American Rescue Plan Provides Massive Economic Boost, U.S. Public Finance Could Be on Brink of a Golden Age, Especially if Infrastructure Stimulus Follows

- The American Rescue Plan Act of 2021 ($1.9 Trillion), is the sixth phase of U.S. fiscal policy in response to COVID-19. Lawmakers have spent almost $6.5 trillion since March 2020.
- U.S. GDP growth forecasts are higher as a result of the latest COVID-19 stimulus package. Public finance entities will benefit from the higher macro-level spending and the direct and almost unencumbered aid included.
- At least $350 billion of the Rescue Plan's dollars will flow to state and local governments. A total of about $650 billion spread across different spending line-items will also significantly support credit quality across many public finance sectors. This capital boost could put U.S. public finance on the brink of a golden age because of the opportunities that currently exist for state and local government leaders, especially if infrastructure stimulus follows later this year. However, the federal aid does not solve every problem. Challenges, some of which are extreme, remain for some.
- Municipal bond credit will be lifted across almost every sector. We now expect that public finance rating upgrades will outpace downgrades in 2021 and most likely in 2022.
- We remain concerned that those entities experiencing structural imbalances before COVID-19 may find it difficult to gain or regain structural balance even with this one-time, short-term extraordinary infusion that can be used until the end of 2024. We also remain concerned about those entities that have been experiencing multi-year pension funding issues. Adjusting to daily life after COVID-19 may take some getting used to as well.
- Infrastructure is likely "close to next" on the list for Washington lawmakers. Timing, form, and whether municipal bond friendly elements are included remains unknown at this time.

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