

## **Municipalities and COVID-19**

### Financial and Budgetary Considerations

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As cities and towns around the State of Mississippi and around the country deal with the COVID-19 pandemic, the first thought by officials is to provide for the health and safety of residents by taking the necessary actions and best possible precautions as a municipal government.

But secondarily, the financial health of the municipality must also be considered. This is true for every municipality in the state, no matter how large or how small. It is expected that the disruption of commercial activity during the pandemic will lead to the delay or reduction of sales tax revenue and other tax revenue such as gaming tax, where applicable. The full impact will be better quantified over the coming months as the tax diversions from the shutdown period come in. While we don't know the duration of this commercial disruption, every municipality should assume that there will be some reduction in tax revenue over the coming months and perhaps even into the new budget year. With that assumption, municipalities should begin to plan, assess, evaluate options and take action now.

To date there is very little, if any, direct or indirect federal aid through grants or loans for operations for municipalities except for the very largest cities around the country. No municipality in Mississippi meets the population threshold for grants or loans under the federal legislation passed in response to COVID-19 (the "CARES Act"). The CARES Act does provide assistance to private businesses, so to the extent you can, be a resource to the businesses in your community to help them access the CARES Act benefits. The more businesses in your municipality that stay in business, the better. Hopefully there will be more information forthcoming on how municipal budgets can benefit directly from the CARES Act but that will be for another discussion.

Below are some things to consider for now.

1. Assume some reduction in budgeted revenue.
2. Assess the cash reserves in both governmental and enterprise funds for possible use if absolutely necessary.
3. Assess and ensure that funds needed for debt service payments are allocated and paid on time. Even during a pandemic there are negative ramifications for a municipality from late or non-payment of public type debt such as general obligation or water and sewer revenue bonds.

4. Keep track of and document expenses related to COVID-19 response and whether the expenditure is budgeted or not. (This documentation might be helpful with FEMA assistance or if the CARES Act is expanded or made available to smaller cities.)

5. Apply to FEMA for assistance under the COVID-19 national emergency declaration. Seek guidance from MEMA/FEMA on eligible emergency protective measures and expenditures under the FEMA Public Assistance Program.

6. Begin to align your budget to meet anticipated revenue shortfalls by implementing cost saving measures wherever possible. Some measures may include cutting unnecessary expenditures, such as travel and those planned new computers or other equipment. Unfortunately, some cuts could be in certain city services and in furloughing employees. (Please consult with your city attorney and human resources professional to understand the process and ramifications, such as unemployment insurance, continued health insurance coverage, etc. for furloughed employees.)

7. Begin planning for next year's budget with the potential of revenue reduction in mind. While most cities rely heavily on sales tax revenue, the ad valorem levy should also be considered for adjustment.

8. Examine and consider the use of debt financing options. The options are more fully described in a related paper, but they include: restructuring debt to better align debt service with expected revenue; refund debt for interest rate savings where possible; and borrowing funds on a short or long term basis for operational purposes to cover expected revenue short falls. Municipalities have several options for such borrowing that include short fall notes, tax anticipation notes and borrowing under the emergency statute. Specifically, this statute recognizes an "epidemic" as an emergency that allows a city to act under Section 21-35-19 of the Mississippi Code.

9. Communicate with your municipal and county government colleagues around the state and your MML for other best practices as we all get through this COVID-19 crisis together.

For additional information, contact your MML or Steve Pittman with Government Consultants, Inc. at 601-214-3906 or email [spittman@gc-ms.net](mailto:spittman@gc-ms.net).

## **USEFUL MUNICIPAL FINANCING OPTIONS FOR COVID-19 ECONOMIC CRISIS**

In Mississippi, municipalities must have explicit authority delegated by statute to borrow money – even during a pandemic.

Issuing short-term debt and/or restructuring existing debt may be necessary to address cashflow issues that municipalities experience as a result of reduced sales taxes, costs of providing additional services, etc.

If such financing becomes necessary, below are the primary options available to municipalities under Mississippi Law along with general descriptions:

- **Shortfall Notes.** When estimated tax and other revenue from local sources is less than budgeted estimates for the fiscal year due to unanticipated circumstances, Miss. Code § 27-39-333 allows the municipality to borrow in order to fill the shortfall up to 25% of the budget anticipated to be funded from the sources of the shortfall.
- **Tax Anticipation (TAN) Notes.** To help with cash flow during the fiscal year, municipalities may, pursuant to Miss. Code § 21-33-325, borrow in anticipation of taxes and other revenue not yet received, but budgeted and anticipated.
- **Emergency Expenditure Notes.** Miss. Code §§ 21-35-19 et seq., provides the ability to borrow in case of certain emergency situations.
- **Short Term Notes.** Miss. Code §§ 17-21-51 et seq., authorizes short term borrowing for up to five years to accomplish any purpose for which the municipality is otherwise authorized by law to issue bonds, notes or certificates of indebtedness, but is limited in the aggregate to the greater of \$250,000 or 1% of the municipality's assessed value. This procedure does not require publication of intent or provide for protest.
- **Grant/Loan Anticipation Notes.** Miss. Code §§ 21-33-326 authorizes interim financing of projects in anticipation of confirmed State or Federal loans or grants.
- **Restructuring/Refunding Debt.** Municipalities may issue refunding bonds in order to refinance its existing debt in order to realize interest costs savings or restructure in order realize more favorable terms. Miss. Code §§ 31-25-1 et seq., 31-15-21 et seq., and 31-27-1 et seq.
- **State Administered Programs.** There are a variety of State grant and lending programs that municipalities may apply and qualify for which are designed to assist and compliment local efforts to finance projects. Examples include, but are not limited to, programs administered by the Department of Transportation, Department of

Environmental Quality, Mississippi Development Bank, Mississippi Development Authority, and Mississippi Department of Archives and History, just to name a few.

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## **SUMMARY OF COVID-19 FUNDING UNDER CARES ACT RELATED TO STATES/LOCAL GOVERNMENTS**

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act) was passed by Congress March 27, 2020 and provides funding for economic support to the public and private sectors through direct and indirect grant and loan programs. Depending on the program, local governments might be required to apply for funding to a Federal Agency or the State. In several cases regulations are still being drafted at both the State and Federal level that will provide guidance to local governments with respect to eligibility, use of funds, etc. Below is an overview of those programs in the CARES Act that may be used to assist local governments.

- **COVID-19 Relief Fund**
  - \$150bb grant to states and some local governments (populations over 500,000) for COVID-19 expenditures that were non-budgeted and occurring between March 1, 2020 and December 31, 2020
  - MS will receive \$1.25bb
  - Treasury released additional guidance on 4/22 that authorizes states to provide the funds to local governments, provided it meets the overarching parameters in the first bullet above
  - Local governments must apply to the State for funds, if the State makes them available to local governments
  - Funds not spent by 12/30/20 must be returned
  - Treasury guidance can be found at:  
<https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Guidance-for-State-Territorial-Local-and-Tribal-Governments.pdf>
  - Treasury FAQ can be found at:  
<https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>
- **Department of Defense**
  - \$15bb for deployment of up to 20k National Guard troops for 6 months
  - Coordination with National Guard Bureau to obtain funds in consideration of hot spot areas
- **Department of Justice Byrne-JAG Grants**
  - \$850mm available to State and local law enforcements to obtain funds for COVID-19 related expenditures, including overtime pay
  - **Applications are due 5/29 and may be accessed here:**  
<https://bja.ojp.gov/funding/opportunities/bja-2020-18553>
- **Department of Homeland Security**
  - FEMA Disaster Relief
    - \$45bb for immediate needs, medical response, PPE, National Guard deployment, coordination of logistics, safety measures and community services
    - Available to state and local governments
    - Process to obtain via Robert Stafford Act

- Fire Grants
  - \$100mm administered by FEMA
  - Fire departments and state fire academy for COVID-19 expenditures
- Emergency Preparedness
  - \$100mm administered by FEMA for emergency preparedness
  - The FY 2020 EMPG-S program assists states, local governments, tribes and territories with their public health and emergency management activities supporting the prevention of, preparation for and response to the ongoing Coronavirus Disease 2019 (COVID-19) public health emergency. FEMA will award funding to support planning and operational readiness for COVID-19 preparedness and response, as well as the development of tools and strategies for prevention, preparedness, and response, and ensure ongoing communication and coordination among federal, state, local, tribal and territorial partners throughout the response.
  - **Deadline for states to submit initial applications is 4/27 and information can be found here:** <https://www.fema.gov/media-library/assets/documents/187029>
- **Department of Education**
  - \$30.75bb Education Stabilization Fund
    - \$13.5bb to states for K-12 education
    - \$3bb to states for governors to allocate for emergency support grants
    - \$14.25bb for higher education emergency relief to defray expenses for higher ed, such as lost revenue, distance learning expenses and grants to students
    - \$100mm for funding elementary and secondary schools and higher learning institutions relating to immediate COVID-19 needs
    - More information may be found here: <https://www2.ed.gov/about/offices/list/ope/caresact.html>
- **HHS**
  - \$100bb in Provider Relief Fund to healthcare providers directly
    - \$50bb of this money is allocated for general distribution to Medicare facilities and providers impacted by COVID-19, based on eligible providers' 2018 net patient revenue.
      - \$30bb initially distributed between April 10 and April 17
      - Remaining \$20bb to be distributed beginning April 24
  - More information may be found here: <https://www.hhs.gov/provider-relief/index.html>
  - CDC
    - \$4.3bb to support federal, state and local public health agencies related to COVID-19
    - Also includes at least \$8.1mm for CDC assistance grants to states and cities via the Public Health Emergency Preparedness program
- **USDA**

- ReConnect Loan and Grant Program
  - \$100mm to ensure rural Americans have access to broadband
  - States and local governments are eligible entities
- Distance Learning, Telemedicine and Broadband Program
  - \$25mm to improve distance learning and telemedicine in rural communities
  - Libraries, K-12 schools, hospitals, higher ed institutions, state and local governments are eligible entities
  - More information may be found here: <https://www.rd.usda.gov/programs-services/distance-learning-telemedicine-grants>
- Emergency Food Assistance Program (TEFAP)
  - \$450mm to help food banks with increased need
  - Money and food distributed to state governments, which then distribution food and funding to food banks
- SNAP
  - \$15.5bb in additional SNAP funding
- Child Nutrition Programs
  - \$8.8bb in additional funding
- **Department of Commerce**
  - Economic Development Administration
    - \$1.5bb to help revitalize local communities
    - States and local governments eligible
    - Must demonstrate unemployment rate over 1% greater than national average or other certain unemployment or economic adjustment problems
- **Election Assistance Commission**
  - \$400mm in election assistance to states to prepare for 2020 election cycle to increase early voting, vote by mail and online registration
  - State matching component required
- **Grants for the Arts and Humanities**
  - \$75mm for National Endowment for the Arts
  - 60% towards grants and 40% distributed to state art agencies and regional arts organizations
  - Information can be found here: <https://www.arts.gov/grants-organizations/CARES/grant-program-description>
  - 75\$mm for National Endowment of Humanities
  - 60% towards grants and 40% to state humanities councils
  - Information can be found here: [https://www.neh.gov/COVID19\\_FAQs](https://www.neh.gov/COVID19_FAQs)
- **Community Services Block Grant (CSBG)**
  - \$1bb in additional funding to states to serve individuals up to 200% of the federal poverty level instead of the normal 125%
- **Institute of Museum and Library Services**

- \$50mm in grants to states to expand digital network access, purchase internet accessible devices and provide technical support services
- **Department of Transportation**
  - Federal Transit Administration
    - \$25bb for transit systems to continue to operate and cover COVID-19 expenditures, including pay for admin leave
  - Amtrak/Intercity Passenger Rail
    - \$1bb to provide support to intercity passenger rail services with operating assistance to Amtrak and to states for their share of state-supported routes
  - FAA
    - \$9.4bb to airports to prevent, prepare and respond to COVID-19
- **HUD**
  - \$3bb for housing providers for low-income households to safely remain in homes or access temporary housing
  - \$5bb to CDBG
    - 70% allocated to cities over 50,000 and counties over 200,000
    - 30% allocated to states (this money is usually spent on smaller towns/counties)
  - \$4bb for Homeless Assistance Grants
- **Administration for Children and Families**
  - \$3.5bb to the Child Care and Development Block Grant to allow states to pay assistance to child care providers in case of decreased enrollment or closures related to COVID-19 so they remain open or reopen

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