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S&P: U.S. Local Governments And School Districts Still Benefit From Stimulus As The Clock Ticks Down

Key Takeaways

- Nearly four years after the start of the pandemic, U.S. local governments that received federal stimulus are using it for a variety of needs, although as of summer 2023 approximately 55% of State and Local Fiscal Recovery Fund (SLFRF) and Elementary and Secondary Emergency Relief Fund (ESSER) dollars remained unobligated and/or unspent.
- The flexibility provided by stimulus dollars over the past several years allowed issuers to offset other costs, which helped raise reserve levels; in some cases higher reserves led to a slight improvement in overall credit quality.
- Local governments and school districts that used the money to fund salary increases or other ongoing costs will need to replace the federal dollars with ongoing revenues or risk credit deterioration, which is exacerbated by high interest rates and inflationary pressures.

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