

U.S. Municipal Bond Market

## Lawmakers Introduced LIFT Act, U.S. Treasury Releases Pre-Guidance for State and Local Aid

- Another example of support of municipal bond-friendly elements was introduced in Congress in the form of the Local Infrastructure Financing Tools (LIFT) Act.
- A key drawback to LIFT is that the subsidy for the direct-pay bond financing tool is currently not sequester-proof. We will be looking to see if this is addressed in future versions or other forms of legislation if it is folded into a larger legislative vehicle.
- The U.S. Treasury published pre-award requirements and some steps state and local governments can take now in preparation of accessing Coronavirus State and Local Fiscal Recovery Funds. This is an initial step in helping state and local government gain access to the \$350 billion of relief included in the American Rescue Plan Act of 2021, enacted on March 11, 2021.

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### Local Infrastructure Financing Tools (LIFT) Act Introduced

Congresswoman Terri Sewell (D-AL 7th District) introduced the Local Infrastructure Financing Tools (LIFT) Act today. This proposal should be largely seen as another example of Washington, D.C. lawmaker support for municipal bond market friendly elements. Our April 14 commentary, Status of Municipal Bond-Friendly Elements and the American Jobs Plan, includes other examples where lawmakers have shown similar backing.

As written, the LIFT Act would restore tax-exempt advance refundings, which has been a priority for many in public finance after this financing option was eliminated after the passage of the Tax Cut and Jobs Act of 2017. LIFT would also create a taxable direct pay bond program, similar to the 2009 Recovery Act's Build America Bonds (BAB). The subsidy rate under the BABs sold in 2009 and 2010 was expected to be 35% for the lifetime of the bonds. However, the subsidy has been cut every year as a result of the 2013 federal budget sequestration. This loss of subsidy remains a key negative for the renewal of a BAB-like option in the eyes of issuers. The LIFT's infrastructure bonds would possess the following subsidy rate:

- 2020 through 2023, 42%;
- 2025, 38%;
- 2026, 34%;
- 2027 and thereafter, 30%

A key drawback is that the language in this LIFT proposal is not expected to be sequestration-proof, which is likely to appear as a severe limitation. The appeal of the LIFT legislation to state and local governments and other potential users of the potential infrastructure financing tool will be limited as a result of this key drawback.

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The LIFT proposal would also expand the use of bank-qualified debt. It would increase the bank-qualified limitation to \$30 million, up from \$10 million.

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### Treasury Guidance on Pre-Award Requirements

The \$1.9 trillion American Rescue Plan Act of 2021 was not only the sixth phase of COVID-19 relief, it was the significant in that it included about \$650 billion of funding that will impact public finance. \$350 billion of this will flow to state and local governments. While this \$350 billion includes some spending limitations, it is not nearly as restricted as the \$150 billion of CARES Act money allocated for state and locals.

The Rescue Plan Act was enacted on March 11, 2021 and the U.S Treasury has 60 days to provide guidance to state and locals about how they can apply for access to the money in the Coronavirus State and Local Fiscal Recovery Funds.

### Public Finance Sector-by-Sector Impact From the American Rescue Plan Act of 2021

| Provision  | Amount (\$ billions) | Sector(s) to Benefit Most                 | Credit Relevance   |
|--|----------------------|---|--|
| State and Local Govt. Aid  | \$350.00             | U.S. state, local, and tribal governments | Direct fiscal assistance to governments, in some cases totaling as much as 30% of operating revenue- (not completely unencumbered, however)  |
| K-12 School Aid  | 126.00               | U.S. state and local govts.               | Focused on primary and secondary education funding   |
| Affordable Care Act (ACA) Tax Credits & COBRA Coverage           | 63.00                | Healthcare                                | More generous tax credits will allow more people to obtain or maintain health insurance and reduce hospitals' uncompensated healthcare costs |
| Higher Education Relief Fund                                     | 39.60                | Higher Education                          | Additional direct aid to universities and colleges; must use a percentage for emergency student financial aid                                |
| Additional Aid to Mass Transit Operators                         | 30.50                | Mass Transit                              | Provides financial assistance to sector hard hit by ridership and operating revenue declines   |
| Incentives for non-expansion states under ACA to expand Medicaid | 16.40                | State govt., Healthcare                   | If all 12 non-expansion states accept the incentives, each will net an estimated \$10 billion (nearly), after their new Medicaid costs       |
| Coronavirus Capital Projects Fund                                | 10.00                | U.S. state, local, and tribal governments | Critical capital projects in response to the public health emergency (Sec 604)   |
| Homeowner Assistance Fund  | 10.00                | Housing                                   | Assistance to homeowners for mortgage payments, utilities and insurance  |
| Emergency housing vouchers                                       | 5.00                 | Housing                                   | Incremental emergency housing vouchers that provide tenant-based rental assistance under Section-8   |
| <b>\$650.50</b>  |                      |   |  |

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Source: Moody's Investor Service, House Oversight Committee, Joint Committee on Taxation, Committee for a Responsible Federal Budget, and HilltopSecurities.

In the meantime, the U.S. Treasury [posted pre-award requirements that can be found here at the Treasury Department's website](#). Treasury writes, "Prior to the formal launch of the Coronavirus State and Local Fiscal Recovery Funds Program, those entities that are eligible to receive a direct payment of funds from Treasury under the program should prepare certain information in advance as outlined below:"

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- Ensure the entity has a valid DUNS number
- Ensure the entity has an active SAM registration
- Gather the entity's payment information including a Entity Identification Number (EIN), the name an title of an authorized representative for the entity, and financial institution information.

Again, the Treasury [posted pre-award requirements that can be found here at the Treasury Department's website](#). Please refer to the website for more details about the pre-award requirements.

### Recent HilltopSecurities Municipal Commentary

- [Status of Municipal Bond-Friendly Elements and the American Jobs Plan](#), April 14, 2021
- [We Expect a Multi-Year, But Potentially Temporary, Upswing of U.S. Municipal Credit](#), March 30, 2021
- [Infrastructure Could Strengthen Golden Age of U.S. Public Finance, Prelim Talks to Begin](#), March 23, 2021
- [American Rescue Plan Provides Massive Economic Boost, U.S. Public Finance Could Be on Brink of a Golden Age, Especially if Infrastructure Stimulus Follows](#), March 19, 2021

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

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