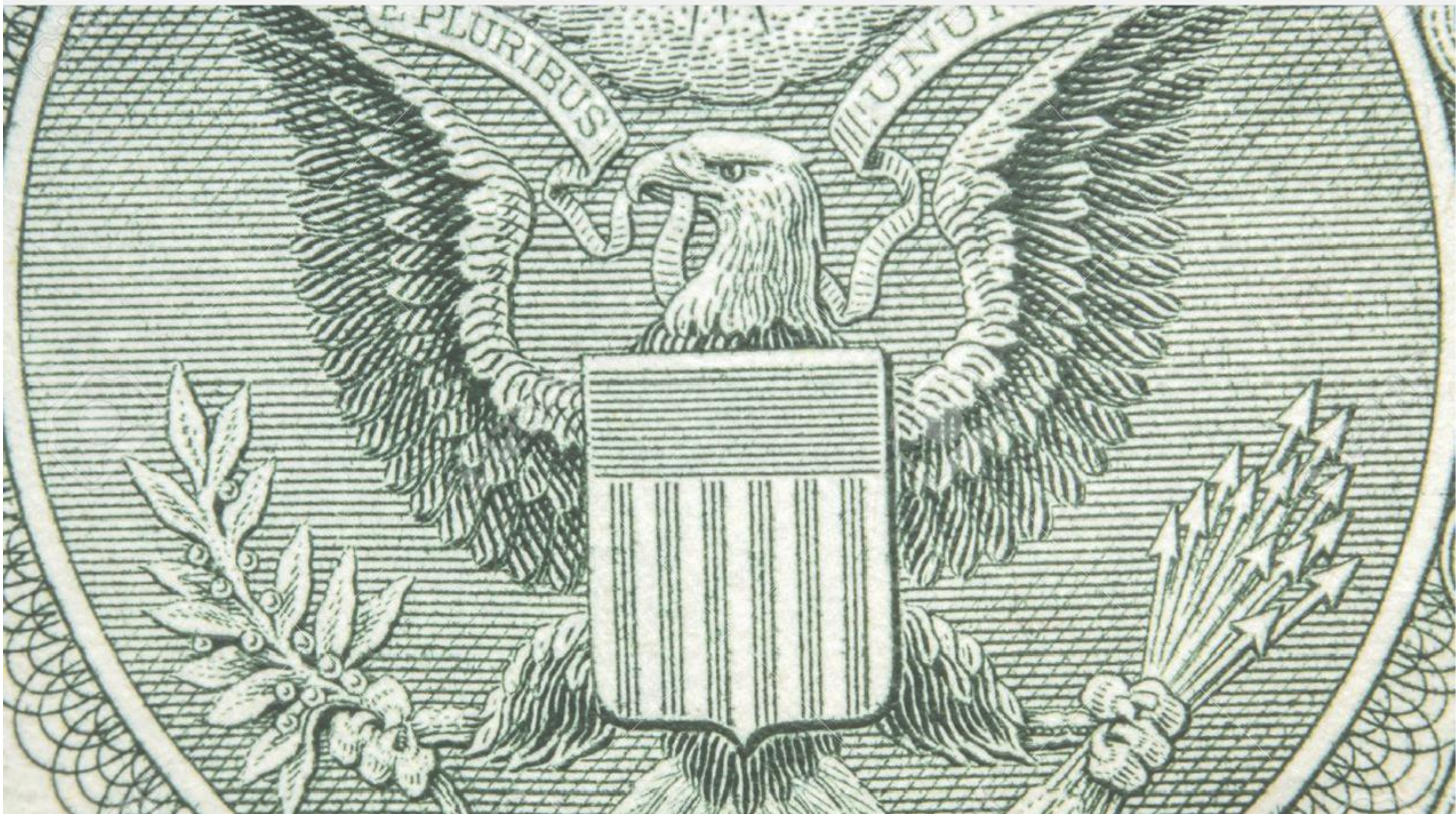
FISCAL BRIEF

Reviewing State Actions on Coronavirus Relief Funds



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The COVID-19 public health emergency has entangled itself into everyday life, affecting not only Americans' health and safety but also their economic behavior, education, employment and more. Without federal aid, it is safe to assume the cost of responding to the pandemic would have been an insurmountable expense for states and the nation collectively. As part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, states, territories and tribal governments received disbursement of the $150 billion Coronavirus Relief Fund (CRF) from U.S. Treasury in mid-April. Each state received a minimum allocation of $1.25 billion. Local governments with a population of at least 500,000 also were eligible for direct payments. It is unclear how much states have left to spend. A recent survey of 42 states and territories governors' offices by the National Governors Association indicated 89% of CRF have been allocated, and 62% of funds obligated. Yet, before the ball drops ushering in the new year, governments will need to return unspent funds to Treasury by the Dec. 30 deadline.

Spending Authority Clears Up

Over the last eight months, states were tasked with distributing their portion of the CRF. Spending authority, budget conditions and special legislative sessions shaped spending decisions. Interim control over unanticipated federal funds, like the CRF, ranges. Whether discretion and approval of funds lies solely with the executive or legislative branches is apparent in 21 states. The remaining 29 legislatures fall in an advisory role with conditional control, meaning the legislature defers to the executive branch when out of session, or exercises joint control, where the two branches work together to make the decisions. After a few hiccups deciding who has the power to spend without legislative approval, almost all 50 states and territories created or proposed oversight measures to monitor the CARES Act Funds.

Trends in CRF Allocations

Spending decisions vary based on each state's pandemic impact and response measures, but most funds fall into broad spending categories:

- Local government.
- Public health.
- Emergency and disaster response.
- Small business relief.
- Education (K-12 and higher education).
- Community and human services.
- Housing assistance.
- Corrections, courts, and judiciary.
- Technology and broadband.
- Unemployment and workforce development.

Depending on the body authorized to spend CRF, states like Louisiana, Mississippi, North Carolina, Ohio, Pennsylvania and Vermont took early legislative action to allocate a portion of their funds before the end of the 2020 fiscal year. Other states, including Colorado and Missouri, took executive action, followed by legislative action in special sessions. In contrast, a few states like South Dakota and Virginia convened to allocate funds after September. As the Treasury deadline to spend the funds approaches, states with remaining CRF are reallocating unspent funds to areas they deem in need.

Anecdotally, while all categories remained priorities, states centered on specific categories, shifting trends throughout the year. Many states dedicated funds to local governments, public health, emergency and disaster responses, and small business relief in the spring to combat the initial outbreak and lockdowns. CRF allocations to K-12 education, higher education, technology and broadband expansion saw a refocus as states navigated the in-person, remote and hybrid learning over the summer. Without a fourth stimulus package, states altered their attention to unemployment, housing assistance and small business relief in the fall. With some states reaching unemployment rates of over 20%, at least 16 states allocated funds to keep their unemployment insurance (UI) trust funds solvent. Georgia, Hawaii, Montana, South Dakota and Wyoming used CRF to replenish their UI trust funds this fall.

Likewise, unemployment rates and the federal foreclosure and eviction moratorium set to expire on Dec. 31 may have pushed states like New Jersey and Texas to direct CRF dollars to housing and rental relief.

As federal business relief options like the Paycheck Protection Program and Economic Injury Disaster Loans dissipated and/or expired, coupled with COVID-19 cases spiking, small business are experiencing renewed closures or partial opening. As a result, many states allocated or redistributed CRF to new and existing small business relief programs. Alabama, Delaware, Ohio, Oregon, North Dakota and Washington recently announced additional aid for these programs.

Issues Remain with CRF Guidance

State legislative and executive leaders are acting as diligent stewards of their CRF, yet issues remain. According to the Government Finance Officers Association, the restrictions on CRF funds and Treasury's guidance were the biggest challenges for state and local governments.

Treasury guidance and FAQs have been released piecemeal, making it difficult to understand eligible and ineligible expenses fully. Since April, Treasury has updated the guidance four times and the FAQs eight, likely one reason for some initial delay in allocation. States were also hoping for flexibility or a deadline extension. Additionally, the ambiguity in the guidance language makes it challenging to interpret.

With less than four weeks to spend CRF, states are working attentively to spend the remaining funds to provide the most beneficial relief to their residents.

Federal Action

As states face the possibility of a double-dip recession, lawmakers continue to request the federal government to act on CRF flexibility, a deadline extension and a new federal aid package. Otherwise, 2021 legislative sessions involve tough decisions to close budget shortfalls. Congress has received increased pressure to pass another stimulus package. Before the election, a $1 trillion gap remained between the House and Senate proposals negotiated pre-election. President-elect Joe Biden has called on Congress to pass the $2.2 trillion Health and Economic Recovery Omnibus Emergency Solutions Act the House initially passed in May. Senate Majority Leader Mitch McConnell (R-Ky.) is advocating for a smaller $500 billion bill. Congress reconvened on Nov. 30 to restart negotiations.

Additional Resources:

- State Actions on Coronavirus Relief Funds Database
- State Actions to Close Budget Shortfalls in Response to COVID-19 Database
- Coronavirus (COVID-19) Revised State Revenue Projections

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