

U.S. Municipal Bond Market

What Public Finance Entities Can Expect from the \$1.9 Trillion American Rescue Plan, Some Preliminary Details Released

- Lawmakers in Washington are in the process of developing and approving legislative language in response to the budget reconciliation resolution adopted last week.
- Preliminary breakdown details from legislative committees are being released outlining what public finance entities can expect from the White House’s \$1.9 trillion American Rescue Plan. Please keep in mind that these details are still preliminary, and the numbers we include below could change.
- About 60% of the \$350 billion for state and local governments would be allocated to states, about 40% would go to local governments, and remaining funds would go to tribal governments and U.S. territories. We included a more detailed summary by state based on preliminary Congressional estimates in a table on pages 5-6.
- There could be \$170 billion of education relief that will include \$128 billion for elementary and secondary education and about \$39 billion for higher education, based on the preliminary legislative language.
- Additional potential spending includes: \$50 billion for FEMA’s Disaster Relief Fund, \$30 billion for mass transit, \$8 billion for airports, \$3 billion for economic development, and \$3 billion for aerospace manufacturing payroll support.
- COVID-19 numbers have been significantly improving in recent weeks, however health officials are continuing to warn that numbers could spike in 5-13 weeks as a result of the new variants.

Tom Kozlik
Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

Preliminary breakdown details from legislative committees are being released outlining public finance entities can expect from the White House’s \$1.9 trillion American Rescue Plan.

Summary of Potential State and Local Govt. \$350 Billion Estimate Breakdown

Estimated Amount (\$ in billions)	% of Total	Allocation Area
\$195.30	56%	U.S. States and Washington D.C.
130.20	37%	U.S. local governments
20.00	6%	U.S. tribal governments
4.50	1%	U.S. territories
0.57	0%	Emergency leave for federal & postal workers
0.12	0%	Oversight
\$350.69	100%	Total

Source: Preliminary Congressional estimates based on CRS, Census Bureau, HUD data, and HilltopSecurities. All estimates are subject to change.

Sixth-Phase COVID-Relief Negotiations

The negotiations for a sixth phase of COVID-19 relief began just before the Jan. 20 inauguration of President Joe Biden. On Jan. 14, then President-elect Biden

announced his \$1.9 trillion “First-Stage” rescue package. This proposal included \$350 billion of state and local government aid. After Biden was inaugurated, he met with a group of 10 Republican Senators to begin negotiations on a bi-partisan relief proposal.

The Republican Senators proposed a smaller \$618 billion relief package in response to the President’s \$1.9 trillion idea. The Republican’s slimmed-down proposal did not include any aid for state and local governments.

Federal Budget Reconciliation

Democrats quickly abandoned the idea of a bipartisan agreement for a sixth phase of relief and began the budget reconciliation process early last week. Please see this Congressional Research Service (CRS) report The Budget Reconciliation Process: Stages of Consideration January 25, 2021 report for more details about the process and history.

The budget reconciliation process would allow the Democrats to pass a relief package that includes a total amount of spending closer to the \$1.9 trillion proposed by President Biden in January. Budget reconciliation would give Democrats the ability to pass the \$1.9 trillion First Stage proposal with simple majorities in both the House and the Senate.

There are five major stages to the Reconciliation Process as outlined by the CRS:

- There are five major stages to the Reconciliation Process as outlined by the CRS:
- Budget resolution adopted that includes reconciliation directives to individual committees (Occurred last week)
- Committees develop and report legislative language (occurring now)
- Floor consideration by the House of Representatives and the Senate
- Differences between the chambers need to be resolved
- Final action by the president

The budget resolution that was adopted last week gives committees until Feb. 16 to draft a COVID-19 relief bill, which is being referred to as the American Rescue Plan. Committees are currently working on the legislative language. Senate Democrats are hoping that they will be able to pass President Biden’s proposal by early March. A key deadline lawmakers are working to beat is March 14, which is the day federal unemployment benefits are set to expire unless extended. Meanwhile, details are being circulated about the spending line items originally proposed by President Biden in the middle of January.

\$350 Billion State and Local Government Aid

The potential detailed breakdown of how the proposed \$350 billion for state and local governments was released last night by House Committee on Oversight and Reform Chairwoman Carolyn Maloney (Congressional representative from New York). Keep in mind this is just the initial outline from the House Committee on Oversight and Reform. A full vote is expected by the House this Friday. The Committee included the following details, and we are reprinting them word-for-word:

The Republican Senators proposed a smaller \$618 billion relief package in response to the President’s \$1.9 trillion idea. The Republican’s slimmed-down proposal did not include any aid for state and local governments.

The budget reconciliation process would allow the Democrats to pass a relief package closer to the \$1.9 trillion proposed by President Biden in January with simple majorities in both the House and the Senate.

The potential detailed breakdown of how the proposed \$350 billion for state and local governments was released last night.

Committee on Oversight and Reform Fiscal Year 2021 Reconciliation Act Provisions State, Local, Tribal, and Territorial Support: \$350 billion

Description: The bill would create new State and Local Coronavirus Relief Funds to keep first responders, frontline health workers, and other providers of vital services safely on the job as states, local governments, Tribes, and territories roll out vaccines and fight to rebuild Main Street economies. Sixty percent of the funds would go to States and 40% to localities. Local governments of every size would receive dedicated allotments. Funds are available until expended, awarded directly from Treasury within 60 days of enactment, and subject to eligible uses including to replace revenue lost, delayed, or decreased as a result of the pandemic.

"Sixty percent of the proposed funds would go to States and 40% to localities."

States and the District of Columbia: \$195.3 billion

- \$25.5 billion equally divided — every state receives at least \$500 million
- \$169 billion based on the state share of total unemployed workers
- The District of Columbia would be made whole after being treated as a territory in previous coronavirus funding Acts

Local governments: \$130.2 billion divided evenly between cities and counties

- \$65.1 billion to cities using a modified Community Development Block Grant formula
- \$45.57 billion for municipalities with populations of at least 50,000
- \$19.53 billion for municipalities with populations of less than 50,000
- \$65.1 billion to counties based on population

Tribes: \$20 billion to federally recognized Tribal governments

- \$1 billion divided equally
- \$19 billion divided as determined by the Secretary of the Treasury

The bill would provide emergency paid leave for civilian federal employees and postal workers.

Territories: \$4.5 billion

- \$2.25 billion divided equally and \$2.25 billion based on population

Emergency Leave for Federal and Postal Workers: \$570 million

The bill would provide emergency paid leave for civilian federal employees and postal workers. Employees would be eligible for up to 600 hours of leave when forced to quarantine or ill with COVID, when caring for a child whose school or place of care has been closed or is conducting virtual learning, or when caring for a family member incapable of self-care whose care provider is unavailable due to COVID. Leave would be available until September 30, 2021 and employees would be required to first use any other paid sick leave when applicable.

Oversight of Funds: \$117 million

- The bill would provide additional funds to oversight entities to promote transparency and accountability of all federal coronavirus relief funds.
- Government Accountability Office: \$77 million
- Pandemic Response and Accountability Committee: \$40 million

Leave would be available until September 30, 2021 and employees would be required to first use any other paid sick leave when applicable.

\$170 Billion of Education Related Relief

We also have seen some details related to the \$170 billion of education-focused relief. The House Committee on Education and Labor also released some preliminary numbers. The larger education-focused line items include:

- \$128 billion for Elementary and Secondary School Emergency Relief Fund
- \$39.5 billion for the Higher Education Emergency Relief Fund

The larger education-focused line items include \$128 billion for Elementary and Secondary School Emergency Relief Fund and \$39.5 billion for the Higher Education Emergency Relief Fund.

Other Related Spending from House Committee on Transportation and Infrastructure

We also have seen some preliminary numbers from the House Committee on Transportation and Infrastructure that includes:

- FEMA's Disaster Relief Fund: \$50 billion for reimbursement to state, local, tribal, and territorial governments
- Mass transit: \$30 billion to assist with operating costs, including payroll and personal protective equipment.
- Airports: \$8 billion, including \$800 million for airport concessionaires.
- Economic Development Administration: \$3 billion to provide economic adjustment assistance respond to economic injury caused by the COVID-19 pandemic.
- Aerospace manufacturing: \$3 billion for a temporary payroll support.

Emergency Rental Assistance

We are expecting to see details about Emergency Rental Assistance be released perhaps today or at least sometime before the end of this week.

We are expecting to see details about Emergency Rental Assistance be released perhaps today or at least sometime before the end of this week.

Status of COVID-19 in the U.S.

The good news on the COVID-19 front is that the numbers showing the spread of COVID-19 have plummeted in the U.S. since the beginning of January. The number of new daily cases has fallen by 35% over the last two weeks. The number of new daily deaths and new daily hospitalizations has fallen by 20% and 26%, respectively, over the last two weeks according to New York Times data. The bad news, however, is health officials are warning that the spread of the new variants could cause numbers to spike again in 5-13 weeks. Currently, there are about 944 known cases of the new COVID-19 strains in the U.S.

The vaccination effort is underway globally, and so far the U.S. is distributing about 1.5 million COVID-19 vaccination doses per day. At this rate it is estimated it could take nine months to cover 75% of the U.S. population with two doses of the vaccine. So far, about 10% of Americans have received one dose of the COVID-19 vaccine and 3% are considered fully vaccinated according to the U.S. Centers for Disease Control and Prevention (CDC).

The good news on the COVID-19 front is that the numbers showing the spread of COVID-19 have plummeted in the U.S. since the beginning of January. The number of new daily cases has fallen by 35% over the last two weeks.

Estimates for Potential State, Local, Tribal, and Territorial Govt. Fiscal Relief (\$ in billions)

State	Aid to STATE Govts. (\$)	Aid to LOCAL Govts (\$)	Total (\$)
Alabama	\$2.136	\$1.894	\$4.031
Alaska	0.827	0.258	1.085
American Samoa	0.481	0.031	0.512
Arizona	4.836	2.550	7.386
Arkansas	1.663	1.201	2.864
California	26.264	14.973	41.237
Colorado	3.984	1.882	5.866
Connecticut	2.668	1.645	4.312
Delaware	0.899	0.306	1.205
D.C. (regular allocation)	0.997	0.495	1.492
D.C. (from CARES)	0.755	0.000	0.755
Florida	10.310	6.060	16.369
Georgia	4.690	3.572	8.262
Guam	0.556	0.105	0.661
Hawaii	1.645	0.482	2.126
Idaho	1.197	0.644	1.842
Illinois	7.549	5.684	13.232
Indiana	3.084	2.837	5.921
Iowa	1.390	1.500	2.889
Kansas	1.598	1.157	2.755
Kentucky	2.459	1.645	4.104
Louisiana	3.233	1.965	5.199
Maine	1.037	0.648	1.684
Maryland	3.899	1.956	5.856
Massachusetts	4.547	3.728	8.275
Michigan	5.698	4.405	10.102
Minnesota	2.597	2.093	4.690
Mississippi	1.818	1.262	3.080
Missouri	2.838	2.505	5.343
Montana	0.891	0.410	1.301
Nebraska	0.983	0.805	1.788
Nevada	2.969	0.947	3.916
New Hampshire	0.966	0.559	1.526
New Jersey	6.483	2.950	9.433
New Mexico	1.631	0.841	2.472
New York	12.665	10.640	23.305
North Carolina	5.316	3.791	9.107
North Dakota	0.778	0.279	1.057
Northern Mariana Islands	0.483	0.032	0.515
Ohio	5.681	5.429	11.110
Oklahoma	2.191	1.395	3.586
Oregon	2.628	1.543	4.172
Pennsylvania	7.349	5.778	13.127
Puerto Rico	2.463	1.944	4.408

State	Aid to STATE Govts. (\$)	Aid to LOCAL Govts (\$)	Total (\$)
Rhode Island	1.133	0.594	1.727
South Carolina	2.111	1.629	3.740
South Dakota	0.744	0.346	1.090
Tennessee	3.850	2.469	6.319
Texas	16.824	10.357	27.181
U.S. Virgin Islands	0.517	0.067	0.584
Utah	1.528	1.014	2.543
Vermont	0.655	0.307	0.961
Virginia	3.795	2.681	6.476
Washington	4.285	2.439	6.725
West Virginia	1.259	0.842	2.101
Wisconsin	3.231	2.499	5.730
Wyoming	0.736	0.131	0.868
Tribal Governments	20.000	0.000	20.000
Totals	\$219.800	\$130.200	\$350.000

Source: Preliminary Congressional estimates and subject to change based on CRS, Census Bureau, HUD data and HilltopSecurities.

Recent HilltopSecurities Municipal Commentary

- [Deep Cuts Remain; State and Local Govt. Jobs Down Over 1.3 Million](#), February 8, 2021
- [State Outlook Remains Negative; Direct Fiscal Relief Still Needed](#), February 5, 2021
- [U.S. COVID-19 "Spikes Like We Have Not Yet Seen" Could Be Coming; Sixth Phase Relief Status](#), February 1, 2021
- [Yellen Hearing: Supports Defeat of Pandemic, Loss of Govt. Jobs "Economic Malpractice"](#), January 19, 2021
- [Biden's \\$1.9 Trillion First Stage Rescue Package, What it Could Mean for Municipals](#), January 15, 2021
- [President-elect Biden's First Stage Rescue Package, Prelim Overview](#), January 14, 2021
- [Housing Fundamentals Remain Solid and Our Housing \(HFA\) Sector Outlook Remains "Stable" to Begin 2021](#), January 14, 2021
- [State and Local Government Job Losses in Three of Last Four Months Illustrate Continued Budget Pressures](#), January 11, 2021

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

The paper/commentary was prepared by Hilltop Securities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP