

PUBLIC FINANCE ADVISORY

CARES Act: Impact on Public Financial Markets



In response to COVID-19 and its impact on the economy, public health, states, local governments, individuals, and businesses, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act, more commonly referred to as the CARES Act. COVID-19 created significant economic and market volatility that continues to negatively impact the municipal bond market. Following is a summary of two sections of the CARES Act that attempt to stabilize the markets through providing additional liquidity to the public financial system and allocating funds directly to states and certain local governments.

KEY TAKEAWAYS

- Emergency Relief and Taxpayer Protections
 - A total of \$454 billion is available to make loans, loan guarantees, and other investments in eligible businesses, states, and municipalities for the purpose of providing liquidity to the financial system.
 - The funds may be used to (i) purchase obligations directly from state and municipal issuers, (ii) purchase obligations in the secondary market, or (iii) make loans to states and municipalities.
- Coronavirus Relief Fund
 - An additional \$139 billion is allocated to make payments directly to states and certain local governments.
 - Allowed uses of funds generally include expenditures related to COVID-19 and other unforeseen expenses.



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SUMMARY

Section 4003 — Emergency Relief and Taxpayer Protections

In order to provide liquidity to eligible businesses, states, and municipalities related to losses incurred as a result of COVID-19, the secretary of the Treasury is authorized to make loans, loan guarantees, and other investments of up to \$500 billion, \$46 billion of which is generally reserved for the airline industry and businesses critical to maintaining national security. The remaining \$454 billion is available to make loans, loan guarantees, and other investments in programs or facilities established by the Federal Reserve System to provide liquidity to the financial markets. Investments will be made in eligible businesses, states, or municipalities by (i) purchasing obligations or other interests directly from issuers, (ii) purchasing obligations or other interests in secondary markets or otherwise, or (iii) making loans, including loans or other advances secured by collateral. All loans and other investments are subject to any terms and conditions that the secretary of the Treasury deems appropriate. The interest rate on any loans is to be based on the risk and the current average yield on outstanding marketable obligations of the United States of comparable maturity.

Section 5001 — Coronavirus Relief Fund

In the fund, \$150 billion is appropriated for making payments directly to states, tribal governments, and units of local government for fiscal year 2020; \$11 billion is reserved for certain territories, the District of Columbia, and tribal governments. The remaining \$139 billion is available for states and units of local government. Each state is to receive a share of \$139 billion in proportion to its population but not less than \$1.25 billion. Units of local government, including counties and municipalities, with a population over 500,000 may request funds; however, any such funds will reduce the applicable state's share of allocated funds. Allowed uses of funds generally include (i) necessary expenditures incurred due to COVID-19, (ii) costs that were not accounted for in the entity's current budget, and (iii) costs that were incurred during the period from March 1, 2020, through the end of the year. The inspector general of the Department of the Treasury is responsible for monitoring the receipt, disbursement, and use of funds.

WHAT'S NEXT

The Board of Governors of the Federal Reserve System is to establish programs or facilities in order to invest the \$454 billion in eligible businesses, states, or municipalities. States and eligible units of local government are to receive their respective shares of the \$139 billion in allocated funds within 30 days of

enactment of the CARES Act. Be sure to check our [COVID-19 Resource Hub](#) to stay up-to-date on new regulations and supplemental guidance regarding the CARES Act.

State and local governments and public finance market participants are hopeful that an additional stimulus bill will be passed, one that will provide relief specifically aimed at the municipal bond market.

QUESTIONS

Please reach out to any member of [our team](#) with questions about this client advisory.