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U.S. States Flush With Aid Spend at Fastest Pace in 35 Years.

- **Total spending, including stimulus, rose 16% in fiscal 2021**
- **States have spent \$427.9 billion in overall Covid-19 aid**

Spending by U.S. states in the most recent fiscal year grew at the fastest pace in at least 35 years as the governments deployed a surge of federal relief funds.

Total spending, including stimulus, rose about 16% to an estimated \$2.65 trillion in fiscal 2021, which for most states ended on June 30, according to a report published Friday by The National Association of State Budget Officers. In the past two years, states reported spending \$427.9 billion in federal Covid-19 aid, the report said.

The unprecedented spending clip last fiscal year highlights the sheer scale of pandemic aid the federal government handed to states in an effort to cover the costs of responding to Covid-19 and to ease the hit to the nation's economy. It's part of the backdrop that's helped municipal debt outperform the rest of the U.S. bond market this year.

"We're seeing states use these funds in a continued effort to defeat Covid-19 and invest in the future," said Brian Sigritz, NASBO's director of state fiscal studies. "The amount of aid states and localities have received is higher than prior downturns. Of course, this downturn is different."

Total state expenditures and federal funds to states grew the fastest in the 35-year history of NASBO's report. As federal funding spiked 35.7% in fiscal 2021, general-fund spending grew at just 4.1%, below the historical average of 5.3%, according to the report.

States tapped funds to pay for programs ranging from public assistance to Medicaid, transportation and education. The largest increase was in a category that includes Covid-specific expenditures such as public-health programs, unemployment insurance and emergency management. States have until the end of calendar 2024 to allocate money from their Coronavirus State and Local Fiscal Recovery Funds.

It's still too early to tell what impact the stimulus funds might have on bonding needs, said Sigritz. In fiscal 2021, bonds financed about 1.7% of state expenditures.

Bank of America Corp., for one, expects the influx of cash will lead local governments to take on new projects, helping spur record muni sales next year.

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By Nic Querolo

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