



NCRGEA *Government Relations* **Update**

NCRGEA Governmental Update #20-18 CARES **July 9, 2020**

Understanding COVID Funding and Local Governments

Although the U.S. and North Carolina economies appeared to be slowing down in the first two months of 2020, they remained strong through the first ominous signs of COVID-19 arriving in the country during February.

As more and more cases appeared during March and forced the state to all but shut down, the impact was felt by everyone. The state government began predicting a shortfall of billions of dollars due to lost tax revenue from the shutdown of businesses and commerce. The businesses themselves lost money when they were forced to shut down operations and lay off employees, which were the next domino to fall.

The forgotten victims, in many cases, were those in the middle of the chains—small businesses throughout the state, along with the city, town and county governments—ones that have essential services to provide, but are most dependent on funding from higher levels of governance.

Local tax revenues dropped to near zero and have only somewhat rebounded as the state has tentatively reopened even with COVID still on the loose.

What happened next ...

Both the U.S. government and the North Carolina legislature have passed laws during the last four months designed to address the issues faced by local governments due to the pandemic.

In Washington, Congress acted quickly, with the CARES Act passed and signed into law on March 27, only a month after the severity of the COVID problem had become clear.

The law provided instant and direct relief to many high-population regions, both in North Carolina and around the country. Jurisdictions with more than 500,000 residents received payments directly from the U.S. Treasury. Wake, Mecklenburg and Guilford counties, and the city of Charlotte, thus shared more than \$500 million between themselves. But the remaining \$4.07 billion allocated under the CARES Act went to the state to distribute, based on federal guidelines that restricted how some of the money could be spent.

The legislature came back into session in late April and worked around the clock to pass a \$1.57 billion spending bill that Governor Cooper signed into law on May 4. Of that money, \$350 million went to local governments. \$150 million each went to help them deal with COVID-19 related issues, and the same amount went toward a reserve fund for the same purpose. \$50 million went into a general fund to aid rural communities which found themselves needing to provide services at a higher level due to the pandemic.

In addition, although not direct aid to local governments, the \$125 million allocated to the Golden LEAF Foundation for its Rapid Recovery Loan Program will, and is already, helping businesses get back on their feet and restart local economies.

However, many cities and counties have said this hasn't been nearly enough, and are advocating for additional funding as the General Assembly has remained in session.

What's next ...

About \$2 billion of the state's CARES Act funds remain unallocated, as the legislature has been very conservative about disbursing any of the remaining money. The U.S. Treasury suggested that 45 percent of each state's allocation be given to local governments, but state Senate leader Phil Berger has balked at this because North Carolina has higher-than-average school and road expenditures.

NCLM President Jennifer Robinson recently issued a statement stating that cities and towns could not help rebuild the economy unless lost revenues were replaced. She asked both Congress and the state legislature to help, but the latter is facing more than a \$2.5 billion shortfall

of its own with a shrinking reserve (rainy day fund) and the remaining CARES funds to cover the deficit.

This leaves pretty much all sides looking in the direction of Washington. Two key bills were introduced in May and June. In the Democratic-controlled House, the HEROES Act was passed, which would allocate \$915 billion in federal funds directly to local governments across the nation as part of a second massive stimulus package, similar to CARES. The Republican-controlled Senate has proposed a smaller bill, the State and Municipal Aid for Recovery and Transition (SMART) Act, which would provide \$500 billion in help for local governments nationally, with no spending for any other purpose.

Neither bill has gained enough bipartisan support, but negotiations are ongoing at the Capitol. Whether it will be enough remains to be seen.

Stay Tuned!

Richard Rogers
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