

## Timely insights from portfolio managers and industry experts on key financial, economic and political issues.

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### Municipal Bonds

## Municipals receive considerable support from the American Rescue Plan

**Boston** - Over the weekend, the U.S. Senate passed a \$1.9 trillion stimulus bill, which includes sweeping provisions aimed at providing relief for many parts of the economy that have struggled since the pandemic broke a year ago. On March 10, the House of Representatives also voted to pass the bill. It now heads to President Biden's desk, where he will sign it into law by March 12.

Multiple provisions within the new American Rescue Plan Act of 2021 impact the municipal market.

### Review of December's COVID relief bill

Before detailing the newest legislation, it's worth reviewing the \$900 billion COVID relief bill passed last December. While that bill did not include any direct aid to state and local governments, it did provide over \$100 billion in aid to various municipal sectors:

- \$54 billion to elementary and secondary schools
- \$20 billion to higher education
- \$14 billion for mass transit agencies
- \$10 billion for highways
- \$3 billion for hospitals
- \$2 billion for airports

### COVID stimulus bill passed by Senate and House

After a marathon voting session, the Senate voted to approve the updated bill on March 6 by a count of 50 to 49. The legislation was passed through budget reconciliation, a process that required no support from Senate Republicans.

Now approved by the House of Representatives, the newest bill contains even more fiscal support for municipals than the bill passed last December. The \$1.9 trillion package includes:

- \$350 billion in direct aid for state and local governments, including \$195 billion for states, \$130 billion for local governments and \$20 billion for tribal governments
- \$130 billion for K-12 education aimed at helping schools reopen, bringing total fiscal support for elementary and secondary schooling to \$184 billion —330% of the standard annual federal support for education
- \$40 billion for higher education
- \$30 billion for mass transit agencies
- \$8 billion for airports

### How does this recent bill impact the municipal market?



**Bill Delahunty, CFA**  
Director of Municipal Research  
Eaton Vance Management

"A solid credit backdrop and a potential decrease in supply may set the stage for strong municipal performance relative to other high quality fixed income asset classes."

During the debate on the bill, some Republican senators raised the point that state and local governments do not need significant fiscal support, as state revenues were essentially flat compared to 2019 levels for the year ended December 31, 2020.

Unlike stimulus checks and unemployment insurance that go to people who actually need and will spend the money, states are still sitting on robust reserves. Therefore, a large portion of this aid may just flow directly to state balance sheets, which could serve to decrease the amount of municipal debt issued in 2021. A solid credit backdrop and a potential decrease in supply may set the stage for strong municipal performance relative to other high quality fixed income asset classes.

**Bottom line:** Throughout 2021, municipal credit will benefit from the tailwind of an expanding economy and significant federal stimulus dollars. This favorable backdrop is why we have a stable or positive outlook on most municipal sectors for 2021.

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