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The Coronavirus Relief Fund (CARES Act, Title V): Background and State and Local Allocations

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SUMMARY

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The Coronavirus Relief Fund (CARES Act, Title V): Background and State and Local Allocations

The sudden decline in economic output following the Coronavirus disease 2019 (COVID-19) outbreak has significantly altered the fiscal outlook for state and local governments. A sizable share of economic output derives from state and local government activity. These governments are generally required to balance their operating budgets every one or two years. Early evidence suggests that the COVID-19 economic shock will have a notable impact on state and local budgets.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136), signed into law on March 27, 2020, created the Coronavirus Relief Fund, which provides $150 billion in direct assistance for domestic governments. The CARES Act stipulates that the $150 billion provided to the Coronavirus Relief Fund is allocated to governments in states, territories, and tribal areas as follows: (1) $139 billion is allocated to state governments in the 50 states, with allocations based on their populations and with no state receiving less than $1.25 billion; (2) $8 billion is set aside for governments in tribal areas; and (3) $3 billion is allotted to governments in territories, including the District of Columbia and Puerto Rico.

Coronavirus Relief Fund assistance is provided to state governments. Local governments serving a population of at least 500,000, as measured in the most recent census data, may elect to receive assistance directly from Treasury. Such direct local assistance allocations reduce the allocation that is made to the state government (keeping the state allocation constant), and are equal to the product of (1) the state or territory allocation amount, (2) the share of the state or territory population served by the local government, and (3) 45%.

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The sudden decline in economic output following the Coronavirus disease 2019 (COVID-19) outbreak has significantly altered the fiscal outlook for state and local governments. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136), signed into law on March 27, 2020, created the Coronavirus Relief Fund, which provides $150 billion in direct assistance for state and local governments. This report briefly summarizes the background, purpose, and allocation details of the Coronavirus Relief Fund. **Table 1** provides Congressional Research Service (CRS) estimates of Coronavirus Relief Fund allocations to states, **Table 2** provides allocation amounts to territories, and **Table 3** shows CRS estimates of local government direct assistance eligibility by state and territory.

Background

A sizable share of economic output derives from state and local government activity. State and local governments spent $3.7 trillion in 2017, 19% of gross domestic product (GDP), divided about equally across state governments (55% of combined state and local expenditures) and local governments (45% of combined state and local expenditures).[1] These governments are generally required to balance their operating budgets every one or two years. For more on how economic shocks affect state and local government activity, see CRS Insight IN11258, *State and Local Fiscal Conditions and Economic Shocks*.

Early evidence suggests that the COVID-19 economic shock will have a notable impact on state and local budgets. Consumption declines following nonessential business closures and social distancing efforts are likely to produce a sharp drop in sales tax revenues (35% of state and local own-source revenues in 2017). Spikes in unemployment and decreased firm profitability are expected to have a similar effect on individual and corporate income tax receipts (26% of own-source revenues).[2] Use of state and local spending programs is likely to increase, particularly for public welfare programs (19% of 2017 expenditures) as well as hospital and public health expenses (8% of 2017 expenditures).

The Coronavirus Relief Fund, established through Section 5001 of the CARES Act, offers a means of assistance for state and local governments. The Coronavirus Relief Fund provides a total of $150 billion in federal fiscal support for state and local governments, with eligibility dependent upon the location, level of government, and use of potential funds. Separately, Section 4003 of the CARES Act authorized use of Federal Reserve capacity to support up to $454 billion in debt issued by state governments, local governments, and eligible businesses. A similar fund, the State Fiscal Stabilization Fund, was created during the 2007-2009 recession by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5). The State Fiscal Stabilization Fund provided $54 billion to state and local governments, most of which was targeted to certain types of spending for education programs.[3]

[1] All state and local government finance data used in this report draw from U.S. Census Bureau, "2017 Survey of State & Local Government Finances," October 2019, available at https://www.census.gov/programs-surveys/gov-finances.html.

[2] There are no indications as yet of a comparable effect on the base for property taxes (32% of 2017 own-source revenues), which are predominantly collected by local governments.

[3] For more information about this program, see U.S. Department of Education, "State Fiscal Stabilization Fund," March 7, 2009, available at https://www2.ed.gov/policy/gen/leg/recovery/factsheet/stabilization-fund.html.

Eligible Purposes

Section 5001(d) of the CARES Act provides the eligible purposes for which Coronavirus Relief Fund payments may be used. Specifically, it allows state and local governments to make payments for programs that

> (1) are necessary expenditures incurred due to the public health emergency with respect to Coronavirus Disease 2019 (COVID-19);
>
> (2) were not accounted for in the budget most recently approved as of the date of enactment [March 27, 2020] of this section for the State or government; and
>
> (3) were incurred during the period that begins on March 1, 2020 and ends on December 30, 2020.[4]

Per Section 5001(f) of the CARES Act, the Inspector General of the Department of the Treasury determines whether Coronavirus Relief Fund payments are used for eligible purposes. Fund payments that are deemed for ineligible purposes are treated as a debt owed by the implementing government to Treasury.

Coronavirus Relief Fund payments may not be used to *directly* account for revenue shortfalls related to the COVID-19 outbreak. Such funds, however, may *indirectly* assist with revenue shortfalls in cases where expenses paid for by the Coronavirus Relief Fund would otherwise widen the gap between government outlays and receipts. For instance, if $3 billion in Coronavirus Relief Fund assistance is sent to a government with revenues that are $10 billion lower than expected and $5 billion in new COVID-19-related expenses, that assistance will reduce the fiscal gap (from $15 billion to $12 billion) by the same amount regardless of whether it applies to revenues or spending. Only in cases where governments have revenue shortfalls and less related spending than the program provides are governments limited by the eligible purpose restrictions. For instance, in that same example but with no new COVID-19-related expenses, the government could not use Coronavirus Relief Fund assistance despite its decrease in revenues.

Allocations Across States, Territories, and Tribal Areas

The CARES Act stipulates that the $150 billion provided to the Coronavirus Relief Fund is allocated to governments in states, territories, and tribal areas as follows:[5]

- $139 billion is allocated for governments in the 50 states based on their populations (as measured by the U.S. Census Bureau in 2019), with no state receiving less than $1.25 billion.
- $8 billion is set aside for governments in tribal areas, with each tribal area's allocation based on its share of aggregate tribal expenditures in FY2019, as determined by the Secretary of the Treasury in consultation with the Secretary of the Interior.
- $3 billion is allocated to the territories of the District of Columbia (DC), Puerto Rico, U.S. Virgin Islands, Guam, Northern Mariana Islands, and American Samoa, with each territory receiving an amount based on its share of the total

[4] Section 5001(d) of the CARES Act, p. 603.

[5] This allocation methodology differs from what was implemented by the American Recovery and Reinvestment Act of 2009 for the State Fiscal Stabilization Fund, which treated the 50 states, the District of Columbia, and Puerto Rico uniformly when implementing allocation procedures.

population across all territories, with populations determined by the Secretary of the Treasury.

Table 1 shows state allocations for Coronavirus Relief Fund payments. Due to the $1.25 billion minimum allocation for states, every state with an allocation greater than the minimum amount receives a smaller allocation share (excluding amounts provided to tribal areas) than its share of the population. Most states with a minimum allocation amount, in contrast, have a larger allocation share than their population share.

Table 1. Estimated Fund Allocations by State

State	Allocation ($ Billions)	Allocation %	Population	Population %
Alabama	1.901	1.4	4,903,185	1.5
Alaska	1.250	0.9	731,545	0.2
Arizona	2.822	2.0	7,278,717	2.2
Arkansas	1.250	0.9	3,017,804	0.9
California	15.321	11.0	39,512,223	12.1
Colorado	2.233	1.6	5,758,736	1.8
Connecticut	1.382	1.0	3,565,287	1.1
Delaware	1.250	0.9	973,764	0.3
Florida	8.328	6.0	21,477,737	6.6
Georgia	4.117	3.0	10,617,423	3.2
Hawaii	1.250	0.9	1,415,872	0.4
Idaho	1.250	0.9	1,787,065	0.5
Illinois	4.914	3.5	12,671,821	3.9
Indiana	2.610	1.9	6,732,219	2.1
Iowa	1.250	0.9	3,155,070	1.0
Kansas	1.250	0.9	2,913,314	0.9
Kentucky	1.732	1.2	4,467,673	1.4
Louisiana	1.803	1.3	4,648,794	1.4
Maine	1.250	0.9	1,344,212	0.4
Maryland	2.344	1.7	6,045,680	1.8
Massachusetts	2.673	1.9	6,892,503	2.1
Michigan	3.873	2.8	9,986,857	3.0
Minnesota	2.187	1.6	5,639,632	1.7
Mississippi	1.250	0.9	2,976,149	0.9
Missouri	2.380	1.7	6,137,428	1.9
Montana	1.250	0.9	1,068,778	0.3
Nebraska	1.250	0.9	1,934,408	0.6
Nevada	1.250	0.9	3,080,156	0.9
New Hampshire	1.250	0.9	1,359,711	0.4

State	Allocation ($ Billions)	Allocation %	Population	Population %
New Jersey	3.444	2.5	8,882,190	2.7
New Mexico	1.250	0.9	2,096,829	0.6
New York	7.543	5.4	19,453,561	5.9
North Carolina	4.067	2.9	10,488,084	3.2
North Dakota	1.250	0.9	762,062	0.2
Ohio	4.533	3.3	11,689,100	3.6
Oklahoma	1.534	1.1	3,956,971	1.2
Oregon	1.635	1.2	4,217,737	1.3
Pennsylvania	4.964	3.6	12,801,989	3.9
Rhode Island	1.250	0.9	1,059,361	0.3
South Carolina	1.996	1.4	5,148,714	1.6
South Dakota	1.250	0.9	884,659	0.3
Tennessee	2.648	1.9	6,829,174	2.1
Texas	11.243	8.1	28.995,881	8.9
Utah	1.250	0.9	3,205,958	1.0
Vermont	1.250	0.9	623,989	0.2
Virginia	3.310	2.4	8,535,519	2.6
Washington	2.953	2.1	7,614,893	2.3
West Virginia	1.250	0.9	1,792,147	0.5
Wisconsin	2.258	1.6	5,822,434	1.8
Wyoming	1.250	0.9	578,759	0.2
Total	**139.000**	**100.0**	**327,533,774**	**100.0**

Source: U.S. Treasury, "Data sources and the distribution methodology for units of local government," April 13, 2020, available at https://home.treasury.gov/policy-issues/cares/state-and-local-governments.

Note: Allocation and population percentages do not include the $8 billion in assistance provided to tribal governments.

Table 2 provides Coronavirus Relief Fund estimated allocations made to territories. Territory allocations are made in direct proportion to the relevant population estimate, with no minimum amount provided. Allocation shares for all territories except Puerto Rico are smaller than the state minimum amount.

Table 2. Estimated Fund Allocations by Territory

Territory	Allocation ($ Billions)	Population	Allocation %
American Samoa	0.035	50,135	1.2
District of Columbia	0.495	705,749	16.5
Guam	0.118	168,147	3.9
Northern Mariana Islands	0.036	51,718	1.2
Puerto Rico	2.241	3,193,694	74.7
U.S. Virgin Islands	0.075	106,631	2.5
Total	**3.000**	**4,274,608**	**100.0**

Source: U.S. Treasury, "Data sources and the distribution methodology for units of local government," April 13, 2020, available at https://home.treasury.gov/policy-issues/cares/state-and-local-governments.

Note: Allocation and population percentages do not include the $8 billion in assistance provided to tribal governments.

Allocations to Governments Within States and Territories

Coronavirus Relief Fund assistance is generally provided to state governments. Local governments serving a population of at least 500,000, as measured in the most recent census data, may elect to receive assistance directly from Treasury. Such direct local assistance allocations reduce the allocation made to the state government (keeping the state allocation constant) and are equal to the product of

- the state or territory allocation amount;
- the percentage of the state or territory population attributed to the local government; and
- 45%.[6]

The CARES Act does not explicitly prevent local governments (regardless of their eligibility for direct assistance) from receiving Coronavirus Relief Fund payments from state governments, so long as the funds are used for eligible purposes. State governments transferred $534 billion to local governments in 2017, or 28% of all local government revenues.

Table 3 provides the number of cities and counties in each state eligible for direct assistance and estimates of the total amount of available direct assistance for eligible local governments. Direct assistance eligibility varies greatly across states, ranging from those with no eligible localities (20 states) to those with local governments eligible for 38% of a state's allocation (Massachusetts and California). CRS calculates that local governments are eligible to receive $29.3 billion (21% of nontribal allocations) in direct assistance.[7]

In many cases, populations are served by more than one local government that is eligible for direct assistance from the Coronavirus Relief Fund (e.g., a city with a population of 700,000 located in a county with 200,000 other people, and thus with a county population of 900,000). Guidance from the Secretary of the Treasury clarified that in such cases, all overlapping

[6] Section 5001(c)(5) of the CARES Act.

[7] Treasury is using 2019 population data that are not yet publicly available in determining direct assistance eligibility and amounts provided to cities. **Table 3** figures for states that do have eligible cities with a portion of their population in ineligible counties are CRS estimates based on 2018 Census data.

governments are eligible for assistance. However, direct assistance payments to larger localities will be calculated using only their unique population, or will be reduced by any amounts also attributable to smaller localities receiving assistance (i.e., in the above example the county government only uses a population of 200,000 for its direct payment calculation).

Table 3. Estimates of Localities with Direct Assistance Eligibility by State and Territory

State	Eligible Localities	Maximum Direct Assistance Estimate ($ Billions)	% of State Allocation
Alabama	1	0.115	6
Alaska	0	—	—
American Samoa	0	—	—
Arizona	5	0.965	34
Arkansas	0	—	—
California	22	5.796	38
Colorado	6	0.559	25
Connecticut	3	0.469	34
Delaware	1	0.323	26
District of Columbia	0	—	—
Florida	13	2.472	30
Georgia	5	0.614	15
Guam	0	—	—
Hawaii	1	0.387	31
Idaho	0	—	—
Illinois	6	1.395	28
Indiana	2	0.168	6
Iowa	0	—	—
Kansas	2	0.216	17
Kentucky	2	0.134	8
Louisiana	0	—	—
Maine	0	—	—
Maryland	5	0.691	30
Massachusetts	8	1.017	38
Michigan	5	0.792	20
Minnesota	2	0.317	15
Mississippi	0	—	—
Missouri	2	0.296	12
Montana	0	—	—
Nebraska	1	0.166	13

State	Eligible Localities	Maximum Direct Assistance Estimate ($ Billions)	% of State Allocation
Nevada	2	0.414	33
New Hampshire	0	—	—
New Jersey	9	1.050	31
New Mexico	2	0.182	15
New York	7	2.408	32
North Carolina	4	0.481	12
North Dakota	0	—	—
Northern Mariana Islands	0	—	—
Ohio	6	0.778	17
Oklahoma	3	0.251	16
Oregon	3	0.249	15
Pennsylvania	8	1.029	21
Puerto Rico	0	—	—
Rhode Island	1	0.339	27
South Carolina	1	0.091	5
South Dakota	0	—	—
Tennessee	4	0.285	11
Texas	18	3.205	29
U.S. Virgin Islands	0	—	—
Utah	2	0.315	25
Vermont	0	—	—
Virginia	1	0.200	6
Washington	5	0.786	27
West Virginia	0	—	—
Wisconsin	3	0.260	12
Wyoming	0	—	—
United States	**171**	**29.217**	**20.6**

Source: Calculated by the Congressional Research Service using information from the U.S. Census Bureau.

Notes: Figures for states that do not have eligible cities with a portion of their population in ineligible counties reflect CRS calculations based on 2019 Census data. Figures for states that do have eligible cities with a portion of their population in ineligible counties are CRS estimates based on 2018 Census data. The fund does not provide for direct assistance to local governments within tribal areas. Allocation percentages in this table therefore exclude amounts set aside for tribal governments.

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