

GFOA RESEARCH REPORT

OCTOBER 2020

CARES ACT CORONAVIRUS RELIEF FUND

THE PRIME RECIPIENT
PERSPECTIVE

ANALYSIS | CASE STUDIES



Government Finance Officers Association

ABOUT THE AUTHOR

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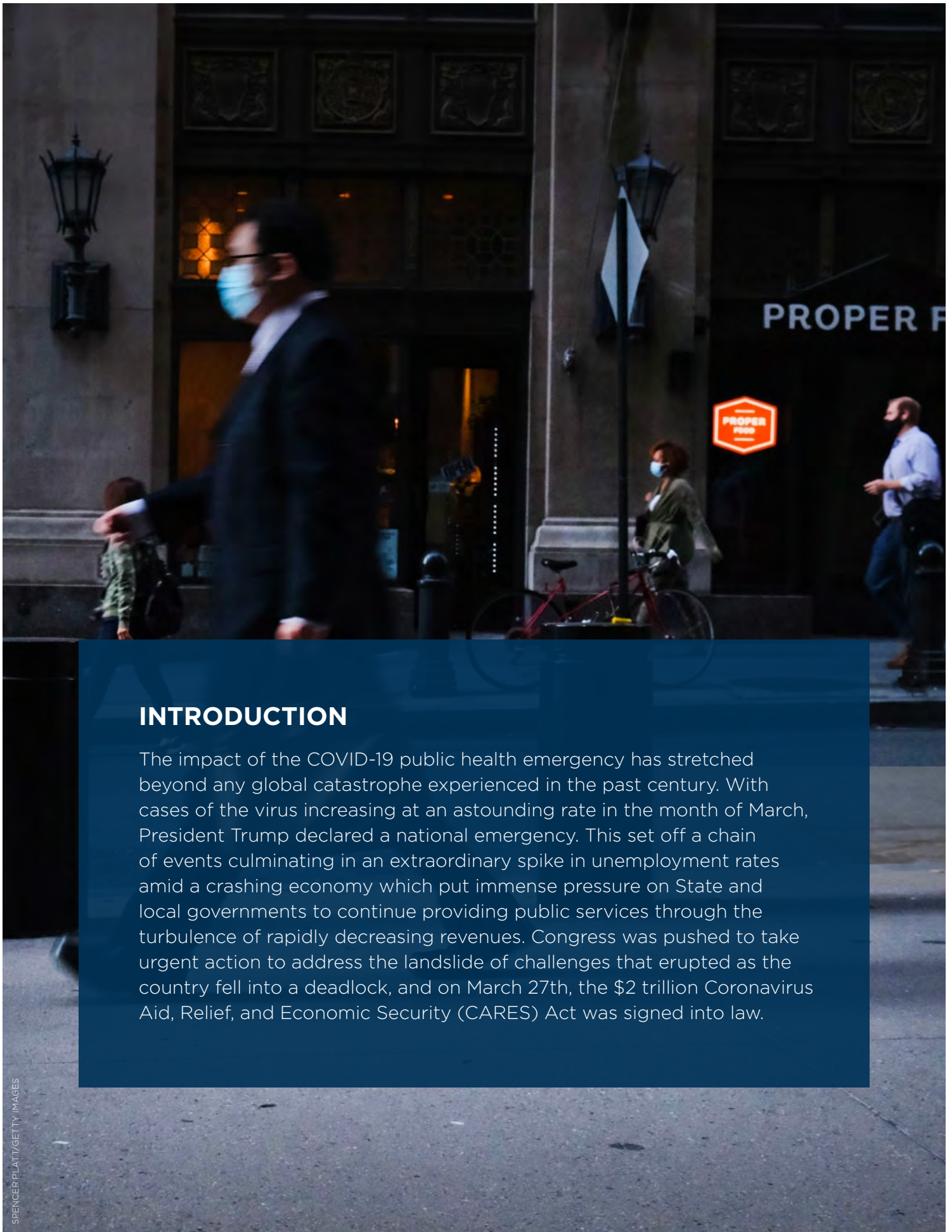
ACKNOWLEDGMENTS

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ABOUT GFOA

The Government Finance Officers Association represents over 21,000 public finance officers throughout the United States and Canada. GFOA's mission is to promote excellence in state and local government financial management. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.





INTRODUCTION

The impact of the COVID-19 public health emergency has stretched beyond any global catastrophe experienced in the past century. With cases of the virus increasing at an astounding rate in the month of March, President Trump declared a national emergency. This set off a chain of events culminating in an extraordinary spike in unemployment rates amid a crashing economy which put immense pressure on State and local governments to continue providing public services through the turbulence of rapidly decreasing revenues. Congress was pushed to take urgent action to address the landslide of challenges that erupted as the country fell into a deadlock, and on March 27th, the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law.



THE CORONAVIRUS RELIEF FUND (CRF)

Title V of the CARES Act established the Coronavirus Relief Fund (CRF). Under the administration of the Department of Treasury, **\$150 billion** was allocated to State and units of local government with a population of over 500,000; the District of Columbia and U.S. Territories; and Tribal governments.

The CRF came with specific conditions regarding the use of funds:

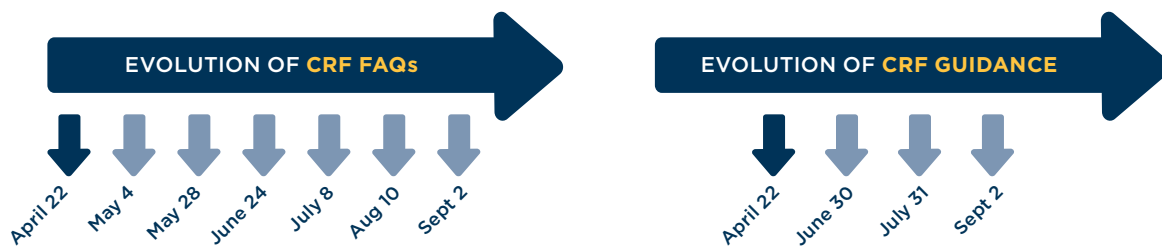
- 1 Costs must be necessary expenditures incurred due to the COVID-19 public health emergency.
- 2 Costs must not have been accounted for in the budget most recently approved as of March 27th for the State or government.
- 3 Costs must have been incurred during the period of March 1, 2020 – December 30, 2020.



CRF GUIDANCE, FREQUENTLY ASKED QUESTIONS (FAQS), AND REPORTING

The Treasury was tasked with overseeing and establishing *guidance* for the CRF. This was achieved through a document that provided guidance on the permissible use of funds and a document addressing *frequently asked questions* (FAQs). The original FAQs only contained 4 questions which have since expanded extensively as of October, 2020. Since its conception, the CRF has evolved continuously with the progression of time following the consistent demand for more direction from CRF prime recipients. As of September 2nd, the FAQs have been updated a total of 6 times and the guidance has been updated a total of 3 times.

In June, the Treasury sent all CRF prime recipients interim reports to document costs incurred for the period of March 1st to June 30th. In July, Treasury's Office of Inspector General (OIG) released guidelines for CRF prime recipients for reporting fund expenditures. At present, all reporting of expenditures by prime recipients is taking place through the *GrantSolutions* portal on a quarterly basis.

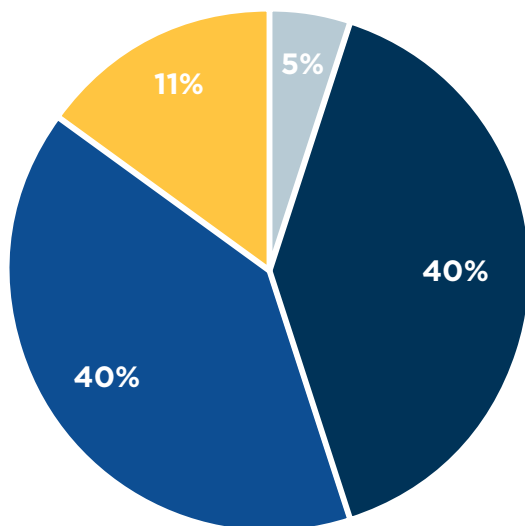




CRF PRIME RECIPIENT SURVEY

In August, GFOA dispersed a survey to all 50 states and the 171 eligible units of government that were prime recipients of the CRF to assess the effectiveness of the fund from the perspective of State and local prime recipients. Nearly half of prime recipients across the country, consisting of **22 States, 55 counties, and 24 cities**, responded to the survey.

HOW CLEAR WAS THE DEPARTMENT OF TREASURY'S GUIDANCE FOR YOUR STATE/JURISDICTION IN DETERMINING THE USE OF CRF FUNDS?



● Very Clear
 ● Somewhat Unclear
 ● Somewhat Clear
 ● Very Unclear

Regarding the extent of the clarity provided by the Treasury on the use of CRF funds, respondents tied at 40%, perceiving the guidance to be “somewhat clear” and “somewhat unclear”. Comments predominantly indicated the ambiguous nature of the guidance and FAQs as incomplete and conflicting. Respondents noted that while some parts of the guidance were clear, other parts were unclear.

“The ongoing, **changing guidance** is slowing down our response and effectiveness”

The survey was conducted in mid-August, when there was high demand from recipients for more clarity specifically on using funds for payroll and benefits of public employees, and defining the term “substantially dedicated”. Respondents expressed concern over how the Treasury would perceive the interpretations adopted by jurisdictions if they chose to proceed with using the funds according to their interpretation instead of waiting for clarification. This contributed in causing delays for some jurisdictions in spending funds. As of September 2nd, payroll and benefits of public employees as well as the term “substantially dedicated” have been addressed in the guidance by the Treasury.

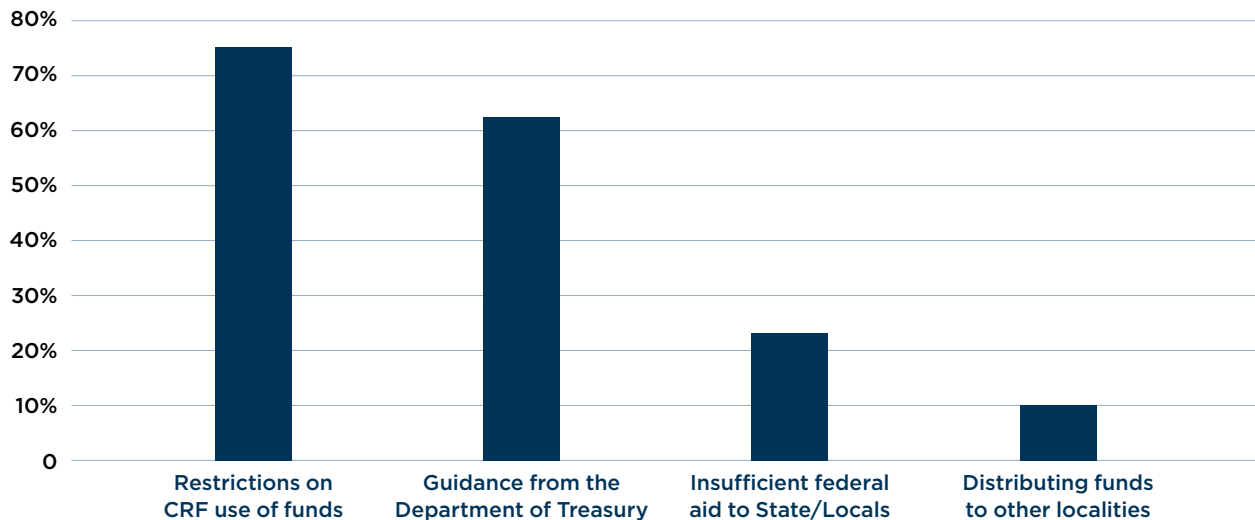
Respondents further listed **short time frames for reporting** expenditures to the OIG in addition to the challenges of **keeping up with consistent FAQ updates as problematic**, putting further pressure on implementing strategic plans for spending funds. Many stated providing guidance for **reporting requirements should have been provided simultaneously with the disbursement of CRF funds** as it would have allowed prime recipients to track expenses appropriately. Jurisdictions found themselves backtracking and reworking documentation to match the requirements set in place months after receiving their allocation of the CRF.

Regarding whether the updates to the guidance and FAQs from the Treasury provided clarity for recipients, **25%** of respondents believed the updates did provide clarity while **67%** stated they “somewhat” believed the updates provided clarity. While some satisfaction was expressed regarding clarification that had been provided on certain long-awaited questions such as using funds for shelters and small businesses, many jurisdictions continued to wait for further guidance on areas that had yet to be clarified — specifically guidance on payroll and benefits of public employees at the time of the survey.

“One **complete document** providing guidance would be more organized than a patchwork of guidance and FAQs”

“The **piece meal approach** to updating guidance seems at odds with the urgency to spend CRF funds”

WHAT HAS BEEN THE BIGGEST CHALLENGE FOR YOUR STATE/JURISDICTION IN SPENDING ITS CRF ALLOCATION?



75% of respondents found the **restrictions on the use of CRF funds to be the biggest challenge in spending their allocation**. This option was in reference to the **inability to use funds on lost revenue and the deadline to spend funds by December 30th, 2020**.

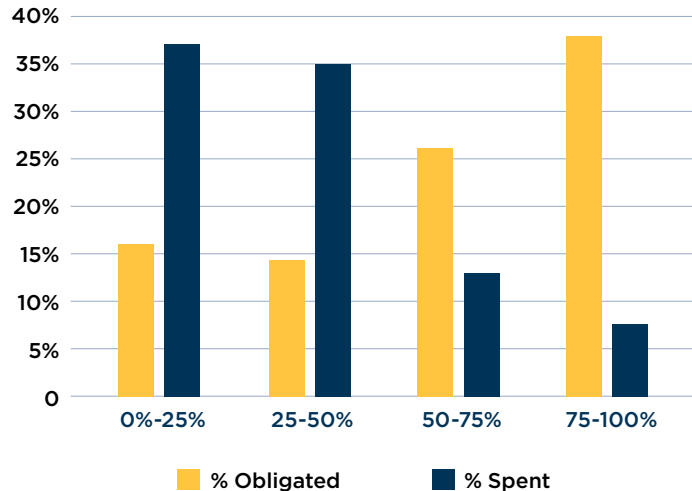
62% of respondents selected the guidance and FAQs from the Treasury as the biggest challenge in spending their CRF allocation. Respondents consistently echoed the lack of flexibility on the use of CRF funds, specifically over not being able to spend funds on revenue replacement as their biggest obstacle. Respondents stated that the **use of funds did not align with the needs of local governments in terms of how they budget**.

Additionally, there was concern about the uncertainty over the finalization of the next relief package, complicating spending decisions. Challenges also included ensuring sub-recipients were expending funds on the appropriate guidance.

“Significant **help is needed** to assist the federal government in understanding how state and local governments account for finances”

“It is stressful being responsible as a prime recipient for fund disbursement to sub-entities, non-profits, hospitals, testing entities. Subject to **very strict timelines**”

WHAT PERCENTAGE OF YOUR STATE/JURISDICTION'S CRF ALLOCATION HAS BEEN OBLIGATED VS. HOW MUCH HAS BEEN SPENT?

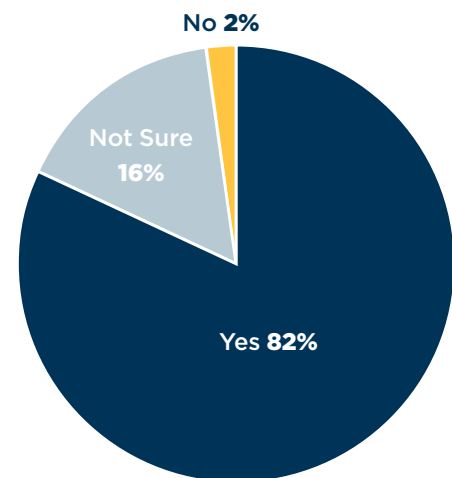


The CRF was acknowledged to have provided beneficial assistance by allowing jurisdictions to address some of the hardest hit sectors in their economies, such as healthcare, schools, and housing. However, respondents consistently expressed that while some sectors thrived, others continued to suffer. It was stated that the **fund's inflexibility was preventing State and local governments from making the most of the federal assistance in meeting essential needs.**

Given the uncertainty prevailing over prime recipients particularly on the use of CRF funds, the conflicting data regarding the *funds obligated* in comparison to the *funds spent* was expected. In terms of funds obligated, the vast majority of respondents selected the 75-100% range, with the second highest responses selecting the 50-75% range. However, when questioned on the percentage respondents had spent of their CRF allotment, responses significantly shifted, with the majority selecting the 0-25% range, closely followed with the selection of the 25-50% range.

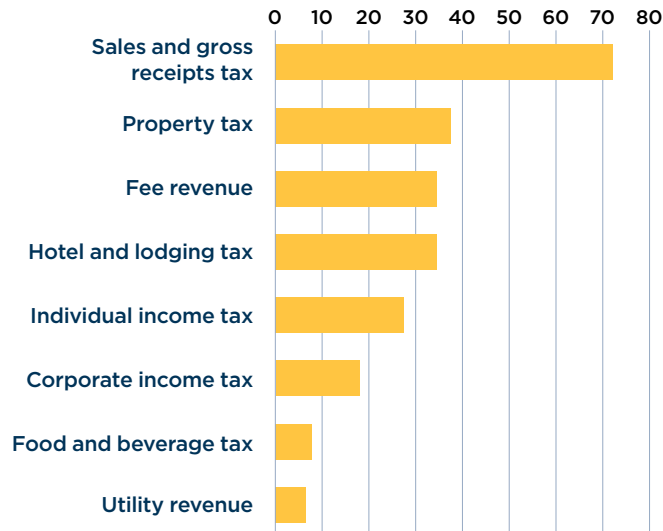
82% of respondents anticipated spending all of their CRF allocation before the December 30th deadline. The deadline to expend funds has been reiterated as a challenge for prime recipients. **Given the indefinite duration of the public health emergency, exhausting all federal assistance by the end of the year is concerning.** In assessing the universe of financial challenges presented by the pandemic, the inflexibility of expenditures strained governments on one hand while decreasing and foregone revenues strained governments on the other hand.

DOES YOUR STATE/JURISDICTION ANTICIPATE SPENDING ALL OF ITS CRF ALLOCATION BEFORE DECEMBER 30, 2020?



“Increasing flexibility and extending the deadline to spend funds would be the most appropriate and proportional response at this time”

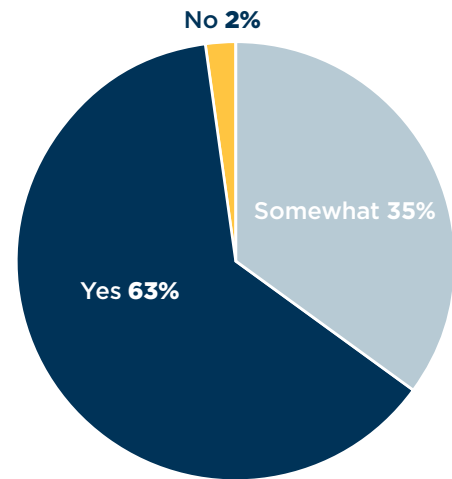
WHICH SOURCES OF REVENUE ARE OF GREATEST CONCERN TO YOUR STATE/JURISDICTION OVER THE NEXT 12 MONTHS?



The prevalence of uncertainty delayed expenditure of funds, particularly over categories needing clarification. Respondents stated they avoided proceeding with their interpretation to prevent any potential disagreement with future updated guidance from the Treasury.

The survey found **sales and gross receipts tax** to be the source of revenue of greatest concern for over 70% of respondents. Considering the stall of commercial economic activity as a result of the national crisis, this is not surprising.

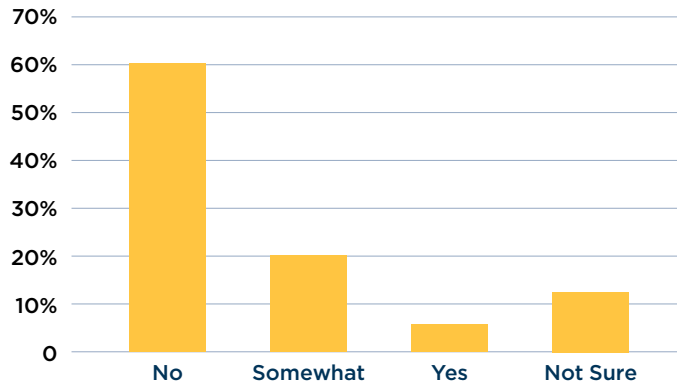
HAS THE CRF BEEN AN EFFECTIVE TOOL IN ASSISTING YOUR STATE/JURISDICTION'S RESPONSE TO THE COVID-19 PANDEMIC?



“Flexibility is critical, **elimination of onerous reporting requirements** would be helpful”

“Helped with immediate response funding for public safety, but not for the **impacts of lost revenues** and other services still required.”

ARE YOU CONFIDENT THAT THE FEDERAL RESPONSE THROUGHOUT THE REMAINDER OF THE PANDEMIC WILL BE PROPORTIONAL/ APPROPRIATE TO THE NEEDS OF STATE AND LOCAL GOVERNMENTS?



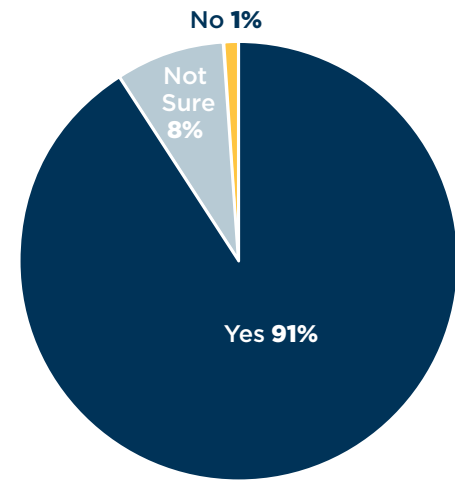
60% of respondents stated they were not confident that the federal response would be proportional to the needs of State and local governments for the remainder of the pandemic.

Discouragement was largely attributed toward the **lack of action being taken to assist State and local governments with lost revenue, lack of flexibility over use of CRF funds, and failure to understand the operations of local government budgets.**

An overwhelming **91%** of respondents stated they would benefit from additional federal aid.

Unrestricted aid was requested to offset revenue losses as well as the need for more assistance past the December 30th deadline.

WOULD YOUR STATE/ JURISDICTION BENEFIT FROM ADDITIONAL FEDERAL AID?



“Given how long it has taken to provide clear guidance on the fund, it would be helpful to have **additional time** to spend the funds provided”

“It isn’t enough funding to allow us to meet the **true needs of the community.** We are having to select winners and losers.”



CASE STUDIES

GFOA conducted three case studies of a state, a city, and a county for a more detailed assessment of the CRF from the perspective of prime recipients.

- State of Indiana
- City of Seattle, WA
- Travis County, TX





STATE OF INDIANA

- The State of Indiana received \$2.4 billion from the CRF.
- Of that allocation, the state distributed \$300 million to local governments as only one jurisdiction met the 500,000 population threshold for direct funding from the CRF.

WAS THIS AMOUNT SUFFICIENT IN MITIGATING THE COVID-19 PANDEMIC AND WOULD ADDITIONAL FUNDING BENEFIT THE STATE?

“....mitigating the COVID-19 pandemic” can include several perspectives. The CRF is appreciated and will be helpful in addressing the near term direct public health and safety direct costs. In addition to the uncertainty regarding the duration of the pandemic and continuation of these costs is the economic adversity created by necessary steps in response to the public health emergency. The result has been lost tax revenues which will impact the ability to fund basic services in the next few years and other effects such as the depletion of unemployment insurance trust funds.

THE DECISION-MAKING PROCESS

The governor assembled an economic relief and recovery team led by the Secretary of Commerce at the Indiana Economic Development Corporation and the Director of the Office of Management and Budget. The team has six other (non-state government) members with extensive business experience and prior public sector service. The team has used this experience to evaluate proposed program initiatives, engaging with state agency leadership and outside parties, and sent recommendations to the governor's office.

The governor's office holds the final decision-making responsibility on what programs to pursue and the use of the CRF. Major programs to date include:

- Local government assistance
- Small business assistance
- PPE marketplace and supply chain support
- Workforce training
- Rent assistance
- Human services provider sustainability grants
- Arts/Cultural/Community events assistance

These programs are in addition to using the CRF for direct public health and safety expenses and cost recovery including testing and contact tracing.

THE CHALLENGES

The ongoing challenge is how to use the CRF for its most effective use but not run afoul of the guidance which has been modified over time. This challenge should not be viewed as a criticism but the recognition of the difficulty and challenges the US Treasury has faced in structuring a program and distributing guidance during an unprecedented pandemic. The State of Indiana started in certain directions regarding the use of the CRF but changed course or suspended action based on updated guidance. Indiana has taken a further cautionary approach based on recent reports of potential federal legislation to modify the uses or length of time for using the CRF. The suspension of those deliberations may require decisions that in the end may not produce the more optimal result for the state. An operational challenge has been the coordination between the use of the CRF and the FEMA public assistance program.

THE RESOLUTIONS

The state, through its recovery team and the coordination between the State Budget Agency and the agencies responsible for delivering services, has been reasonably flexible to respond to new guidance as well as developments in the public health emergency.

MESSAGE TO CONGRESS

The federal programs when first adopted were to address the immediate needs to fight the pandemic. At that time it was uncertain how long the pandemic would persist. It is now more evident that the related programming will not be completed prior to the end of 2020. Extension of the date for eligible expenses now appears necessary. While recognizing the requirements of the legislative process, greater clarity on any modifications to eligible uses would be helpful.



CITY OF SEATTLE, WA

- The City of Seattle received \$131,510,477 in CRF funding.
- No funds were allocated to other jurisdictions. Seattle plans to spend the entirety of its CRF allocation and an additional \$100,000,000 on COVID related costs, some of which are supported with other grants and some of which are supported with the City's funds.
- Additional funding would benefit the City as the amount of funding the City currently has is insufficient to cover all the City's COVID related costs.

THE DECISION-MAKING PROCESS

The Seattle City Budget Office created a COVID spending plan for the City in the Spring and Summer of 2020. The spending plan strategy is to optimize the funding available to the City by first exhausting the most restricted funding sources and then using less restricted funding sources to fill in the gaps. To do this, the budget office mapped all of the funding sources available to the City to all of the City's response and recovery efforts related to COVID-19, layering in eligibility, amount, and program limitations. The mapping process allowed the budget office to identify gaps between the City's needs and the funds available to support the City's COVID-19 efforts.

Using the information from the mapping process, CBO and the Mayor's policy team developed and applied the below methodology to arrive at recommendations:

1. Pursue FEMA Reimbursement where possible
2. Allocate Restricted Federal Grants from the CARES Act for items where it may not have been the most traditional use of the resource but filled a critical resource gap. (i.e. using CDBG for small business support rather than for shelter)
3. Coronavirus Relief Fund – CRF for FEMA local match, and other remaining costs that are non-FEMA eligible, mostly used for gaps not related for efforts related to homelessness response.
4. State Commerce Emergency Housing Grant (combination of state funds and State CRF) for homeless response, for continuing emergency response after the FEMA period ended and for non-FEMA eligible non-homelessness items. The City is currently reevaluating use of the Commerce Grant as FEMA has extended their end date.
5. Non-General Fund City Sources Reprioritized for COVID-response (i.e. maximizing flexibility in levy funds)

Recommendations were then taken to a Federal-State Funding Steering Committee, comprised of Deputy Mayors and certain department directors, before getting ultimate approval from the Mayor and being passed by the City Council via ordinance.

THE CHALLENGES

- Changing/evolving guidance from the Federal Government on allowable/unallowable costs.
- Uncertainty around end of year spending—original guidance said the funds had to be expended by 12/30, which was revised to reflect that the City could incur costs up until 12/30 and carry out closeout related to those costs into 2021.
- Direction on reporting requirements—general lack of clarity with reporting requirements and reporting process/portal.
- Navigating CRF reporting of the FEMA match portion for FEMA eligible costs.

THE RESOLUTIONS

To mitigate our challenges, the City is developing documentation or policies and assumptions in our reporting which we will be able to point to if/when there are questions (both internally and externally) about the use of funds and CRF reporting. As both FEMA and CRF guidance becomes clearer over time and City spending becomes clearer, the City anticipates needing to be adaptable; we may need to make changes to our spending plan.

Also while not a mitigation strategy per se, the City is hopeful that the Federal Government may still make additional changes to the use of CRF—perhaps allowing it to be used for direct revenue relief or carrying eligible expenses into 2021.

MESSAGE TO CONGRESS

Cities around the Country, including Seattle, are facing an unprecedented revenue shortfall. Funds that could be used to backfill revenue loss would help the City ensure it can continue to provide services to the public at a time in which there is a great need. There is also no end date on this emergency, additional funds will be needed into 2021 to continue responding to the COVID-19 emergency as we know it today, to tackle the upcoming unknowns related to the interaction with the seasonal Flu, to provide equitable access to a potential COVID-19 vaccine, and, of course, to recover and reopen equitably when it is safe to do so.



TRAVIS COUNTY, TX

- Travis County was awarded \$61,147,507.20 from the CRF.
- The County allocated \$7.3 million to 21 jurisdictions (small cities wholly or partially within the county excluding the City of Austin). This allocation was not initially planned. The mayors of these 21 cities approached the county for funding as a result of the Governor's decision that the state would allocate funding only to cities in counties that were not direct CRF funding recipients. Additional funding would be helpful to the county if combined with (1) a longer timeframe for expending the funds, and (2) allowing funds to be spent to re-build emergency reserves to enable the county to continue to respond to the pandemic and its economic impacts despite projected FY 2022 revenue shortfalls.

WAS THIS AMOUNT SUFFICIENT IN MITIGATING THE COVID-19 PANDEMIC AND WOULD ADDITIONAL FUNDING BENEFIT THE COUNTY?

The additional time for expending the funds is critical. Additional time and staff resources are needed to evaluate the ongoing evolution of federal, state and local grant and procurement requirements to ensure expenditures are eligible and will not be disallowed. Communities that had insufficient resources to address the pandemic before receiving the federal funding lack the resources to spend money on pandemic response twice—by spending the funds too soon only to find out later that the expenditure is disallowed, thereby possibly being forced to repay the funds to the US Treasury.

The economic fallout of the pandemic response is still evolving. As a governmental entity, the county relies on ad valorem property tax revenue as its primary revenue source for operations. The impact of the economic recession on property values will not begin to be seen until January 1, 2021, when the local appraisal district issues its initial appraisals for calendar year 2020 property values.

Historically, Travis County's commercial and residential property values fueled growth in both the tax base and property tax revenue. Commercial property values based on their income generation may drop with the significant hospitality industry closures and ensuing layoffs, as well as new Class A office buildings losing tenants even as more office buildings are finishing construction.

In addition, the county may face lower multifamily parcel valuations once the current eviction moratorium expires (in effect through December 31, 2020). These revenue impacts coupled with a greater need for rent assistance and homelessness interventions will exacerbate the county's fiscal situation.

THE DECISION MAKING PROCESS

The county went through an iterative process to allocate CRF funding. The goals of the Commissioners Court and staff were to:

- Maximize federal funding by using the most restrictive funding first,
- Reserve sufficient funding to ensure adequate protective measures could be taken to protect county employees, residents doing business with the county, customers of the county, those in the county's custody, and the most vulnerable (e.g., nursing home strike teams),
- Allocate funding to serve the basic needs of county residents, including food preparation and distribution and rent and mortgage assistance,
- Allocate funding for small businesses, nonprofits and childcare service providers,
- Continue partnership with the City of Austin's public health department and participate in a cost-sharing inter-local agreement to pay for the per capita share of direct response (testing, education, contact tracing, etc.) without duplicating costs.

THE CHALLENGES

The greatest challenge has been expending the funding and implementing programs that comply with federal guidance that is constantly evolving and changing—all within a 9-month timeframe. Another challenge has been the federal funding formula for counties. Travis County's allocation was based on funding only for the population outside the City of Austin's corporate limits. The formula did not recognize that the county provides unique, countywide services that cities do not (e.g., civil and criminal justice, juvenile justice, corrections, elections, voter registration, tax collections, vehicle registration, and social service safety net),

- A short spending timeframe which limited the ability to begin new programs that may have provided more targeted relief instead of relying on existing pipelines,
- Additional expenditures and a drain on local resources to handle spikes in infections resulting from mixed messages at different levels of government (local, state & federal).

THE RESOLUTIONS

- Engaged strongly with GFOA and NACO for additional guidance.
- Focused most of the funding on programs that already existed or where the county could hire expertise.
- Contracted expert consultants with federal grants and disaster aid experience to assist in crafting recommendations for the County's fiscal governing body (Commissioners Court) in a manner that fits the County's risk tolerance.
- Briefed the Commissioners Court on the status of program expenditures to allow them to reallocate funding from slow-spend programs to quick-spend programs as the December 30 deadline nears.

REMAINING CHALLENGES INCLUDE:

- Ensuring we keep up with the continuing flood of new federal guidance.
- Seeing the impact of the pandemic on the local economy and property tax values beginning in Fiscal Year 2022 (Oct 2021-Sep 2022) and determining how to balance the budget with forecasted shortfalls.
- Developing plans and contingencies based on the following questions: When will the infection spread come under control? How long will this last? Can we go back to the "before" state?

MESSAGE TO CONGRESS

Each local government is different with different responsibilities, authorities, economies and local culture so federal funding and timelines should be flexible to allow the elected officials closest to the people respond to the pandemic and govern effectively.



CONCLUSION

“Our biggest need is revenue replacement.”

The COVID-19 public health crisis is unlike any other disaster. Its indefinite nature has exacerbated the complexities facing State and local governments as they struggle to stabilize their economies and the wellbeing of their populations following the onset of the pandemic. We commend lawmakers for their expediency in the passage of the CARES Act and the establishment of the CRF as a critical resource for State and local governments.

We recognize the CRF is a “first attempt” in assisting State and local governments mitigate the impact of an unprecedented public health crisis. While there is a general agreement on the benefits provided by the federal funds, consistent challenges have been voiced unanimously among CRF prime recipients and there is an overwhelming need for additional support. It is crucial for Congress to recognize the challenges and opportunities expressed by State and local partners to improve the future federal response for the duration of this indefinite emergency.

GFOA strongly urges Congress to provide State and local governments with **additional funding, flexibility on the use of CRF funds to include revenue replacement, an extension on the deadline to spend funds, and more organization in the release of future guidance.**



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