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[Fitch: US Federal Aid to Public Finance Sectors Provides Limited Relief]

Fitch Ratings-New York-21 May 2020: The US federal government has provided funding to various public finance sectors under a number of different programs in the past few months in response to the economic contraction triggered by the coronavirus pandemic. While programs will help the public sector to bridge short-term cash flow gaps, states and local governments and other public enterprises will face longer-term budget pressures as the economy gradually recovers, Fitch Ratings says. We discuss federal aid measures in our latest special report [U.S. Public Finance Entities Benefit from Federal Aid Although Needs Persist].

The Coronavirus Aid, Relief and Economic Security (CARES) Act provides the most wide-ranging funding, allocating funds to states and local governments, higher education, not-for-profit hospitals, public transit, airports, and housing, among other entities. Conditions on the use and distribution of the aid limit its usefulness in addressing fiscal challenges in some cases. The $150 billion Coronavirus Relief Fund established under the CARES Act provides payments to states and local governments, generally on a per-capita basis. This fund is only to be used for coronavirus expense reimbursement rather than to offset revenue losses.

The CARES Act also establishes a $31 billion Education Stabilization Fund supporting both K-12 and higher education. Colleges and universities are receiving $14.3 billion, which will help relieve budget pressures as a result of the pandemic and subsequent decisions to shut down campuses. However, these funds are not sufficient to fully compensate for revenue losses and increased expenses.

Fitch expects the not-for-profit hospital sector will suffer significant operational losses in calendar year 2020, primarily from a loss of revenues for elective surgeries and procedures. While funding under the CARES Act will help offset not-for-profit hospital losses associated with the coronavirus outbreak, we believe that it will not make them whole. Most of the disbursements for the $100 billion earmarked for healthcare providers in the CARES Act were already distributed, with $50 billion allocated as a general distribution to Medicare providers. Additional funding was allocated to hospitals in the areas most affected by the coronavirus, reimbursement for coronavirus-related treatment of the uninsured, and rural health clinics and hospitals.

Grants of $25 billion to public transit agencies under the CARES Act are expected to offset a meaningful amount of revenue losses and cost increases but will not solve some of the longer-term imbalances. The aid amount is large relative to transit agency budgets, equaling roughly a third of total transit agency spending in the most recent year. While the funding helps, it does not signal an end to the stress on the sector. Estimates of the total cost of the crisis are continuing to increase. Forecasts of sales taxes and other economically sensitive transit revenues are particularly subject to revision, which could re-widen transit budget gaps narrowed by the CARES Act.

Approximately $10 billion in aid provided to airports under the CARES Act will help offset declines in airline and passenger related revenue. These figures have seen several negative revisions since the outbreak materially impaired airport passenger traffic. Fitch expects airports to take varying courses of action with this assistance, ranging from rate and rent relief to air carriers and concession tenants to directly offsetting operating costs and upcoming debt payments.

Supplemental funding for certain housing programs is also provided under the CARES Act to help prevent erosion of providers’ existing liquidity, and payment relief measures for homeowners will help buffer single and multifamily loan performance.