

U.S. Municipal Bond Market

Biden's \$1.9 Trillion First Stage Rescue Package, What it Could Mean for Municipals

- President-elect Biden's \$1.9 trillion proposal is meant to be a first stage rescue effort with a more detailed economic plan coming later this year.
- Highlighted in this stage are two key spending items: the extra \$1,400 per person on top of the \$600 issued at the end of 2020 for a cost of about \$465 billion and \$350 billion of direct aid to state and local governments.
- The proposal included a total of \$540 billion for municipal entities broken down into the following line items: \$170 billion for K-12 schools and higher education entities for COVID-19 containment measures, \$350 billion for state and local governments (noted above), and \$20 billion for mass transit providers.
- If this proposition passes, it would be the first fiscal relief package to include direct, unencumbered aid to state and local governments.
- Overall, this plan could boost state and local government credit quality and alleviate or in some cases eliminate budget shortfalls.
- Although the Democrats won the Senate seats in Georgia, the legislative path for a sixth phase or President-elect Biden's First Stage of relief generally is still unclear. It should be reinforced that state and local aid received significant pushback from lawmakers in 2020 and is likely to receive pushback in 2021 as well. Therefore, it is difficult to estimate at this time the chances state and local aid being are included in final legislation.

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Overview of Biden's \$1.9 Trillion First Stage COVID-19 Response Package

| Provision | Deficit Impact (\$ billions) |
|---|------------------------------|
| Provide \$1,400 per person "Recovery Rebates" on top of the \$600 already issued | \$465 |
| Provide aid to state and local governments | 350 |
| Increased Unemployment Insurance supplement to \$400/week, extend emergency UI provisions through Sept. | 350 |
| Provide funding for a national vaccination program, testing, and COVID containment | 160 |
| Fund school reopening and increase funding to school and colleges | 170 |
| Expand the Child Tax Credit to a refundable \$3,000 per child, \$3,600 for children under 6 (assuming one year) | 120 |
| Provide rental and small landlord support | 30 |
| Provide support to childcare providers | 25 |
| Other policy changes | 200 |
| Total Reported Cost | \$1,870 |

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Source: Committee for a Responsible Federal Budget and HilltopSecurities.

President-elect Biden Announces \$1.9 Trillion “First Stage” COVID-19 Relief Package

President-elect Joe Biden revealed the details about what he is calling a First Stage Rescue Package, even though \$4.5 trillion of fiscal relief has already been allocated to combat COVID-19. Biden, last evening, proposed a total of \$1.9 trillion of additional fiscal assistance spread across three main spending categories: 1) \$410 billion to contain the spread of COVID-19; 2) \$1 trillion for individuals; and 3) \$440 billion for states, local governments, and businesses.

The President-elect’s pitch is meant to be a first stage rescue effort with a more detailed economic plan coming later this year. Highlighted in this stage are two key spending items: the extra \$1,400 per person on top of the \$600 issued at the end of 2020 for a cost of about \$465 billion and \$350 billion of direct aid to state and local governments.

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Summary of Preliminary Details of First Stage Rescue Package

\$410 Billion to Contain COVID-19

| | |
|--------|------------------------------|
| \$160B | Vaccine program |
| \$50B | Testing expansion |
| \$30B | Supplies and protective gear |
| \$170B | K-12 schools, higher-ed |

\$1 Trillion Aid for Individuals

| | |
|---------|--|
| \$1,400 | Direct checks to select individuals (on top of December's \$600) |
| \$400 | Week Fed Unemployment insurance to September |
| \$30B | Rental assistance |
| \$15 | Hourly minimum wage |

\$440 Billion for States, Cities, Businesses

| | |
|--------|---------------------------------|
| \$350B | State and local governments |
| \$50B | Small business grants and loans |
| \$20B | Mass transit |

Source: CNBC Reporting and HilltopSecurities.

The President-elect’s pitch is meant to be a first stage rescue effort with a more detailed economic plan coming later this year.

Public Finance Specific Spending is Included

The President-elect’s proposal included a total of \$540 billion for municipal entities broken down into the following line items:

- \$170 billion for K-12 schools and higher-education entities for COVID-19 containment measures;
- \$350 billion for state and local governments; and
- \$20 billion for mass transit providers

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How Would This First Stage Proposal Impact Municipal Bond Market Credit?

It is important to note the backdrop in which this “first phase” package is being introduced. There were a record number of deaths from COVID-19 in December 2020 even though the U.S. has already spent \$4.5 trillion to battle COVID-19. January 2021 is likely to see another record number of deaths. Economic data and the labor market continues to deteriorate. In short, COVID-19 Spread Remains Out of Control to Begin 2021.

State and local government budgets have been pressured – some more than others to be sure – but there is budget pressure and it could worsen in the coming months. To deal with this budget pressure, we have seen that state and local government employment has dropped in three of the last four months, and we believe more government jobs could be eliminated without additional aid to help with budget shortfalls.

Both the \$350 billion for state and local governments and the \$170 billion for schools and higher-ed would help reverse the negative path state and local budgets have been traveling, if the legislation passes as proposed. If there is, in fact, \$350 billion of direct, unencumbered aid that flows through to state and local government it would help alleviate, and in some cases even eliminate, budget shortfalls in even the most severe financial scenario. The proposed \$170 billion for education entities would also help the budget situation.

If passed into law as proposed, state and local government budget situations would improve. In fact, it is possible, according to our analysis that budget surpluses materialize in select situations. The negative revenue impact could be more pronounced for some credits compared to others. Overall, this plan could boost state and local government credit quality and alleviate or in some cases eliminate budget shortfalls.

Uncertainty still exists about the likelihood of all that is proposed being included in final legislation. Questions remain about what the “first stage” proposal genuinely means for the municipal bond market at this time. There would be a boost to credit quality, but it remains uncertain as to whether or not such a proposal can realistically be approved by lawmakers. We have seen several proposals that included state and local relief since March 2020. There still has not been direct, unencumbered aid for states and cities to use for budget shortfalls anywhere in the \$4.5 trillion of fiscal relief already authorized by Congress. Aid for state and local governments was a priority for democrats in Congress since March of 2020. This prioritization was not shared among all lawmakers in D.C. This lack of consensus about the importance of aid to state and local governments remains a significant roadblock to support being included in any future phase of fiscal relief.

Although the Democrats won the Senate seats in Georgia the legislative path for a sixth phase or President-elect Biden’s First Stage of relief generally is still unclear. It should be reinforced that state and local aid received significant pushback from lawmakers in 2020 and is likely to receive pushback in 2021 as well. Therefore, it is difficult to say what the chances of state and local aid being included in final legislation are at this time.

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