INTERIM JOINT COMMITTEE ON LOCAL GOVERNMENT

Minutes of the 1st Meeting
of the 2020 Interim

June 24, 2020

Call to Order and Roll Call

The first meeting of the Interim Joint Committee on Local Government was held on Wednesday, June 24, 2020, at 9:00 AM, in Room 171 of the Capitol Annex. Representative Michael Meredith, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Wil Schroder, Co-Chair; Representative Michael Meredith, Co-Chair; Senators Ralph Alvarado, Denise Harper Angel, Christian McDaniel, Robby Mills, Michael J. Nemes, Damon Thayer, and Johnny Ray Turner; Representatives Danny Bentley, Randy Bridges, George Brown Jr, Jeffery Donohue, Larry Elkins, Deanna Frazier, Joe Graviss, Cluster Howard, Regina Huff, Kim King, Adam Koenig, Jerry T. Miller, Brandon Reed, Rob Rothenburger, John Sims Jr, and Ashley Tackett Laferty.

Guests: Dennis Keene, Billie Johnson, and Jennifer Peters, Department for Local Government; Paul Coomes, Pegasus Institute; J.D. Chaney, Kentucky League of Cities; and Shellie Hampton, Kentucky Association of Counties.

LRC Staff: Mark Mitchell, John Ryan, Joe Pinczewski-Lee, and Cheryl Walters.

Issues relating to COVID-19 Relief Programs

Commissioner Dennis Keene, Department for Local Government (DLG), told the Committee that DLG is administering Coronavirus Relief Funds and Community Development Block Grant Covid Funds. Governor Beshear announced a $300 million award to city and county governments as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act. The Act established the Coronavirus Relief Fund (CRF) to reimburse local governments for expenses incurred in response to the public health emergency caused by COVID-19.

The funding will be allocated to city and county governments based on approximate population size as recorded in the most recent census data. Guidelines include expenses that: are necessary expenditures incurred due to the public health emergency with respect to COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020; and were incurred during the period that began on March 1, 2020 and ends on December 30, 2020.

Eligible reimbursements may include but are not limited to: the purchase of personal protective equipment (PPE) for health and safety employees; expenses for communication and enforcement by governments for COVID-19-related public health orders; expenses for food delivery to nursing homes and vulnerable populations; improvements necessary for public employees to telework to comply with public health precautions; expenses for disinfection of public spaces and facilities; and payroll expenses for public safety, public health, health care, human services and similar employees who dedicated substantial time to mitigating or responding to the public health emergency.

In addition to the CRF, DLG has been informed that the Office of Federal Grants within DLG will receive Community Development Block Grant COVID Funds. The first round of $2 billion was distributed using the already established 2020 CDBG formulation and Kentucky's State and Small Cities Program received $15.5 million to be used in non-entitlement areas. In the second round, Kentucky received $16.9 million to use statewide, focusing on the following: assistance to low-income individuals, elderly persons, and need children; families and entities impacted by economic and housing market disruptions; and efforts to reduce risks of transmission and number of COVID-19 cases. The third round of funds will be released at a later date.

In order to help DLG assess communities' needs, a survey was distributed to 520 communities with 185 responses received. The two areas of greatest need for assistance included assistance with unpaid utility bills and the need for public services (i.e. Meals on Wheels, recovery centers, community action agencies, and workforce development). While those areas were identified as the areas of greatest need, to ensure the reduction of the risk of duplication of benefits from other federal and state resources, DLG is ensuring the program will allow as much flexibility to best assist those communities in need. DLG will follow its currently established application submission process in best deploying the resources throughout the Commonwealth.

In response to a question from Senator Thayer, Ms. Billie Johnson, Acting Executive Director of the Office of Federal Grants, replied that local health departments are not covered under the CARES Act. Health departments are receiving other funding.

In response to another question from Senator Thayer, Ms. Johnson said DLG would not administer funds to local health departments, and she did not know who would.

Senator Thayer stated that he is interested in finding out who will administer funds to the local health departments and when local health departments would receive those funds. Commissioner Keene replied that if his staff finds out that information, Senator Thayer will be made aware.

Representative Graviss told Commissioner Keene that he wanted to let him know how helpful his staff were in assisting the people of his district.

In response to a question from Representative King, Ms. Johnson said she was not aware of any parameters in place to protect tax payers in terms of tax increases once the program ceases.

In response to a question from Representative Rothenburger, Ms. Johnson answered that DLG is in the process of contracting with the federal government for funds to start to go out July 1st.

In response to another question from Representative Rothenburger, Ms. Johnson stated that it takes two and a half weeks to get checks to local governments.

In response to a question from Representative Koenig, Ms. Johnson said contracts are given to cities and counties who then set up contracts with businesses for small business loans.

In response to a question from Representative Frazier, Ms. Johnson replied that the CDBG COVID funds were distributed using the same process and formulation that was already in place.

In response to a question from Representative Miller, Ms. Johnson stated that the Department strictly allocated CDBG funds and no others.

In response to a question from Representative Elkins, Ms. Johnson replied that a rating system is not used for the distribution of funds. It is a reimbursement program and does not use a scoring system.

In response to another question from Representative Elkins, Ms. Johnson said reimbursement is not done on a first come, first served basis. Each county has their own allocation of the CARES Act funds; however, CDBG funds are allocated using a scoring system, but they are two different funding streams.

In response to a question from Senator Mills, Ms. Johnson explained that the total amount of COVID funds include $300 million for cities and counties in the CARES Act and $2 billion total CDBG funds with $15.5 million in the first phase and $16.9 million being available in the second round.

In response to a question from Representative Bentley, Ms. Johnson agreed that relating to the reimbursement, rural areas apply for the application, have the letter, see the benefits, get the memorandum, then receive the money.

In response to a question from Representative Meredith, Ms. Johnson stated that decisions are made by merit employees to approve the applications for receiving funds.

In response to another question from Representative Meredith, Commissioner Keene said the cities not exhausting their allotted funds can transfer those remaining funds to the county.

Representative Meredith told Commissioner Keene that once the COVID funds have been exhausted, the Committee might have DLG come back and report on how the funds were spent.

Fiscal Impacts on Local Governments relating to Economic Impact of COVID-19

Dr. Paul Coomes, Senior Fellow with the Pegasus Institute, told the Committee that he was invited to discuss the local government tax structures in light of the effects of COVID-19. The economic data looks awful with Kentucky having had the highest number of unemployment insurance claims per capita for a couple of weeks. Kentucky was down 287,000 jobs through May, about 15 percent of the total number of jobs in Kentucky. However, the fiscal data coming in has been better than the economic data. The tax structure at the local level has held up reasonably well given the economic damage occurring around the state. Revenue from property taxes and insurance premium taxes continue to grow. Many local governments have used the last several years to build up reserves for their rainy day funds, and some have utilized the rainy day funds. The CARES Act also benefitted Kentucky. Louisville received about $130 million from it directly.

In reviewing the budgets of selected cities, most of these cities have been able to come up with the funds to get through the end of this fiscal year.

Fiscal Year 2021 is forecasting some stability. The CARES Act has contributed around $1.4 billion to Kentucky in total. The unemployment insurance payments and the IRS payments to households and the Paycheck Protection Act, have contributed over $10 billion of federal money that has come into Kentucky beginning in April and has really help offset the negatives.

Some of the economic downturn has been damped by very good employment numbers prior to the onset of COVID-19 for the first part of the fiscal year. There is also a lag in tax receipts that has payments still coming in from earlier in the fiscal year. The industries hit the hardest have exhibited lower pay, part-time occupations, such as restaurants, retail, hotel, and some of the travel industries. The average pay in those industries is $20,000 to $25,000 a year compared to the average for all jobs which is around $45,000 a year. Because of this, the job losses look much worse than the income losses which affect occupational tax revenues. So, for example in Louisville’s case, most of the office workers kept their jobs and kept paying occupational taxes. So, for instance, if you had 10-15 percent job losses, this translates to only about 5 percent in revenue losses.

There have been a lot of economic offsets on the fiscal level that may explain why the effects have not been as pronounced as the economic data would predict. For instance when restaurants were closed, people began cooking at home. Grocery store revenues were up 30 percent. Some people who were out of work sought and gained other employment in growing industries. People bought appliances, clothes, and televisions from the businesses that were allowed to be open during this time, making purchases from them rather than the shops that were closed. While travel has been down, people have deferred vacations and such, and have used that money to, for instance, remodel their houses.

Local governments have gotten through FY 20 fairly well. Fiscal Year 21 is yet to be determined. There are positive signs out there for a quick economic recovery, but we have never been through anything exactly like this before.

In response to a question from Representative Meredith, Dr. Coomes said he believed that a recently released Brookings Institute study exaggerated the importance of income based taxes for local governments in Kentucky—that Kentucky cities and counties are more reliant on income based taxes than other places in the country and as such the COVID-19 induced recession would affect these local government more so than other places. Our local governments are more diversified than the study recognized—Kentucky local governments have sales taxes per se, property taxes, and occupational taxes, yet could be even more diversified. Again, the job losses being those with lower pay helped buffer the fiscal impact.

The $1,200 payment was not taxable as wages for local governments. The unemployment insurance payments are not locally taxable either, but state government does receive tax revenue from that. State income revenue taxes were actually up 12 percent last month because of those payments.

In response to a question from Representative Graviss, Dr. Coomes said he had not studied the area of landlord rent collection but that it could get ugly. Some of the CARES Act money can be used for rent payment if the situation has arisen out of the COVID-19 virus.

In response to a question from Representative King, Dr. Coomes said he has no data regarding the leftover inventory from small mom and pop businesses having to be closed. A lot of money flowed to big box retail chains that would have gone to mom and pop businesses and there could be many bankruptcies resulting.

Representative Howard commented that continuing to throw federal money at a problem does not make any sense. Dr. Coomes agreed.

Representative Meredith told Dr. Coomes that the Committee might invite him back at a future date. There being no further business, the meeting was adjourned at 10:10 a.m.