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Small, Mid-Sized Cities Currently Cut Out of Direct Coronavirus Funding.

With tax revenues down sharply, all local governments are hurting. But leaders of small and mid-sized jurisdictions in particular are arguing that they need more support.

The massive coronavirus relief package President Trump signed into law at the end of last month includes a $139 billion pot of money meant to help states and local governments in dealing with the disease outbreak.

But smaller- and mid-sized cities and counties won't get direct access to those funds.

While these smaller governments could get some money from other parts of the package or from "pass-throughs" from states or bigger counties, local officials say the federal government is going to need to provide far more financial support to help them weather the public health crisis.

A group of Democratic lawmakers in the U.S. House on Tuesday put forward a bill that would move in this direction by allotting $250 billion in local government aid for smaller jurisdictions.

And on Wednesday, House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer issued a statement outlining Democratic priorities for an "interim" coronavirus package. As part of it, they are calling for an additional $150 billion that could be used to help state and local governments "mitigate lost revenue" from the crisis.

"We need relief," said Vince Williams, the mayor of Union City, Georgia, which is located southwest of Atlanta and has about 22,000 residents. "This is something that's going to cripple a lot of municipalities."

"Especially smaller cities, we're going to have issues when people can't pay their property taxes," Williams added. "They won't be able to pay their liquor license fees, business licenses. Everything is going to hit us all at once, once all of this passes."

In general, advocates for state and local governments and some public finance experts echo Williams' point. They say that federal help for the states and localities is so far woefully insufficient to cover the escalating costs associated with the public health crisis and the expected tax revenue declines from the economic downturn the outbreak has caused.

The law that Trump signed last month was the third legislative package lawmakers have passed to address the pandemic. A section of it creates a $150 billion Coronavirus Relief Fund to provide payments to local governments with populations over 500,000 and to states.

Each state is guaranteed a payment of at least $1.25 billion from the fund, with money provided to local governments within their borders subtracted from the total that is allocated to them. The amount made available to each state will vary based on their populations. While the fund is $150 billion in total, $8 billion is set aside for tribal governments and $3 billion for territories.

The law specifies that this money has to be spent on “necessary expenditures” due to the public health emergency, incurred between March 1 and Dec. 30, 2020. Eligible costs are also supposed to be previously unbudgeted or unplanned.

Nan Whaley, the mayor of Dayton, Ohio, called it “incredibly concerning” that her city of 140,000 residents, along with other mid-sized municipalities in Ohio like Toledo, Akron and Youngstown, are boxed out of direct payments from the relief fund.

A Congressional Research Service report published last week estimates that Ohio will receive $4.5 billion from the relief fund and that five counties there are eligible for about $775 million.

Whaley said Dayton would fight for some of the state’s cut, but doubts the city will see any of it. “If you give the state money, they’re going to take care of themselves first. And there’s probably not going to be any money left for the cities,” she said. “These pass-throughs don’t work.”

Montgomery County, which surrounds Dayton, appears to meet the 500,000-person population threshold requirement, but Whaley is also skeptical that those dollars will flow to her city.

She and others are now looking towards the possibility of a fourth federal relief package and say that it should include a program that provides federal aid payments directly to small- and mid-sized cities and other local governments.

Michael Gleeson, the National League of Cities’ legislative manager for finance, administration and intergovernmental relations, said the population cutoff for jurisdictions to qualify for the relief fund was among the big issues for the group currently on Capitol Hill. “There are a lot of smaller cities, towns and villages that could be shut out from direct access to federal aid,” he said.

NLC has said that 36 cities meet the population threshold, and together may be eligible for up to an estimated $8.2 billion of direct funding, ranging from about $90 million for Fresno, California to $1.5 billion for New York City.

Hadi Sedigh, chief innovation officer for the National Association of Counties, said the hope is that some of the relief fund dollars would flow down from states to smaller counties.

“Based on our understanding of the intent of Congress, this state stabilization fund was generally intended to provide fiscal support for the recovery of state and local governments of all sizes,” he said. “It has some specific, direct paths for counties of 500,000 or more residents.”

“The calling out of that path doesn’t necessarily need to make a statement about how much of the money should go to those smaller counties,” Sedigh added.

Sedigh noted that NACo represents 3,000 counties of all different sizes and that roughly 130 of them appear to meet the population threshold to qualify for direct funding.

It’s possible but uncertain, he said, that Treasury Department guidelines could establish some standards for how states distribute the money they get from the relief fund to local governments. Treasury did not respond on Tuesday to emailed questions about guidance for the fund.

There’s clearly an appetite for more relief funding at the state and local levels.

In Colorado, Gov. Jared Polis, along with representatives for county and municipal groups, signed onto a letter last week urging the state’s congressional delegation to back at least $500 billion in aid for state and local governments—including those with populations below 500,000.

Rep. Joe Neguse, a Colorado Democrat, is one of the sponsors of the new House bill that aims to provide additional funding to local governments. Neguse's office noted that mid-sized municipalities in his district, like Boulder, Fort Collins and Loveland, are too small to have access to direct funds through the existing Coronavirus Relief Fund program.

The bill that Neguse and at least three other Democratic lawmakers are backing would make $250 billion available specifically for local jurisdictions with 500,000 people or less.

NLC has been working with staff for the lawmakers who are supporting that bill, and one of the advocacy group's goals is to get direct federal aid funding for localities with populations under 500,000 people included in the next federal relief package.

Williams, the mayor in Georgia, said it is not clear to him yet whether he would have to go through the county where Union City is located, or the state government, to try to secure money from the relief fund. But either way, he's dissatisfied with the status quo. "I'm totally opposed to them leaving this as only cities of 500,000 or more will get direct funding," the mayor said.

Michael Wallace, NLC's legislative director for community and economic development, said that it has been clear that the $150 billion relief fund would not provide enough assistance for states and localities to get through the public health crisis.

"Small towns, very small cities and towns, are having to do the exact same things cities over 500,000 are doing. It's just a different scale," he added.

The legislation that created the fund—the Coronavirus Aid, Relief, and Economic Security, or CARES, Act—does also contain other provisions to help state and local governments.

For instance, there's $25 billion for transit infrastructure grants, $5 billion for Community Development Block Grants and $4 billion for homeless assistance grants. The bill also opens the door for around $454 billion to go towards Federal Reserve initiatives designed to bolster lending to eligible states and municipalities, as well as businesses.

Wallace described the CARES Act as good legislation for helping communities deal with the immediate economic blow that the coronavirus has dealt. But the financial challenges for state and local governments keep stacking up as the virus outbreak drags on.

Across the country, authorities have ordered a range of business to shut their doors and are urging people to stay at home as much as possible, as the nation battles the spread of Covid-19, the highly contagious respiratory illness the virus causes.

With businesses closed and unemployment skyrocketing, government revenues like sales and income taxes are expected to drop sharply compared to projected levels.

"Think about all the sales taxes we're going to miss," said Williams, the Union City mayor.

Meanwhile, local governments are covering costs tied directly to the public health response, as well as trying to assist small businesses and renters. They're also waiving fines and fees and granting leeway on utility payments to reduce financial pressure on residents.

"All of these things are good public policy, but all of them negatively impact local budgets," Wallace said. "Every kind of revenue is down," he added.

A plain reading of the language in the CARES Act doesn't seem to provide flexibility for states and

localities to use the relief fund money to backfill lost tax revenues. NLC's Gleeson said that, based on what he's hearing, that's the way that the Treasury Department sees things as well.

This stands in contrast to the "mitigate lost revenue" wording that Pelosi and Schumer used to describe the additional state and local aid that they proposed on Wednesday.

Tom Kozlik, head of municipal strategy and credit with Hilltop Securities suggested in a brief last week that federal lawmakers will need to deliver a fourth relief package that includes at least an additional $300 billion to $600 billion of "unencumbered aid" for state and local governments.

Like other cities in Ohio, Dayton relies heavily on income taxes. When people aren't working, Whaley said, it undercuts revenue and hampers the city's ability to provide services. The virus has dealt at least a temporary blow to Dayton's municipal workforce. Whaley said the city has furloughed the equivalent of 479 full-time employees of its roughly 1,900 workers.

The mayor said she hadn't seen figures yet for how severely the outbreak will affect tax collections. But asked about what spending cuts the city might make to offset revenue declines, she said Dayton's budget was already stretched tight. "There is nothing to cut but police, fire, and trash," Whaley said. "There's nothing left. And that's the challenge."

It's a similar story elsewhere in Ohio, she added, noting that cities received less support from the state after the last recession and that the job market in Dayton still hadn't recovered to pre-2009 levels.

"One of the things this pandemic is displaying," Whaley said, "is where we have not invested in the safety net, and where we don't have depth of government services anymore."

Route Fifty

by Bill Lucia

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