



BTC Brief

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NC General Assembly should use federal dollars to build an equitable response to the COVID-19 pandemic

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In response to the public health and economic crisis caused by the COVID-19 pandemic, Congress has passed three major pieces of legislation, totaling over \$2 trillion. However, the current level of federal fiscal relief is not enough for state and local governments to adequately and urgently respond to the COVID-19 pandemic and economic downturn that will have serious immediate and long-term effects.

The current public health crisis has highlighted the inequities in our state's public infrastructure, safety net system, and public trust, which are the result of public policy choices that prioritize the needs of the wealthy over everyone else. The pandemic will almost certainly exacerbate long-term racial inequalities, and data already have shown the disproportionately negative impact of COVID-19 on Black and Hispanic North Carolinians.¹ Racial wealth gaps, educational opportunity gaps, and disparities in health outcomes will become more stark during this pandemic and in its aftermath and will require deliberate efforts to address the impacts of systemic racism.

The current public health crisis has highlighted the inequities in our state.

Building up the state's public systems — including adequate unemployment

1 NC DHHS. COVID-19 Case Count. <https://www.ncdhhs.gov/divisions/public-health/covid19/covid-19-nc-case-count#by-race-ethnicity> and Kaiser Family Foundation. 2020. Communities of Color at Higher Risk for Health and Economic Challenges due to COVID-19. <https://www.kff.org/disparities-policy/issue-brief/communities-of-color-at-higher-risk-for-health-and-economic-challenges-due-to-covid-19/>

insurance, an accessible safety net, public health system and access to health care, and small business supports — during and after this crisis through smart public investments will benefit the well-being of all North Carolinians.

Our state's failure to adequately raise revenue during relatively good economic times has made us less prepared for this crisis and less able to recover quickly. Our state's upside-down tax code and history of cutting taxes for the wealthy and corporations has resulted in a tax system that fails to raise the revenue needed to respond to the current crisis and be more resilient to future crises and disasters.

North Carolina state policymakers have an essential role to play in maximizing the use of federal funds, directing dollars to critical programs, assisting local governments in avoiding budget shortfalls, and making sure the state's tax code can raise the revenue required to meet the urgent needs in communities.

“North Carolina state policymakers have an essential role to play in maximizing the use of federal funds.”

Principles to guide North Carolina's response

Our state must prioritize the well-being of North Carolinians by developing an equity-first response. That means addressing the needs of communities most at-risk and allocating funds in ways that dismantle the structural systems of oppression.

- **Pursue well-being above bottom lines:** Prioritize slowing the spread of COVID-19 by ensuring that North Carolinians can safely shelter in place through stable housing and income supports. This means ensuring that people can meet their basic needs by accessing health services, food assistance, safe housing, and income support.
- **Value caring work:** Address the immediate health care needs of the people most vulnerable to the virus — those working to fight it in health care and emergency response and those on the front lines of employment disruption due to public health recommendations.
- **Include all people:** Ensure that every person in North Carolina — including those with limited English proficiency, low literacy, and limited access to information — can access information important for their health and safety. Together with local faith, immigrant, refugee, and community groups, conduct a public awareness campaign to disseminate accurate and accessible information about COVID-19 on how individuals can protect themselves, access up-to-date information, and understand and exercise their rights.
- **Build resilient systems:** Prioritize the use of funds to minimize the harm of income loss and promote long-term institution building that is oriented toward anti-racist outcomes through public investments.

- **Lift up public institutions:** Leveraging all available resources with commitments from federal and state government and consideration of revenue options will be critical for the robust, sustained response that will be needed. Addressing the immediate crisis and its long-term effects will require ongoing investments.

Federal funds should be deployed quickly to meet needs

As North Carolina's fiscal landscape evolves, policy solutions should prioritize community needs that have gone overlooked for decades. Communities of color are suffering disproportionately negative impacts during the COVID-19 pandemic, and they deserve targeted investments that contribute to anti-racist outcomes.

The information provided here is preliminary and in some cases does not reflect the funding North Carolina would receive but rather describes the total funding appropriated in the federal legislation for a given area. In addition, federal agencies are still in the process of issuing guidance to states as to the allowable uses of funds. Finally, a fourth federal response is being considered and should include increased federal coverage of the state Medicaid share, expanded SNAP benefits, further direct cash payments to households, additional resources for housing, and more fiscal relief for states and counties.

Congress has passed two pieces of legislation that provide state fiscal relief:

- The **Families First Coronavirus Response Act** included an increase in the share of Medicaid expenses that the federal government will cover.
- The **Coronavirus Aid, Relief, and Economic Security (CARES) Act** provided funding for state, local, and tribal governments as well as resources for education and small businesses. The CARES Act created two funds for states: the Coronavirus Relief Fund and the Education Stabilization Fund.

Families First Coronavirus Response Act

The key provision in the Families First Coronavirus Response Act for state budgets is the temporary increase in the Federal Medical Assistance Percentage (FMAP) rate of 6.2 percent, or the amount the federal government pays relative to the state, which would bring North Carolina's rate up from 67 percent to 73 percent for services provided through Medicaid.

- This increase would be retroactively effective from the beginning of the quarter in which the public health emergency was declared, which would be January 2020. The increased FMAP would apply through the end of the quarter in which the public health emergency ends.
- Estimates of the additional federal funds North Carolina would receive range from \$900 million through the end of 2020² to \$210 million to \$225 million per

2 Center on Budget & Policy Priorities. <https://www.cbpp.org/blog/medicaid-funding-boost-for-states-cant-wait>

quarter of federal funds in addition to \$180 million to \$195 million in General Fund savings.³

Coronavirus Relief Fund

This fund, a major component of the CARES Act, includes an estimated \$4 billion for North Carolina — \$3.6 billion for the state General Fund and \$481 million for local governments with populations over 500,000.⁴

- Only three counties in North Carolina have populations large enough to qualify for direct aid through this fund — Guilford (pop. 539,666), Mecklenburg (pop. 1,108,107), and Wake (pop. 1,089,579). Most of North Carolina’s local governments will be looking to the state for assistance in addressing budget shortfalls that may result from responding to COVID-19.
- Treasury must release these funds within 30 days, before April 27.
- Funds must be used for “necessary” expenditures “incurred due to” the virus. These expenditures must not be “accounted for” in the current budget.
- As state and local governments lose revenue as a result of COVID-19, certain unfunded expenditures will no longer be “accounted for” and may qualify for federal aid.

Figure 1: Federal Fiscal Aid

CORONAVIRUS RELIEF FUNDS FOR NORTH CAROLINA	
Estimated Share to the State	\$3.6 billion
Estimated Share to Local Governments	\$481 million
Guilford County	\$94.8 million
Mecklenburg County	\$194.7 million
Wake County	\$191.5 million
TOTAL Funds to North Carolina (State & Local)	\$4.067 billion

Estimated share of local funding based on BTC analysis using OSBM population data, based on the assumption that funds would be allocated based on population share.

Education Stabilization Fund

This second major provision of the CARES Act includes an estimated \$831.6 million for North Carolina divided into three primary parts:⁵

3 NC Fiscal Research Division. <https://www.ncleg.gov/documentsites/committees/house2019-199/Health%20Care%20Working%20Group/04-02-2020/II.%20COVID-19%20Federal%20Impact%20Summary%20for%20Health%20and%20Human%20Services.pdf>

4 Center on Budget & Policy Priorities. <https://www.cbpp.org/research/state-budget-and-tax/how-will-states-and-localities-divide-the-fiscal-relief-in-the>

5 Center on Budget & Policy Priorities. <https://www.cbpp.org/research/state-budget-and-tax/how-much-will-states-receive-through-the-education-stabilization-fund>

- **Funding for K-12 Public Education:** Approximately \$378.4 million will be distributed to the state, which then must pass at least 90 percent of the funds along to school districts. North Carolina's allocation will be based on its share of funding under Title I, the federal government's primary funding program for high-poverty schools.
- **Funding for Colleges and Universities:** Totalling approximately \$357.6 million. About 90 percent of this funding will be distributed to public and private colleges and universities based on North Carolina's share of Pell Grant recipients. Another 7.5 percent will go to HBCUs and other institutions serving students of color. The remaining 2.5 percent will be distributed by the Secretary of Education to institutions identified as particularly harmed by the virus and economic downturn.
- **Emergency Relief:** Approximately \$95.6 million. Gov. Roy Cooper will have the authority to distribute aid to the educational institutions that have been particularly impacted by the virus and downturn. North Carolina's allocation will be determined by the state's share of the nation's school-aged population and Title I students.

State actions urgently needed

In light of the substantial impact that the public health emergency and resulting economic downturn are having on North Carolina, the NC General Assembly must act to allocate federal funds to agencies, identify where gaps exist, pursue revenue options that meet increased demand for public services, and fix current limitations of the state's revenue structure to ensure that North Carolina can emerge from this pandemic on firm fiscal footing.

The economic and health impacts of this pandemic will extend far longer than the official conclusion of the public health crisis, and the effects will be felt most by those who were worse off before the crisis began. North Carolina's rapid response to the crisis — by quickly deploying new federal dollars to the above priorities — will be an important initial step in helping North Carolina weather this crisis and emerge more resilient.