Bond Case Briefs

Municipal Finance Law Since 1971

Bickering and Confusion Stall $150 Billion Meant to Boost States.

- **Lawmakers and governors wrestle for control as revenue plunges**
- **Federal rules and local politics induce spending sclerosis**

Weeks after states began receiving billions in federal Cares Act money in response to the Covid-19 crisis, lawmakers are fighting for control of it, interest groups are pushing for a piece of it, and governments are dragging their feet on spending it.

In a bailout that critics now say was badly designed, states with revenue strangled by lockdowns got at least $1.25 billion apiece, but aren't allowed to use the money for anything other than unbudgeted costs related to the pandemic, even in areas with relatively few Covid-19 cases.

Many are cutting budgets and anticipating dismissing public servants even as trade groups, farmers and activists lobby for investments in business and infrastructure. Proposals have ranged from nonstarters — like using pandemic relief dollars to build a new Alabama statehouse — to the worthy but pricey, like providing broadband to every Vermont student. Many states are simply delaying spending in hopes that the rules will change.

"On the one hand, we have this big pot of money, and on the other we are looking at cutting our budget by 8%," said Amy Shollenberger, a lobbyist with Action Circles, which represents poor and rural residents of Vermont. The state's Cares funding is a sum equal to almost one-sixth of the state's entire budget, but can't be used to fund it. "There's a lot of tension on both sides of that."

Some states are bailing out small business, farmers and nursing homes or considering building housing for the homeless. The windfall must be spent by Dec. 31 or returned.

"There's a lot of advocacy happening to retroactively make the coronavirus relief fund more flexible," said Michael Wallace, program director for community and economic development for the National League of Cities. "There's a huge mismatch of resources to need right now."

The Cares Act passed in March, sending $150 billion to states, large local governments and tribes with little instruction on how to use it. The largest states got the most, including more than $9 billion for California. But each got at least $1.25 billion, regardless of how much it suffered from the pandemic.

For example, Alaska has 412 confirmed virus cases and 10 deaths. It got $1.25 billion that it can't use to plug its $1 billion budget hole. The state is sending a large percentage of its Cares funding to cities and counties too small to qualify for direct federal relief; the U.S. Treasury permitted the use a month after the Cares bill passed.

But local governments are also limited to spending the money on pandemic costs, which has led to complaints and confusion. In Louisiana, which also is sending money downstream, so many local government leaders flooded a state-hosted Zoom conference on the money that they crashed it.

Hasty Work

The Cares Act came together quickly and messily in Congress, in an attempt to stimulate an economy ravaged by lockdowns and the resulting loss of jobs and tax revenue. Senate Republicans — particularly Majority Leader Mitch McConnell — insisted the money for states shouldn't be used to address budget woes. McConnell has said as recently as this week that he doesn't want to bail out governments that he said had been fiscally irresponsible or that underfunded their pensions.

He has suggested that states should be allowed to file for bankruptcy instead. That could be disastrous for the $3.9 trillion municipal bond market, which pays for things like roads, public transportation and schools.

States across the U.S. are now looking at budget cuts. Michael Leachman, vice president for fiscal policy at the Center on Budget and Policy Priorities in Washington, estimates $765 billion in revenue shortfalls through fiscal 2022 for all 50 states combined. Because states have to balance budgets every year, their only option is cuts, which will delay economic recovery, he said.

The Cares Act rules are encouraging strapped states to look at big-ticket spending that can be justified as pandemic related: overhauling nursing homes or prisons where the virus spreads, helping businesses, stocking up on masks and gloves, or expanding broadband for online school.

And legislatures and governors have been fighting for control of the money.

Some battles are partisan. Kansas's Republican legislature met all through the night last week to pass a bill limiting Democratic Governor Laura Kelly's powers, including her control of the money. In New Hampshire, Democrats went to court to stop Republican Governor Chris Sununu from spending Cares money on his own — and lost. Colorado Republican lawmakers accused Democratic Governor Jared Polis of a spending "power grab."

In two states, the grab for cash was internecine. Mississippi's Republican-led legislature passed a bill taking away Republican Governor Tate Reeves's control of the money, prompting an angry back-and-forth.

"I cannot do my job without the funds that the Trump administration secured for and expects governors to use," Reeves said at a May 1 press briefing, before eventually agreeing to a compromise.

So far, Mississippi lawmakers have allocated $300 million for small business aid.

In Alabama, Republican Governor Kay Ivey first ceded authority to the Republican legislature, then took it back after lawmakers proposed spending $200 million on a new statehouse. Her plans for the $1.9 billion include $300 million for rural broadband and $200 million for the state's notoriously overcrowded Department of Corrections.

Other states are delaying spending, while lobbying federal officials for permission to spend the money on their budgets. Some of those officials appear to be listening. A group of Republican senators led by John Kennedy of Louisiana met with President Donald Trump this month to propose loosening the restrictions.

The U.S. House of Representatives passed a new $3 trillion stimulus bill May 15 that would include more than $1 trillion for state and local governments with fewer strings than the Cares Act money. The Senate has yet to take it up, and many provisions are seen as anathema to Republicans.

The delays, bickering and confusion are likely to persist without more clarity or flexibility, said Josh Goodman, senior officer with the Pew Charitable Trusts.

“The biggest part of the conversation is what they can’t use it for,” Goodman said.

Bloomberg Politics

By Fola Akinnibi and Margaret Newkirk

May 28, 2020, 4:30 AM PDT

— With assistance by Vincent Del Giudice, Christopher Brown, and Laura Davison

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com