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Fitch: New Federal Aid to Steady State and Local Budgets

Fitch Ratings-New York-22 December 2020: The roughly $900 billion federal stimulus package passed by Congress on Monday night will help stabilize state and local budgets in fiscal 2021 even if it does not include direct aid to most governments, according to Fitch Ratings. However, the new bill's ability to stem recent economic declines and related effects on tax revenues is not assured and depends upon increased business and consumer confidence, which is influenced by vaccination rates.

The aid to individuals, low-income communities and small businesses included in the relief package should help boost economic activity until widespread coronavirus vaccination enables more organic economic growth. Other provisions include direct aid for education, transit and pandemic response, as well as an extension of the deadline to spend earlier federal aid to state and local governments. While the total package is considerably smaller than the nearly $3 trillion in total stimulus provided last spring, it provides immediate relief and may be followed by additional stimulus early in the Biden administration.

The spring round of coronavirus legislation provided essential economic support, boosting activity and driving tax revenue performance ahead of expectations for state and local governments, as noted in our on-demand webinar US States' Path to Economic Recovery. Economic components of the new stimulus include $284 billion to restart the Paycheck Protection Program, compared with $670 billion previously authorized; $600 stimulus payments to qualifying individuals and $600 for dependents, versus $1,200 for individuals and $500 for dependents provided under the March Coronavirus Aid, Relief, and Economic Security (CARES) Act; supplemental weekly federal unemployment benefits of $300 into mid-March, less than the $600 provided under CARES; and an extension of CARES-specific unemployment programs until they are phased out beginning in March. Fitch's December Global Economic Outlook anticipated $1 trillion in stimulus in 1Q21, which would help stop erosion in economic gains, resulting in stagnation in early 2021.

The package, similarly structured to the CARES Act, includes $54.3 billion for K-12 schools and $22.7 billion for higher education, well above the respective $13.5 billion and $14.25 billion provided under the CARES Act; $14 billion in additional transit funding, less than the $25 billion provided under CARES; and $10 billion for state transportation departments hit by declines in gas tax revenues – all of which will help alleviate fiscal pressure on state and local governments. It also provides $30 billion for vaccine procurement and distribution, with nearly $9 billion going to the Centers for Disease Control and Prevention and states. This should help cover most of the initial funding needs of state and local governments with regard to vaccination efforts, as the National Governors Association and the Duke-Margolis Center for Health Policy recently estimated public health leaders have requested at least $8.4 billion in federal funds to conduct vaccination program activities.

The legislation also includes a year-long extension of the Dec. 30 deadline to spend $150 billion provided under the CARES Act Coronavirus Relief Fund (CRF) for state and local governments. Based on guidance from the U.S. Treasury, many governments have used the CRF to address budget challenges, particularly in funding public safety and health costs. Similar to CARES, the new stimulus does not explicitly address pandemic-driven revenue shortfalls, but it does provide flexibility given the still-uncertain fiscal and economic environment.

Fitch's analysis does not assume receipt of any additional direct aid for state and local governments or higher education institutions. With at least a modest economic boost from the new stimulus and widespread vaccination on the horizon, we think direct governmental aid is less critical to financial stability than it was in the early days of the crisis.

Contact:

Amy Laskey
Managing Director, US Public Finance
+1 212 908-0568
Fitch Ratings, Inc.
Heart Tower
New York NY 10019

Eric Kim
Senior Director, Head of US State Ratings
+1 212 908-0241

Michael Rinaldi
Senior Director, Head of US Local Government Ratings
+1 212 908-0833

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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