

U.S. Municipal Bond Market

Treasury Issues Relief Guidance for State, Local, and Tribal Governments

- On Monday, the U.S. Treasury launched the Coronavirus State and Local Fiscal Recovery Funds that will deliver the most substantive amount (\$350 billion) of federal relief from the Rescue Plan Act of 2021 to state, local, and tribal governments.
- Treasury Secretary Yellen highlighted that this funding corrects a policy error that occurred after the Great Recession when lawmakers did not provide enough aid to help cover revenue shortfalls.
- We agree with Secretary Yellen, but we will be watching closely to see how effective leaders are at utilizing these funds. We will see if allocated federal funds are simply spent, or if they are maximized to their full potential.
- Treasury included final information related to how allocations can be requested and other details, some of which we have included below in our summary. For a complete picture, please see the Treasury's website and related resources.

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U.S. Treasury Guidance for State, Local, Tribal Governments

There is finally guidance on the U.S. Treasury's website related to assistance for State, Local and Tribal governments as outlined in the \$1.9 trillion American Rescue Plan Act of 2021. The Treasury Department is now accepting applications for fiscal relief from eligible governments. See below for the submission portal link.

Yesterday, the U.S. Treasury launched the Coronavirus State and Local Fiscal Recovery Funds that will deliver the most substantive amount of federal relief to state, local, and tribal governments. These funds will go a long way in helping state, local, and tribal governments react and adjust after the impact from COVID-19-related effects.

Select Relief for State, Local, & Tribal Governments

Type	Amount (\$ in billions)
Coronavirus State and Local Fiscal Recovery Funds	350.00
Capital Projects Funds	10.00
Homeowner Assistance Fund	9.96
Emergency Rental Assistance Program	21.60
State Small Business Credit Initiative	10.00
Total	401.56

Source: U.S. Treasury Department and HilltopSecurities.

Yesterday, the U.S. Treasury launched the Coronavirus State and Local Fiscal Recovery Funds that will deliver the most substantive amount of federal relief to state, local, and tribal governments. The federal government will disburse not only the \$350 billion Coronavirus State and Local Fiscal Recovery funds but also other assistance, such as relief in the form of the Capital Projects Fund (\$10 billion), Homeowner Assistance Fund (\$9.96 billion), Emergency Rental Assistance Program (\$21.6 billion), and the State Small Business Credit Initiative (\$10 billion). These funds will go a long way in helping state, local, and tribal governments react and adjust after the impact from COVID-19-related effects.

Corrects a Post-Great Recession Policy Error

Treasury Secretary Janet Yellen highlighted that this funding helps defend against COVID-19's impact but also corrects a key policy error made following the Great Recession when she felt lawmakers did not provide enough aid to state, local and tribal governments. [The Treasury Secretary indicated in a press release:](#)

"Today is a milestone in our country's recovery from the pandemic and its adjacent economic crisis. With this funding, communities hit hard by COVID-19 will be able to return to a semblance of normalcy; they'll be able to rehire teachers, firefighters and other essential workers – and to help small businesses reopen safely."

"There are no benefits to enduring two historic economic crises in a 13-year span, except for one: We can improve our policymaking. During the Great Recession, when cities and states were facing similar revenue shortfalls, the federal government didn't provide enough aid to close the gap. That was an error. Insufficient relief meant that cities had to slash spending, and that austerity undermined the broader recovery. With today's announcement, we are charting a very different – and much faster – course back to prosperity."

Coronavirus State and Local Fiscal Recovery Funds: \$350 billion

In the [American Rescue Plan Act of 2021](#), Congress allocated a total of \$350 billion for the [Coronavirus State and Local Fiscal Recovery Funds](#) which can be accessed by eligible U.S. governments.

Request Allocations

Eligible U.S. state, territorial, metropolitan city, county, and tribal governments may now (as of May 10, 2021) request their allocation of Coronavirus State and Local Fiscal Recovery Funds through the [U.S. Treasury Department's Submission Portal](#), which can be located by following [this link to the Treasury website](#).

Breakdown of Coronavirus State and Local Fiscal Recovery Funds

Type	Amount (\$ in billions)
States and D.C.	195.30
Counties	65.10
Metropolitan Cities	45.60
Tribal Governments	20.00
Territories	4.50
Non-Entitlement Units of Local Govt.	19.50
Total	350.00

Source: U.S. Treasury Department and HilltopSecurities.

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Sec. Yellen: "Insufficient relief meant that cities had to slash spending, and that austerity undermined the broader recovery. With today's announcement, we are charting a very different – and much faster – course back to prosperity."

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Expiration and Tranching of Funds

The deadline for governments to use the Rescue Plan Act funds is December 31, 2024. Timing of the disbursement of funds, according to the Treasury Department:

- States that have experienced a net increase in the unemployment rate of more than 2 percentage points from February 2020 to the latest available data as of the date of certification will receive their full allocation of funds in a single payment; other states will receive funds in two equal tranches.
- Local governments will receive funds in two tranches, with 50% provided beginning in May 2021 and the balance delivered approximately 12 months later.
- Governments of U.S. territories will receive a single payment.
- Tribal governments will receive two payments, with the first payment available in May and the second payment, based on employment data, to be delivered in June 2021.

The U.S. Treasury published detailed allocation information for eligible governments on the [Coronavirus State and Local Fiscal Recovery Funds](#) website.

Approved Use of Funds and Limitations

The general categories that funds can be used for includes, according to Treasury:

- Support public health expenditures, by, for example, funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff
- Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector
- Replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic
- Provide premium pay for essential workers, offering additional support to those who have and will bear the greatest health risks because of their service in critical infrastructure sectors
- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet

The eligible governments, “Have broad flexibility to decide how to use this funding to meet the needs of their communities,” according to the Treasury.

There are limitations. Funds cannot be deposited into pension plans and they cannot be used to fund tax cuts according to the guidelines. For more details, please also see the resources at the [Coronavirus State and Local Fiscal Recovery Funds](#) website.

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Other Related Guidance

Treasury also published guidance related to the Coronavirus State and Local Fiscal Recovery Funds that includes allocation information for eligible governments.

- [An Interim Final Rule](#)
- [Fact Sheet](#)
- [FAQs](#)
- [Quick Reference Guide](#)

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