawmakers Have Nearly Reached an Agreement for COVID-19 Relief

Although a large nor'easter storm is barreling down on states from Maine to North Carolina, the threat of foul weather did not deter federal policymakers from accomplishing what has proved elusive since July. Negotiations for a fifth phase of COVID-19 relief seem to be progressing in Washington, D.C. The Four Corners leadership, including Senate Majority Leader Mitch McConnell, Senate Minority Leader Chuck Schumer, and House Minority Leader Kevin McCarthy all met yesterday per the invitation from House Leader Nancy Pelosi and significant advancement was made during yesterday's negotiations.

This morning, the Congressional leadership is on the verge of a fifth phase COVID-19 relief package totaling almost one trillion dollars, according to a [report from Politico](#). The total cost is not yet final, but it is expected to be about \$900 billion. To give readers an idea of the current magnitude compared to the Great Recession, this relief package is the fifth phase of relief, after lawmakers have already spent [about \\$3.5 trillion since March on COVID-19](#). The \$900 billion under consideration is still a higher number than the \$831 billion spent on the [American Recovery and Reinvestment Act of 2009](#).

On the to-do list today, lawmakers are expected to release details of the next COVID-19 plan and round up support in the form of votes so they can finalize a vote by the end of the week. Optimism is, and should be high, but [lawmakers are up against the clock](#), although the odds are absolutely in favor of something getting done, finally.

Will Not Include State and Local Aid

The compromise will not include aid for state and local governments. Aid for state and local governments has been a key political roadblock to finalizing another round of COVID-19 relief. This is despite the fact that there are policy ideas, such as the one proposed by Wharton's Robert Inman and Penn Law's David Skeel in [Here's a fair approach to calculating covid-19-specific aid to the states](#) that could lessen the political impact. However, it was necessary to drop both state and local government aid and the liability shield in the process of compromising.

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What is Likely to be in the \$900 Billion Agreement?

We do not have all the details yet, so the below is merely speculating, but it is based on what we have seen to this point. The final compromise is likely to look something like the \$748 billion that was under consideration at the beginning of the week and the extra amount of that increases the cost to \$900 billion would be a result of the individual relief/stimulus checks. Specifically, we expect the deal to include, among other items:

- An extension of unemployment assistance
- Second round of direct payments, in an amount close to \$600 per person (still a moving target it seems)
- Targeted small business relief
- Education funding for K-12 and higher-ed
- Transportation sector funding
- Health care funding
- Eviction moratorium likely to be extended
- Vaccine distribution funding
- Other items to be finalized

We will update this list as more details about the agreement are released.

Economic Impact and Influence on Public Finance Credit

The agreement is likely to have a meaningful near-term economic impact and provide some stabilization. The absence of state and local government credit leaves a hole they will need to fill somehow unless another round of aid in 2021 is able to be attained by lawmakers. The lack of aid for state and local governments cuts down on public sector financial managers' fiscal flexibility. If revenues do not keep pace with past budget plans, cuts are likely still coming. As a result, more state and local government jobs could be lost. That being said, it is likely that the agreement is going to include targeted aid that will provide a boost or at least a stabilizing effect to K-12 and higher education, transportation (including mass transit), health care, and housing. The prospective agreement should be considered a gain for some sectors in public finance even without state and local government aid.

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