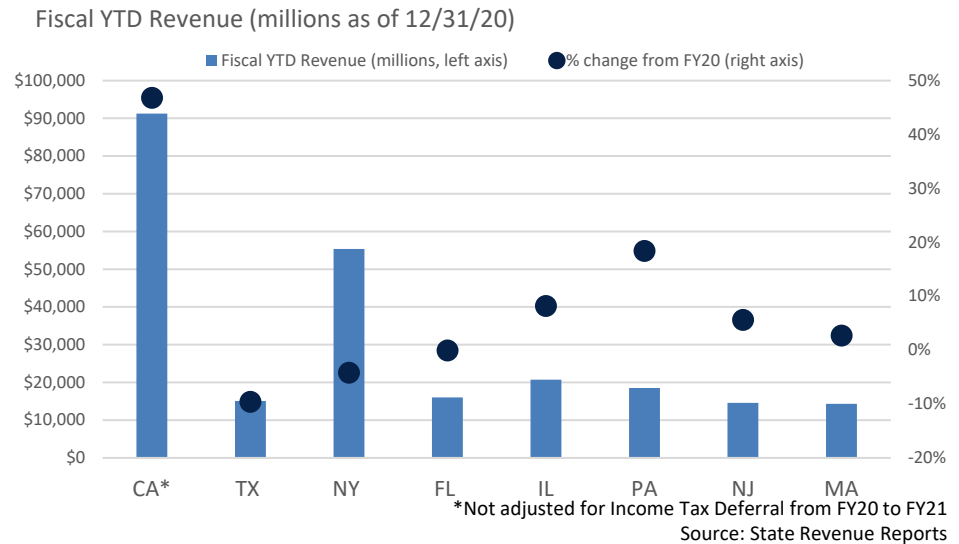


UNCLE SAM BOLSTERS MUNICIPAL BUDGETS

THE AMERICAN RESCUE PLAN TRANSCENDS PAST FEDERAL SUPPORT

The \$1.9 trillion stimulus bill signed by President Biden on March 11, 2021 will have a profoundly positive budgetary impact across the municipal landscape. Funding will benefit most tax-exempt sectors and will cover incremental expenses incurred by state and local governments due to COVID-19, as well as aiming to replace most of the revenue lost to the pandemic's fallout. Last year's relief efforts, while significant, did not go nearly as far on either front. We feel this legislation coupled with already improving state and local budget conditions will accelerate favorable municipal credit conditions.



STATE AND LOCAL AID MITIGATES BUDGET CONCERNS

States, local governments, and territories are due to receive \$350 billion, funding that is likely to more than offset tax losses incurred during the pandemic. Municipalities will also enjoy significant flexibility in deploying funds, including an ability to fortify infrastructure such as water and sewer systems, pay essential worker wages, and bridge revenue gaps. By contrast, the earlier pandemic relief bill restricted funding to directly pandemic related expenses.

State aid totals \$195 billion, with each state set to receive at least \$500 million. Additional funds are dependent on share of unemployed workers. Local government aid of \$130 billion will be divided based on population and community development block formulas. US Territories and federally recognized tribes will receive \$4.5 billion and \$20 billion, respectively.

The magnitude of the aid and its budgetary impact is depicted in the accompanying chart. Tourist dependent states such as Hawaii and Nevada will be fortified by new funding, as will larger, more diversified economies. With federal aid accounting for up to 30% of general fund revenues, financial stresses and credit concerns created by the pandemic have eased.

The nation's largest cities will also receive sizeable support through funding that the bill's proponents feel is needed to avoid damaging job and service cuts. New York City will get \$4.3 billion, Chicago \$1.9 billion, Los Angeles \$1.35 billion, and Philadelphia \$1.11 billion.

	Stimulus Received (Billions)	Stimulus as % of General Fund Revenue
CA	\$26.3	18.7%
TX	\$16.8	14.7%
NY	\$12.7	30.5%
FL	\$10.3	25.4%
IL	\$7.5	15.1%
PA	\$7.3	10.4%
NJ	\$6.5	16.8%
MA	\$4.5	10.6%
NV	\$3.0	28.5%
HI	\$1.6	22.5%

Source: US House of Representatives and State Revenue Reports

AN IMPETUS TO RETURN TO IN-PERSON SCHOOLING

K-12 schools were allocated \$168 billion, resources aimed at fast-tracking school reopening and addressing pandemic induced educational deficiencies. Congress included two key stipulations designed to further these policy objectives.

While reopening plans are made at the state and local level, the American Rescue Plan seeks to ensure that education remains a top priority as budget decisions and pandemic recovery plans are made. The Act specifies that states must provide at least the same level of K-12 and higher education funding as a percentage of overall spending in 2022 and 2023 as was averaged over 2017 to 2019. Furthermore, at least 20% of educational relief funding must be used for initiatives designed to address perceived learning shortfalls resulting from remote education.

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STUDENT AID A FOCUS OF HIGHER EDUCATION FUNDING

Colleges and universities will receive \$39.6 billion, at least 50% of which must be allocated to emergency grants for students. The remainder is available to cover COVID-related expenses or lost revenues. Higher education will also realize significant indirect benefits, as the likelihood of state budget and appropriation cuts has now been reduced.

Most pandemic relief funds will be made available to colleges and universities during fiscal 2021, thereby substantially boosting current fiscal year financials. Moves towards normalization of the campus environment should also improve fiscal 2022 conditions.



HEALTHCARE ACCESS AND AFFORDABILITY FACTORS INTO STIMULUS AID

The healthcare sector will be impacted by a concerted federal push for expanded insurance coverage. The stimulus bill seeks to facilitate this by offering temporary increases in subsidies for health insurance purchased through individual marketplaces, COBRA coverage subsidies, and by reducing uncompensated care. The overriding objective is to alleviate pandemic-related economic distress while making healthcare more affordable for lower-and-middle income households. The Act also offers the twelve states that have yet to expand Medicaid under the ACA a 5% increase in the federal Medicaid match rate, as well as \$8.5 billion in grants for rural hospitals.



BRIDGING THE TRANSPORTATION GAP

Mass transit has faced acute financial stresses over the past year and the new legislation allocates \$30.5 billion of financial assistance to systems impacted by severe ridership and operating revenue declines. The Metropolitan Transportation Authority's (MTA) chairman noted that the plan includes more than \$6 billion in federal funding above the \$7.9 billion the MTA was provided in prior stimulus packages. Airports are also due to receive \$8 billion of support.



CONTENTIOUS POLITICS LEADS TO CREDIT FORTIFICATION

Passage of the American Rescue Plan was challenging, yet the outcome was clear in one respect – municipal budget conditions improved with the Bill's signing. Stimulus funding reflects a commitment to aggressive federal support for economic recovery and state and local governments are among the beneficiaries. Security specific credit due diligence remains imperative, although broadly speaking, the municipal market is about to be given a positive fiscal jolt.



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