State Delaying Issuance of Budget Cuts and Holding Back Release of Local Aid
May 20, 2020

As NYCOM has reported in the past, pursuant to language included in the State's adopted budget, the Governor has the ability to make mid-year cuts, and his financial plan update released at the end of April suggested that Aid to Localities would need to be cut by $8.2 billion. He has stated that this may necessitate across-the-board cuts of 20% to all local aid – but estimates as high as 50% have also been mentioned in the press. Last Friday, the State Comptroller released the state's April cash report and it documents the anticipated significant decline in state tax revenues, primarily as a result of the 3-month delay in the income tax filing deadline.

While originally it was rumored that the first round of budget cuts would be made public last Friday, during his press conference that day the Governor indicated that he was going to wait to see what action Congress took regarding state/local aid and the Budget Director said that a deficit reduction plan would be released "within the month of May." In the meantime, however, to make up for the significant declines in revenue, the State has implemented strict spending controls which include holding all discretionary local aid grants until further notice. An article in the Wall Street Journal on Monday indicated that the May and June AIM payments to 12 cities totaling $370.3 million are included among those payments being held up indefinitely.

Bipartisan Bill Introduced in Congress to Provide Direct Federal Funding to Local Governments

The HEROES Act passed by the House last week was a negotiating marker that appeared intended to jumpstart real negotiations over federal stimulus funding for state and local governments. While the HEROES Act legislation was swiftly rejected by the U.S. Senate leadership, a bipartisan piece of legislation providing federal aid to state and local governments is still possible. An encouraging development is the fact that a bipartisan bill previously introduced in the U.S. Senate by Sen. Menendez (D-NJ) and Sen. Cassidy (R-LA) was unveiled this week with amendments to provide $500 billion in pandemic relief for states and ALL local governments. New co-sponsors have been added, including Sen. Manchin (D-WV), Sen. Hyde-Smith (R-MS), Sen. Booker (D-NJ) and Sen. Collins (R-ME). While not providing the $875 billion proposed as part of the House's HEROES Act, the SMART ("State and Municipal Assistance for Recovery and Transition") Act is encouraging as it is the only -- and increasingly bipartisan -- state and local aid bill in the Senate. A bipartisan group of Representatives, including New York's Tom Reed, Peter King and Elise Stefanik, are introducing a companion SMART bill in the House.

Specifically, the SMART Act would provide $500 billion to state, local, and tribal governments in order to avoid massive layoffs, steep tax hikes, and a breakdown of essential services. After a five percent set aside for Native American tribal governments, the remaining funding would be allocated amongst states through three equally divided tranches:

1. **One-Third Based on Population Size.** This tranche of funding would be allocated to all 50 states, D.C. and U.S. territories in proportion to each respective state or territory’s percentage of the U.S. population. Counties and municipalities would each receive one-sixth of their state’s allocation for a combined total of one-third of their state’s allocation from this tranche. Funding would be distributed to counties and municipalities based on each county or municipality’s proportion of the state’s population for this tranche.

2. **One-Third Based on Infection Rates.** This tranche of funding would be allocated based on each state’s relative share of the nation’s infection rate. States that have disproportionately high infection rates will incur significantly higher expenses and would likely need to continue stay-at-home orders for longer periods of time, leading to larger revenue losses. Counties and municipalities would each receive one-
sixth of their state’s allocation for a combined total of one-third of their state’s allocation from this tranche. Funding will be distributed to counties and municipalities based on each county or municipality’s proportion of the state’s population for this tranche.

3. One-Third Based on Revenue Losses. This tranche of funding would be allocated based on each state’s revenue loss in proportion to the combined revenue loss of all the states from January 1, 2020 through December 31, 2020. States that took strong actions to curb the spread of the coronavirus should not face additional budget shortfalls as a result of taking responsible action. Counties and municipalities would each receive one-sixth of their state’s allocation for a combined total of one-third of their state’s allocation from this tranche. Funding would be distributed to counties and municipalities based on each county or municipality’s revenue loss from January 1, 2020 to December 31, 2020 in proportion to the combined revenue loss for all counties and municipalities in the state over this period. This is designed to ensure that adequate funding flows to counties and municipalities that are disproportionately affected relative to their population.

The SMART Act would not impose a population threshold for counties and municipalities to receive direct funding. As a result, every county and municipality in the country will receive direct funding. Funding could be used by state and local governments for COVID-19 response, including the local cost share for FEMA Public Assistance grants; operational expenses; and to make up for lost revenue. This flexibility is also applied retroactively to the Coronavirus Relief Fund included in the CARES Act.

As soon as aid amounts for the SMART Act are available, NYCOM will distribute them to our members.