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How state and local governments fared in the coronavirus relief bill

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Senate Majority Leader Mitch McConnell said Senate Republicans were able to exclude "unconstrained bailouts for state and local government, with no connection to COVID needs." ***Bloomberg News***

The biggest consolation prize for state and local governments in the $900 billion emergency coronavirus agreed by Congress is an additional year to spend leftover CARES Act funds.

The deadline for spending the $150 billion Coronavirus Relief Fund, which provided direct grants to states and some large cities and counties, is extended through the end of 2021 but without any new flexibility for how to use the money such as covering revenue shortfalls.

Although the final deal left out new direct funding for state and local governments, there are numerous direct grants that should help them.

The package includes $82 billion for elementary, secondary, and higher education; $45 billion for transportation that includes allocations for transit and airports; $63 billion for healthcare that includes vaccine procurement and COVID-19 testing; $25 billion for emergency rental assistance; $26 billion for nutrition and agriculture programs; and $12 billion for community lenders.

In addition, there's $166 billion for direct payments to individuals of $600; $325 billion for aid to small businesses; and $120 billion for extending special unemployment benefits another 11 weeks.

The National Governors Association and National League of Cities are among the groups that are predicting dire consequences from being left out.

"The states are the country. If you bankrupt the states, you bankrupt the country," said NGA Chairman Andrew Cuomo, the governor of New York.

Cuomo said Monday that NGA, with more Republican governors than Democrats, sent a letter to Congress asking for $500 billion in state and local assistance.

"Do you know what we got in this bill? Zero," Cuomo said, although he did acknowledge that what Congress has agreed to is better than doing nothing.

NLC Executive Director and CEO Clarence Anthony said in a press statement that Congress "ignored the guidance of economists and local leaders on both sides of the aisle."

Anthony predicted, "Local governments will be forced to make cuts to critical services and personnel, hampering our country's ability to heal from this sickness and dragging our national economy for years of uncertainty to come."

Senate Majority Leader Mitch McConnell, on the other hand, hailed the fact that Senate Republicans were able to exclude "unconstrained bailouts for state and local government, with no connection to COVID needs."

McConnell said the package contains "just smart targeted bipartisan policies. What Senate Republicans have been recommending since the summer."

McConnell credited Sen. Pat Toomey, R-Pa., for successfully fighting for a provision that “winds down some of the temporary, emergency powers we lent the Federal Reserve to make sure our financial system survived last spring.”

That provision prevents the Fed from restarting the Municipal Liquidity Facility without a new authorization from Congress.

On the plus side for state and local governments, the legislation contains essentially all of the provisions contained in a recent bipartisan $748 billion package announced by a group of senators and House lawmakers.

Additional funding for state and local governments will have to wait until after the Biden administration takes office.

One noteworthy tax provision for the public finance sector is the inclusion of an enhanced Low Income Housing Tax Credit, which should promote the increased issuance of multifamily housing private activity bonds.

Nick Martin, a spokesman for Rep. Suzan DelBene, D-Wash., said in an email the bill will create a minimum 4% rate for affordable housing developments that “will keep production of affordable housing moving and create 130,000 new affordable homes by making them more financially feasible.”

About half of the multifamily housing units built nationally that use the federal 4% credit are financed with tax-exempt PABs. The other half use a 9% federal tax credit that does not allow PAB financing.

The 4% tax credit used for multifamily PABs often ends up being 15% to 20% less than advertised because of current borrowing formulas which the legislation would replace with a standardized 4% rate that is expected to boost the use of multifamily PABs.

DelBene’s bipartisan Affordable Housing Credit Improvement Act (H.R. 3077) has 231 cosponsors in the House.

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