

Fitch Rtgs: 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

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its

issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a

single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers. For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.