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LEGISLATIVE ACTION:

Update "Phase III" Relief Package

Congress continues to negotiate on the final parameters of a third piece of "coronavirus response" legislation targeted to businesses and individuals. Whereas earlier relief bills are estimated to have included roughly $8 billion in supplemental funding for preparation and response by US health agencies and $200 billion to support emergency paid leave and provide some degree of state fiscal aid, the package under consideration is estimated to be trending towards $2 trillion in spending. In response to the delay on a vote, CED released the following statement by the co-chairs of the CED Ad Hoc COVID-19 Committee, Joe Kasputys and Bo Cutter.

A Republican introduced Senate bill—the Coronavirus Aid, Relief and Economic Security (CARES) Act—included the following major provisions:

- **Small business** (fewer than 500 employees) - $350 billion in loans/grants for payroll and other fixed expenses, with forgiveness of the loan contingent, or on a sliding scale based, on maintaining headcount over the period of the loan
    - Loans are capped at $10m and payroll relief is capped for $100,000
- **Flexible relief, including big business and affected sectors** - $500 billion in emergency relief, including:
    - $425 billion in flexible funding at the Treasury Secretary's discretion to businesses, states, and cities
    - Sector-specific packages, including $50 billion for airlines, $8 billion for cargo air firms, and $17 billion for firms deemed critical to national security
- **Individual payments** – "Recovery rebates" would provide a planned one-time $1,200/$2,400 refundable tax credit for adult/joint taxpayers and $500 for each minor dependent, phasing out for higher income earners based on 2018/19 tax returns.
- **Unemployment insurance** –
    - Funds a temporary increase in regular UI benefits of $600 per week

    - Extends UI benefits for an additional 13 weeks (past the typical 26, or 39 weeks if Extended benefits is triggered)
    - Creates a new temporary Pandemic Unemployment Assistance program for people who would typically be ineligible for UI, including self-employed and contract workers

There are many additional provisions in the bill aimed at providing economic relief to businesses and workers, shoring up the health care response, and other, more loosely related, changes.

Some of the major areas of remaining contention reportedly include:

- Disagreements over the restrictions placed on businesses accepting relief funds in terms of future management (stock buybacks, dividends, executive compensation, possibly extending to other issues including collective bargaining) and the stringency of requirements for retaining employees to qualify for forgiveness
- Restrictions and accountability for the $425 billion fund to be directed by the Treasury Secretary
- Lack of funding provided for states and localities

FEDERAL RESERVE

Announces New Initiatives
On March 23, the Federal Reserve announced several new measures to support liquidity, including the development, expansion, launch or relaunch of several lending facilities. Typically, lending facilities help the market by lending to lenders, accepting some form of asset-back security (ABS) as collateral for the loan (which can help to encourage and fund the types of loans that comprise the ABS). The Federal Reserve has already cut the benchmark interest rate to zero (March 15), announced aggressive buying of assets, and established some lending facilities:

- **Quantitative Easing** - The Federal Reserve will purchase Treasury bonds and Mortgage-backed Securities (MBS) without setting any limitations (i.e. "in the amounts needed to support smooth market functioning,")
    - Previously, the Federal Reserve had committed to $700 billion in purchases
- **Lending Facilities** – The Federal Reserve announced the creation or expansion of several lending facilities to provide an additional $300 billion in new financing targeting lenders of large commercial, state and local, small business, and household financial products**.**
    - **State and local aid –** The Federal Reserve will expand its Money Market Mutual Fund Liquidity Facility (MMLF) and Commercial Paper Funding Facility (CPFF) to include a wider range of allowable/eligible securities (including certain tax-exempt commercial paper)
    - **Large employer aid** – The Federal Reserve will establish two new facilities to support credit to large employers

        - The Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance
        - The Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds.
    - **Small employer and household aid** - The Federal Reserve is re-establishing a Term Asset-Backed Securities Loan Facility (TALF) intended to preserve lending to small businesses and households with asset-backed securities (ABS) made up of recent or new loans to consumers and businesses including student loans, auto loans, credit card loans and loans backed by the Small Business Administration.
- **"Main Street" aid** - The Federal Reserve announced that it was working on a "Main Street" business lending program that will be announced soon.

THE STATES AND THE COVID-19 OUTBREAK

The Covid-19 pandemic will adversely affect both the federal government and state governments. States have a major stake in the health care system through their support of their own hospitals, the hospitals of their localities, their general support of their localities, and their fiscal shares of the Medicaid program. And states are of course tied to their economies through tax revenues and their income-support programs, especially unemployment insurance. There is no good time for a burden such as this pandemic, but it finds some states at very difficult times.

The table below shows the top 10 states ranked by the numbers of their Covid-19 cases, their Standard & Poor's credit ratings, and their February unemployment rates. Some of the affected states are fairly highly rated in terms of credit, but Illinois, New Jersey, Louisiana and California are struggling somewhat. Among all of the affected states, Louisiana has a significantly higher unemployment rate than the national average; Florida, Georgia and Massachusetts have exceptionally low unemployment. Where these states come through this process will depend upon the degree of their susceptibility to the virus and the hits to their economies; the conditions of their unemployment insurance funds will be important as well. We will continue to monitor the situations of the states going forward, especially because the expected Phase IV legislation should focus on their predicaments.

HIGHEST CORONAVIRUS CASES

State	Coronavirus Cases	S&P Credit Rating	Unemployment Rate
NY	15168	AA+	3.8
WA	1996	AA+	3.9
NJ	1914	A-	3.8
CA	1709	AA-	3.9
IL	1049	BBB-	3.5
LA	1035	AA-	5.3
MI	1035	AA	3.8
FL	937	AAA	2.8
GA	757	AAA	3.1
MA	646	AA	2.8