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## Governors and Mayors Warn of Drastic Spending Cuts Without New Aid.

- **Republican plan compares with \$1 trillion in Democrats' bill**
- **N.Y. schools, localities face 20% cut without fed help: Cuomo**

After Senate Republicans balked at extending new federal aid to help cover states' and cities' swelling budget shortfalls, governors and mayors warned that they're facing drastic spending cuts that will put the nation's economic recovery at risk.

Senate Majority Leader Mitch McConnell and other top Republicans on Monday released a \$1 trillion package, setting off negotiations with Democrats. The plan doesn't include additional funding to address states and local government budget deficits, a stark contrast to the approximately \$1 trillion that Democrats included in the bill the House passed in May. It does loosen restrictions on the use of previously allocated funds and would provide about \$105 billion in funds for schools and \$16 billion for expenses tied to Covid-19 testing.

But without broader aid from Washington, the budget crisis building in state capitals and city halls threatens to worsen the economic downturn by forcing governments to cut spending deeply, fire workers or raise taxes. After the last recession over a decade ago, such steps exerted a major drag on the recovery for more than two years, according to Commerce Department figures.

New York Governor Andrew Cuomo said the state would be forced to slash aid to localities, hospitals, and schools by 20% without federal aid. State revenues in New York have been decimated, he said.

"The funding has to come from somewhere," Cuomo said on conference call with members of the media. "It can't be more clear. It can't be more obvious. No fog of war on this one. This is real consequences."

Most states have already allocated the bulk of funding they received from the Cares Act, limiting the impact of a GOP plan allowing that money to be used to fill budget gaps — instead of just covering virus-related costs, the National Conference of State Legislatures said in a statement on Tuesday.

"For many states it will take years to recover from the abrupt drop-off in revenue caused by this pandemic," the group said.

If Congress doesn't come through, residents and commuters will be on the hook. New York state property taxes, subway fares, and even bridge tolls will go up if the federal government does not provide aid, Cuomo said on a conference call with reporters.

"There is nothing conceptual or abstract about this exercise. It's going to have a dramatic practical effect on New York," Cuomo said.

New York State, which received \$5.1 billion in funding for coronavirus-related expenses, has

committed \$2.2 billion of those funds to respond to the public health crisis, with the rest allocated to be spent by the end of the year on operations like testing and contact tracing, according to a spokesperson for the New York State Division of the Budget. California has already appropriated the \$9.5 billion that the state received and is in the process of distributing those funds, according to a spokesperson for the California Department of Finance.

Michigan's budget office says more aid is needed to avoid cuts since it has already allocated \$3.1 billion in Cares Act funding as part of its public health and safety response, according to its website. The office says the state has seen a more than \$6 billion revenue loss over fiscal 2020 and 2021.

"Because of this deadly virus, every state in the nation — no matter if they're red or blue — has challenges, including dramatic shortfalls in revenues that fund vital services," Jordan Abudayyeh, a spokesperson for Illinois Governor J.B. Pritzker, said in a statement. "The federal government needs to help every state weather this pandemic so vital services continue without interruption."

States alone are projected to face budget shortfalls of about \$555 billion through 2022, according to the Center on Budget and Policy Priorities.

While any aid in the Republican plan was expected to fall far short of what Democrats proposed — given their intention to hold the overall cost of the stimulus to \$1 trillion — Wall Street analysts and local officials are counting on some money from Washington. Bank of America Corp. analysts have said they expect as much as \$400 billion in aid by the third quarter, while Morgan Stanley has forecast they will get as much as \$500 billion.

Any deal between Republicans and Democrats that ultimately leaves out such aid will deal a fresh hit to many states, including California, that have been counting on federal funds. State and local governments have already cut nearly 1.5 million jobs since the pandemic shutdowns began.

According to Moody's Investors Service, as of July, five states enacted temporary spending plans, allowing them to briefly avoid some difficult decisions as they contended with the uncertainty of the coronavirus and waited for federal aid. That includes New Jersey, where lawmakers passed a three-month stopgap spending plan. Governor Phil Murphy has warned that tax increases may be necessary to cope with the fiscal fallout from the pandemic if no help arrives.

California's budget deferred \$12.9 billion in payments to schools and community colleges and borrows \$9.3 billion from other funds to avoid steep cuts in the hope that Washington would send additional aid by October. Illinois, the lowest-rated state, relied on borrowing to plug its budget gap.

The leader of the American Federation of State, County and Municipal Employees union, Lee Saunders, said in a statement on Monday that Senate Republicans are "seemingly content to let state and local governments go bankrupt."

The head of the National League of Cities, Clarence Anthony, said the Republican proposal "is out of touch with the grim reality facing communities large and small across the nation."

"There will be no national economic recovery without an clear commitment from the federal government to address the staggering revenue shortfalls and skyrocketing costs that local governments have been forced to incur," he said in a statement. The Republican proposal ignores "economists who have cautioned lawmakers about the devastating long-term impacts of failing to address local government revenue shortfalls."

By Shruti Singh and Amanda Albright

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