



MEMO: COVID-19 LOCAL GOVERNMENT IMPACT

April 22, 2020

We applaud the Governor's efforts and leadership in issuing guidance and directives aimed at mitigation measures for public exposure to COVID-19. Our cities and boroughs have followed suit by declaring various states of emergency. Together, we can flatten the curve and avoid overwhelming our healthcare system, while supporting residents and businesses.

Many actions occurring at the local level are in response to CDC guidance or directives and State mandates; essentially, local lost revenues and expenditures are tied to State and Federal government action. Local governments in Alaska share in direct and indirect costs incurred in response to the public health emergency. Local budgets are based on economic activity that is directly limited by State and Federal decisions in response to the public health emergency.

Alaska's local governments are directly dependent on a healthy and active economy. Many local economies have single drivers, which influence the revenues of local governments. COVID-19 will negatively impact travel and tourism, retail, fishing and seafood processing, and may even slow mining, oil and gas. Local governments may see reductions in tax revenue of as much as 80-95%, with more likely scenarios of 50%. This will deplete savings, reduce overall budgets, escalate the need for increased local taxes, and affect local ability to pay for essential public services (include public safety and education) and service debt. Again, these losses are the result of COVID-19 mitigation measures.

AML estimates that local government revenues will be impacted just in the short term – March through June – by as much as \$150 million, and longer-term impacts by another \$100 million. This includes loss of sales, bed, rental car tax, downturn in the fishing industry and related fisheries revenue, commercial passenger vessel fees, utility fee and other tax waivers, public facility, bingo and pull tab closures, and non-payment of property tax, or property tax devaluation. Each of these is directly related to decisions made at the federal, state, and local level to mitigate the public health emergency.

In addition to these COVID-19 related budget impacts, local governments are considerate of real and potential expenditures during this public health crisis. We have estimated potential expenses for a variety of needs to be as much as \$250 million or more, which includes:

- Mitigation measures within public facilities
- Expanded leave requirements of the FFCRA
- Vulnerable population support
- Social distancing measures for councils, assemblies and staff
- Reallocation of staff time to meet alternative schedules or as staff are moved to response
- Utility and service connections
- Administrative expenses, and overtime for staff filling other roles
- Utility fee and connection waivers
- Workers comp claims/premiums

- FEMA or grant match requirements
- New contracts to replace vendors, transportation, food, and housing needs
- Postponed project and re-permitting fees
- Avoided tax increase or deferral

As you can see, our initial estimates of local government impact are nearly \$500 million, with longer term needs further adding to this. Local governments will need support from the State through whichever mechanisms result in efficient and effective disbursement.

The CARES Act funding directed to State and Local Stabilization is a critical and necessary resource to ensure that local governments can continue to operate throughout the pandemic, respond to health and economic concerns of residents, avoid the need for increased or new taxes, provide essential services, and maintain a workforce of more than 20,000 Alaskans. We are encouraged by the Governor's commitment to honoring the intent of this funding by directing a large portion to Alaska's cities and boroughs.

In states across the nation, we see Governors working closely with their municipal partners to provide as much as 45% of that funding for local government needs. It makes sense that for the 165 cities and boroughs that represent well over 500,000 Alaska residents, the formula within the CARES Act should apply. Any less than 45% would be devaluing the role of small communities, none of which were able to apply directly to the U.S. Treasury for access to CARES Act funding. A Community Relief Package provided to local governments during this time is essential and any delay risks further economic or budgetary distress.

We believe this funding should be available for direct and indirect costs at the local level, and to meet budgetary needs determined by local elected officials. We're committed to working with the administration to demonstrate need based on a broad range of factors that affect the well-being of political subdivisions of the State. The fundamental goal of State assistance in this regard is to ensure that local governments have the ability to support State and Federal efforts, even as they stabilize their communities and local economy.

We stand ready to continue collaboration with the Governor and Legislature to ensure the health of Alaskans, the success of our business community, and the continued service that municipalities provide.

Please contact Nils Andreassen, Executive Director, for follow up or with questions.

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