Federal assistance to state governments in response to the COVID-19 pandemic

Likely effect of COVID-19 on state fiscal outlook and an overview of state and local government assistance in the CARES Act

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Producer
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The COVID-19 pandemic is expected to impact state and local government budgets

The COVID-19 outbreak has changed the fiscal and economic outlook for the United States, and both state and local governments have altered revenues and expenditures.

Consumption declines following the closing of nonessential business and social distancing efforts are likely to reduce sales tax revenues, which made up **35% of state and local own-source revenues in 2017**.

Unemployment increases and decreased firm profitability are likely to reduce individual and corporate tax revenue, which made up **26% of own-source revenues**.

State and local spending for public welfare programs (19% of 2017 expenditures) is likely to increase.

State and local spending for hospital and public health expenses (8% of 2017 expenditures) is likely to increase.

Federal response
- The Coronavirus Relief Fund, established through the CARES Act, allocates $150 billion in fiscal support for state and local governments.
- The CARES Act also authorizes the use of the Federal Reserve capacity to support up to $454 billion in debt issued by state governments, local governments, and eligible businesses.
- In response to the 2007-2009 recession, the American Recovery and Reinvestment Act created a similar fund, providing $54 billion to state and local governments.

State and local government response
- Gov. Mike Parson (R-MO) paused about $227 million in state funding.
- Gov. Jay Inslee (D-WA) cut his spending budget by about $235 million.
- Minnesota has begun to transfer funds from general funds to their public health emergencies fund.
- Gov. Kristi Noem (R-SD) stated she is expecting a substantial tax revenue loss.
- Illinois House Republican Leader Jim Durkin stated that “there's no doubt that we will be looking at a deficit in the next fiscal year.”

Sources: Congressional Research Service

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State and local allocations in Phase 3 (H.R. 748): Coronavirus Aid, Relief, & Economic Security Act (CARES Act)

$139 billion is allocated to state governments
- Allocations based on populations
- No state receives less than $1.25 billion
- This includes direct Treasury assistance for local governments
  - Local governments serving a population of at least 500,000 may elect to receive direct assistance
  - Local allocations reduce the state government allocation by keeping the total state allocation constant
  - The allocations are equal to the product of the state allocation amount, the share of the state population served the locality, and 45%

$8 billion is allocated to tribal areas
- Allocations based on share on the area’s share of aggregate tribal expenditures in FY2019

$3 billion is allotted for governments in territories
- Includes the District of Columbia
- Allocation based on its share of the total population across all territories

Eligible purposes
- Funds may not be used to directly account for revenue shortfalls, but may be used indirectly where expenses paid for by the fund would otherwise widen the gap between outlays and receipts
- Funds that are deemed to be used for ineligible purposes are treated as a debt owed to the Treasury
- Coronavirus Relief Fund payments may be used for programs that:
  1. are necessary expenditures incurred due to the public health emergency with respect to COVID-19
  2. were not accounted for in the budget most recently approved as of March 27, 2020 for the government, and
  3. were incurred during March 1 – Dec. 30, 2020

Sources: Congressional Research Service
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State and local allocations in Dem proposed Phase 4 (H.R. 6800): Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act

Total direct assistance for state and local governments $915 billion

$500 billion allocated for states
- $250 billion awarded within 30 days of enactment
  - $51 billion divided equally among 50 states and DC
  - $49 billion awarded based on the state’s share of COVID cases
  - $150 billion awarded based on the state’s population
- $250 billion awarded by May 3, 2021 to 50 states and DC
  - $51 billion divided equally
  - $199 billion divided based on state share of unemployed persons

$375 billion allocated for local government
- $250 billion awarded within 30 days of enactment
  - $125 billion to all municipalities using a modified Community Development Block Grants (CDBG) formula
  - $125 billion to all counties based on population
- $125 billion awarded one year after date of enactment
  - $62.5 billion to all municipalities using a modified CDBG formula
  - $62.5 billion to all counties based on population

$20 billion to territories within 30 days of enactment
- $10 billion divided equally among the five territories
- $10 billion awarded based on the territory’s share of population

$20 billion to tribes
- Entire amount awarded within 30 days of enactment, based on the share of increased aggregate expenditures of each tribal government

Eligible purposes
- Funds can be used for:
  1. COVID-19 related expenses
  2. Replace forgone revenues not projected on January 31, 2020, or
  3. To respond to negative economic impacts of COVID-19
- Funds are available until expended

Additional components
- $35 million to the Treasury Office of the Inspector General for oversight
- Treats the District of Columbia as a state, and not a territory
- Clarifies that only federally recognized tribal governments are eligible for payments in the CARES Act and the HEROES Act

Sources: House Appropriations Committee.

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