

119TH CONGRESS
2D SESSION

S. 4629

To prohibit the provision of Federal funds to State and local governments and school districts for payment of obligations, to prohibit the Federal Reserve banks, the Department of the Treasury, and other Federal agencies from financially assisting State and local governments and school districts that have defaulted on their obligations, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 21, 2026

Mr. YOUNG (for himself and Mr. COTTON) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To prohibit the provision of Federal funds to State and local governments and school districts for payment of obligations, to prohibit the Federal Reserve banks, the Department of the Treasury, and other Federal agencies from financially assisting State and local governments and school districts that have defaulted on their obligations, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Government Bailout
3 Prevention Act”.

4 **SEC. 2. DEFINITION.**

5 In this Act, the term “State” means—

- 6 (1) any of the several States;
7 (2) the District of Columbia; and
8 (3) any territory or possession of the United
9 States.

10 **SEC. 3. PROHIBITION ON THE USE OF FEDERAL FUNDS TO**
11 **PAY OR GUARANTEE STATE AND LOCAL OBLI-**
12 **GATIONS.**

13 (a) IN GENERAL.—Notwithstanding any other provi-
14 sion of law, no Federal funds may be used to purchase
15 or guarantee obligations of, issue lines of credit to, or pro-
16 vide direct or indirect grants-and-aid to, any State govern-
17 ment, municipal government, local government, county
18 government, or school district which, on or after January
19 1, 2026, has filed for bankruptcy, has defaulted on its ob-
20 ligations, is at risk of defaulting, or is likely to default,
21 absent such assistance from the United States Govern-
22 ment.

23 (b) LIMIT ON USE OF BORROWED FUNDS.—The Sec-
24 retary of the Treasury shall not, directly or indirectly, use
25 general fund revenues or funds borrowed pursuant to title
26 31, United States Code, to purchase or guarantee any

1 asset or obligation of any State government, municipal
2 government, local government, county government, or
3 school district or otherwise to assist such government enti-
4 ty, if, on or after January 1, 2026, that State government,
5 municipal government, local government, county govern-
6 ment, or school district has defaulted on its obligations,
7 has filed for bankruptcy, is at risk of defaulting, or is like-
8 ly to default, absent such assistance from the United
9 States Government.

10 (c) PROHIBITION ON FEDERAL RESERVE ASSIST-
11 ANCE.—Notwithstanding any other provision of law, no
12 Federal Reserve bank may provide or extend to, or author-
13 ize with respect to, any State government, municipal gov-
14 ernment, local government, county government, school dis-
15 trict, or other entity that has taxing authority or bonding
16 authority, any funds, loan guarantees, credits, or any
17 other financial instrument, including the purchasing of the
18 bonds of such State, municipality, locality, county, school
19 district, or other bonding authority, or to otherwise assist
20 such government entity under any authority of any Fed-
21 eral Reserve Bank.

22 (d) LIMITATION.—Subsections (a) through (c) shall
23 not apply to Federal assistance provided in response to
24 a declared disaster.

1 **SEC. 4. APPLICABILITY.**

2 The prohibition under section 3—

3 (1) includes debt restructuring or any other re-
4 lated activity; and

5 (2) does not include—

6 (A) any discretionary appropriations or di-
7 rect spending, as those terms are defined in
8 section 250(c) of the Balanced Budget and
9 Emergency Deficit Control Act of 1985 (2
10 U.S.C. 900(c)); and

11 (B) any grant awarded by the United
12 States to the State government, municipal gov-
13 ernment, local government, county government,
14 or school district.

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