



*Alabama's Use of CARES Act
Funds: Grow Government or
Help All Alabamians?*

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Alabama's Use of CARES Act Funds: Grow Government or Help All Alabamians?

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Introduction

On January 20, 2020, the first case of the novel coronavirus (SARS-CoV-2) was diagnosed by officials in Washington State and the Centers for Diseases Control and Prevention (CDC).¹ In the coming weeks the United States saw a sharp rise in confirmed coronavirus cases, eventually elevating to pandemic status.

As the coronavirus outbreak widened, federal, state, and local governments began an unprecedented response. Citizens were asked to wear face coverings when in public, many businesses were forced to shut down, and American life as we know it immediately changed.

The response also meant an influx of relief money from the federal government. In total, the State of Alabama received \$1.9 billion in stimulus funding through the federal Coronavirus Aid, Relief, and Economic Security Act (CARES).²

Unfortunately, much of Alabama's funds have gone towards growing government and narrowly focused grant programs that allow state officials to choose winners and losers. Instead of targeted relief that could have helped all Alabamians, too frequently Governor Kay Ivey and other state officials chose to invest in government instead of the citizens that government is bound to serve. All aspects of state government remained essential, and many saw increased funding, while "non-essential" private sector jobs and businesses were forced to shut down for a time. Some never reopened.

CARES Act funds were intended to help states and local communities support the health and economic needs of individuals and businesses devastated by the coronavirus pandemic—devastation which was magnified in no small degree by government mandated business shutdowns. Alabama state government has thus far fallen short of meeting that goal in its use of CARES money, but with nearly half a billion dollars in funds still available, there is still an opportunity to use those funds to improve the lives of all Alabamians.

This report will examine how Alabama's Coronavirus Relief Funds have been spent, and how the state should use the remainder to provide direct aid to individuals and businesses impacted by the pandemic. Topics discussed include:

1. Congress Passes Massive COVID-19 Relief Package
2. Legislative and Executive Branches Fight Over Who Can Spend CARES Act Funds
3. Governor Ivey Designates Uses of CARES Act Funding
4. Missteps in How Alabama Has Spent CARES Act Funding
5. Alabama Economy Fares Better Than Some States, but Worse Than Those with Less Restrictions
6. Alabama Should Use Remaining CARES Act Funding to Provide Tax Relief

1. Congress Passes Massive COVID-19 Relief Package

On March 27, 2020, the federal CARES Act was signed into law. The \$1.8 trillion stimulus bill (the largest stimulus package ever) aimed to provide wide-ranging assistance to healthcare providers, individuals, and businesses, among others.³

It also supplied direct relief to state and local governments through the creation of a \$150 billion pot of money known as the Coronavirus Relief Fund. The Coronavirus Relief Fund provided direct payments to state and local governments. One stipulation was that all state and local funding had to be spent before the end of 2020 or it would go back to the United States Treasury. Congress did not play favorites as to the amount of money that states received, as each was given a proportional share of the funds based on population.⁴

However, this was not “free money.” Congress attached conditions to how state Coronavirus Relief Fund money could be spent. Conditions included that expenditures were: 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, for state or local government; and were incurred between March 1, 2020, and December 30, 2020, among others.⁵

CARES Act funds were intended to provide an emergency lifeline for state and local government to provide for citizens. If the funds were truly needed, spending them in an efficient and effective manner by December 30, 2020, should not have been an issue.

In terms of getting what was thought to be necessary relief to the states, Congress did an effective job with its passage of the CARES Act. Within days, states had received their apportionments and the funds were available to provide health and economic relief to citizens.

Congress structured the CARES Act to provide immediate relief. But many states, including Alabama, dropped the ball. They chose not to or could not determine how to efficiently spend the money before the deadline, leading Congress to extend the spending deadline until December 30, 2021.⁶ The last minute extension should serve as an opportunity to avoid further waste and put the funds toward more impactful uses.

2. Legislative and Executive Branches Fight Over Who Can Spend CARES Act Funds

As a result of the CARES Act, Alabama received direct payments totaling over \$1.9 billion. Approximately \$1.8 billion was paid directly to the state, while Jefferson County received a separate appropriation of \$115 million.⁷

The fight over how the money should be spent, and who had the authority to do so, began almost immediately. From March 31 to May 4, 2020, the Alabama Legislature was missing in action, meeting only once in late April to discuss reconvening the Regular Legislative Session, which had been postponed because of the pandemic. When the legislature did reconvene, many members were absent and there were only two weeks left to pass the state's 2021 budgets and allocate CARES Act funds.⁸

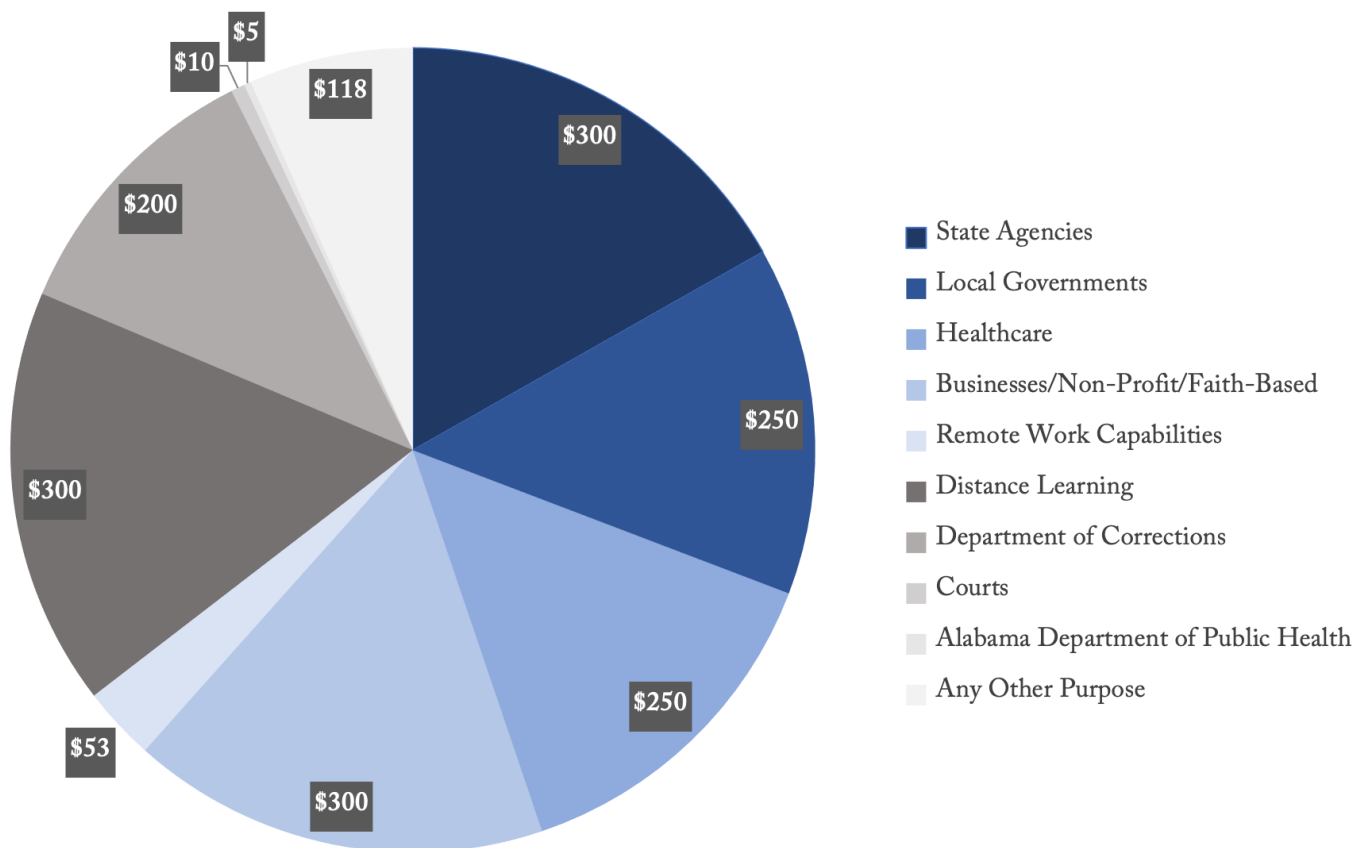
The battle over CARES funding ramped up in the final weeks of the session. At one point a “wish list,” reportedly from legislative leadership, emerged which included \$200 million to build a new State House and renovate the Capitol. Governor Ivey pushed back against the plan, but for a time agreed to cede control of the money to the legislature.⁹

However, that wasn't the end of the power struggle. On May 7, the legislature passed the FY 2021 State General Fund Budget. The version passed by the legislature allotted \$200 million (11.1 percent) in CARES funds to be used for immediate needs at the Governor's discretion.¹⁰ Unsatisfied with the

outcome, on May 18, 2020, Governor Ivey sent the bill back to the Legislature with an executive amendment outlining how all but \$118 million of the \$1.8 billion in CARES Act funds would be spent. The legislature agreed to the amendment, giving nearly all power to spend the funds to the governor.¹¹

It's important to note that at the time Governor Ivey said all the funds should be appropriated immediately, indicating that the money was needed to help the citizens of Alabama right away. This would not be what happened.

INITIAL DISTRIBUTION of CARES ACT FUNDING (in Millions of Dollars)



3. Governor Ivey Designates Uses of CARES Act Funding

The governor's executive amendment to the FY 2021 General Fund Budget put all but \$118 million of the state's CARES Act funding into spending pots. The pots initially identified under the budget amendment were as shown in the above pie graph¹²

By agreeing to Governor Ivey's executive amendment, the legislature gave virtually all CARES Act spending power to the governor and state agencies. One of the only annual obligations of state lawmakers is to determine how state money will be spent. However, in the case of CARES Act money, they handed virtually all authority to the governor and unelected bureaucrats. The only authority retained by the legislature was to approve or disap-

prove of the governor reallocating funds for new or different purposes than originally outlined by the General Fund Budget agreement. Even in those cases, only six members of the legislature made determinations, meaning 129 other lawmakers had no say.¹³

As CARES Act funding began to be spent, the designated categories and amounts did not have significant meaning. Money was regularly shifted between categories and in some cases used for purposes not identified in the governor's executive amendment.

4. Missteps in How Alabama Has Spent CARES Act Funding

Money Prioritized Towards Government Agencies

Much of the money has been used to grow government, not to help citizens and businesses within the state that have faced hardships as a result of the pandemic. Just 23.7 percent (\$313.2 million) of the funds [spent](#) have gone towards the private sector and that money has been spent on limited scope grant programs where state government chooses the winners and losers.¹⁴ The maximum grant award available for small businesses, non-profits, and faith based organizations was \$15,000.

While \$15,000 may help some entities get by for a short time, it is not enough to substantially aid most organizations that have been devastated by the coronavirus pandemic.

The grants were also not well publicized. In most cases the application process was open less than two weeks. Grants were handed out on a first come first served basis until available funds were exhausted. They were not specifically targeted to recipients with the greatest need.

Other grants went towards worthy purposes, but

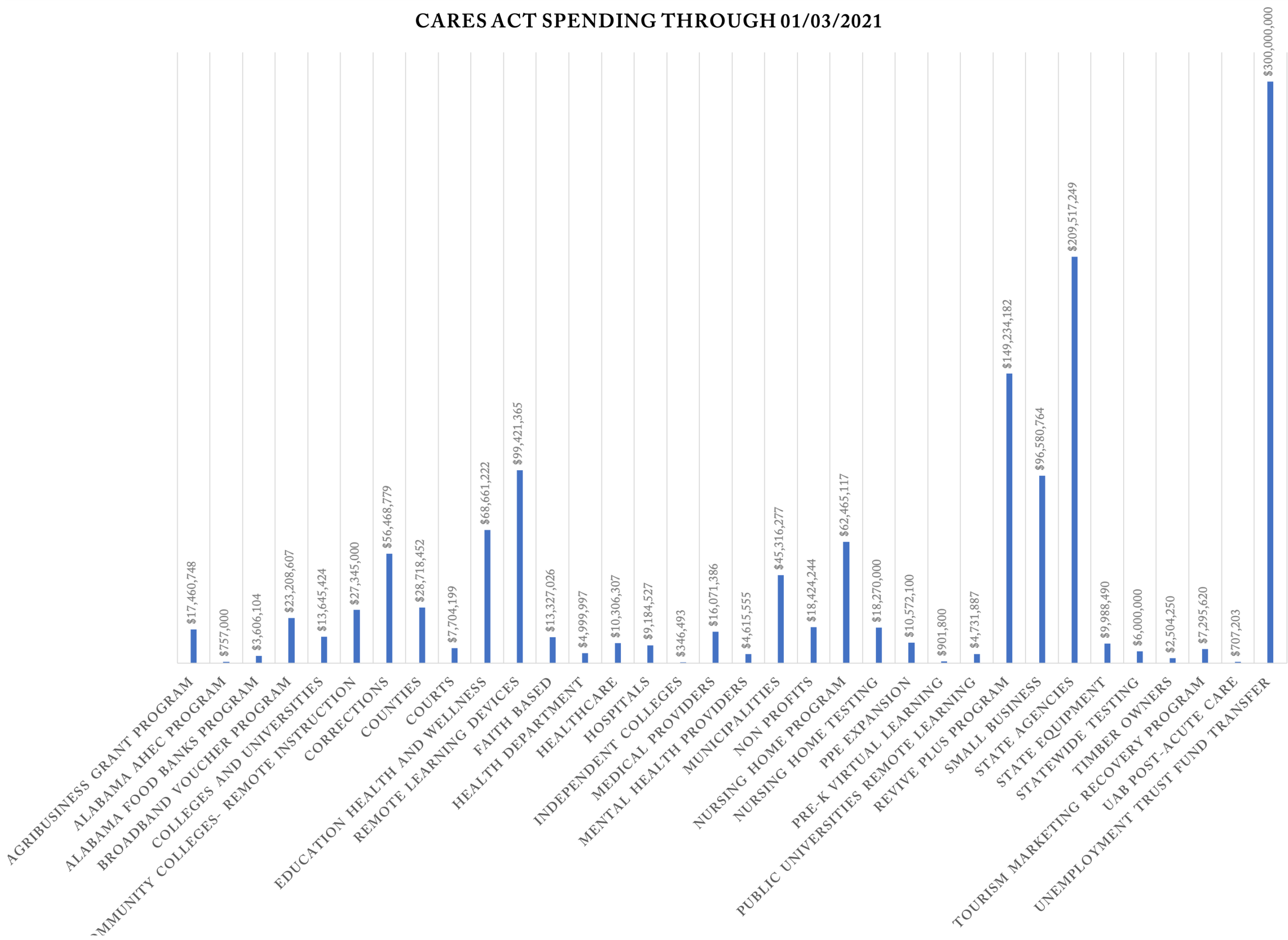
like most CARES Act funding, were not spent when they were needed the most. An example of a well-intended program that fell short of its goal is the Alabama Broadband Connectivity (ABC) for Students voucher program. The grants were intended to provide high speed internet access to low income students in underserved areas.¹⁵

As the 2020-2021 school year began, many school systems around the state were operating completely or partially through virtual learning. However, through September 2020 less than \$254,000 of \$100 million available for the program had been spent. Since September, almost \$23 million has been awarded in broadband vouchers¹⁶, but many students have since returned to in person learning. Alabama students would have been better served if money had been distributed before fall classes began.

29.5 percent (\$389 million) has gone towards reimbursing state and local government. The legislature, which has met for only two weeks since the start of the pandemic, has been reimbursed by the Coronavirus Relief Fund for over \$985,000 in equipment purchases, including a tablet system for socially distanced voting. In total, the Legislature has charged over \$1.1 million back to the fund despite there being virtually no legislative action since May 2020.¹⁷

When combined with a \$300 million transfer to the state's Unemployment Compensation Trust Fund, the proportion of funds used to reimburse state government rises to 52 percent (\$689.7M).¹⁸ Over half of the money has thus far been used to support government, rather than citizens.

Using CARES Act funding to replenish the state's unemployment compensation program is not as egregious as some of the other purposes chosen by the state. Unemployment insurance provided a lifeline for many Alabamians at the onset of the pandemic. Many of Alabama's neighboring states have taken similar actions to bolster depleted unemployment programs.



However, it is important to remember that the rise in unemployment claims was to no small degree caused by Governor Ivey and the State Health Officer's decision to shut down businesses that were not deemed essential. There was no rhyme or reason as to why some businesses, such as big box stores with high capacities, were allowed to stay open while small businesses were shuttered.

At the same time, all public sector jobs, or at least the salaries attached to those jobs, remained "essential," regardless of how a particular function related to pandemic response. State government proved unwilling to make the same sacrifices that it forced upon Alabama's private sector employees and businesses.

On March 1, 2020, Alabama's unemployment rate was only 3.5 percent. On March 27, 2020, Governor Ivey ordered what she determined to be non-essential businesses to close. By the end of April, unemployment rose to 13.8 percent, a nearly 300 percent increase.¹⁹

Shutting down businesses undoubtedly increased unemployment and the strain on Alabama's Unemployment Compensation Trust Fund. Closing businesses was a major misstep, one that Governor Ivey admitted to in a December 2020 interview, saying that "[it] was a mistake because all businesses are essential."²⁰

Non-Emergency Use of Emergency Funds

CARES Act Funding was appropriated for emergency purposes. The term "emergency" implies that the state had an immediate need for federal funding as a means to help the state and its citizens recover from the health and economic consequences of COVID-19.

However, the actual rate of spending has not been indicative of an emergency. Months went by with the state spending little of the \$1.8 billion provided to it by the federal government. Nearly six months after the passage of the CARES Act, Alabama had spent only \$285 million of its CARES Act allotment. At the end of November, just a month

before the original spending deadline, nearly half of the money remained unspent. As of December 28, 2020, over \$467 million remained in the state's Coronavirus Relief Fund.²¹

If there was truly an immediate need for federal relief then the state should have had no problem finding effective ways to use the funding to help all Alabamians. The fact that the state spent virtually nothing for months after the pandemic began suggests that Alabama either didn't need the money, or its elected officials were ineffective in using to help the state recover from the pandemic.

Sparse Legislative Input

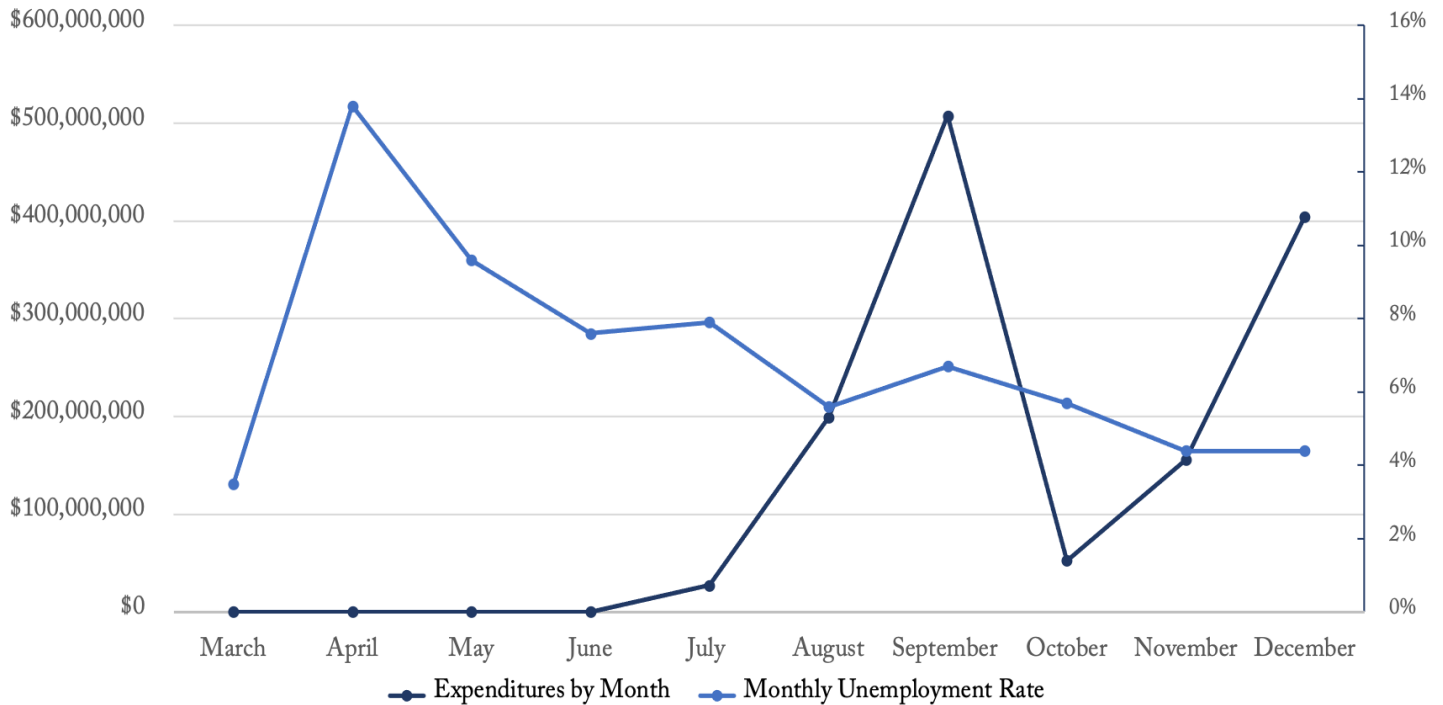
The Alabama Legislature played little role in determining how CARES Act money should be spent, ultimately hurting the citizens of Alabama. In her executive amendment to the FY 2021 State General Fund Budget, Governor Ivey seized control what CARES Act funds would be spent on. And duly elected state lawmakers let it happen.

Under the Alabama Constitution, the Legislature maintains power of the purse. Certainly, the Governor plays a role in the process, but much of the power should be maintained by legislators. Determining how state funds are spent is one of the few jobs required of the Legislature each year, yet lawmakers abdicated that responsibility to the Governor's Office with little pushback, and then went home for the rest of 2020. This gave the Governor and her staff nearly unlimited control of nearly \$1.8 billion in federal funding.

To put that into context, \$1.8 billion is 75 percent of the state's General Fund budget, which legislators must approve each year.²²

Because of the unwillingness of Governor Ivey and the Legislature's to work together, the state wasted precious time and denied Alabamians the help that they so desperately needed at the onset of the pandemic. Citizens suffered for months while lawmakers engaged in a power struggle over who could spend the money.

2020 MONTHLY UNEMPLOYMENT RATE VS. MONTHLY CARES ACT EXPENDITURES



*December unemployment rate assumed, data not available at time of publication

5. Alabama Economy Fares Better Than Some States, but Worse Than Those with Less Restrictions

To be clear, Alabama did a better job in handling the economic impacts of the COVID-19 pandemic than some states. The business restrictions put in place by Alabama governments were shorter and less severe than in other states, and less severe economic consequences are evident in the unemployment numbers.

Alabama's unemployment rate at the end of November was 4.4 percent, about one percentage point higher than the pre-pandemic level.²³ States with greater restrictions have not fared as well. In New York, unemployment levels rose to 15.1 percent by the end of April 2020. As of the end of November 2020, unemployment was still over 8 percent.²⁴ In April, California's unemployment rate hit 16.2 percent.²⁵ As of the end of November 2020, the state's unemployment rate was 7.9 percent, 34.5 percent higher than it was in March.²⁶

You may think that Alabama fared the unemployment storm better because it quickly and more effi-

ciently used CARES Act money compared to other states, but this is not the case. Alabama's unemployment rate peaked at 13.8 percent in April, and except for small increases in July and September, it has steadily declined. State government did not begin any significant CARES Act related spending until August 2020. In the month with the highest monthly CARES Act spending, September, the state saw unemployment increase by 1.1 percent.²⁷

There was no relationship between the state spending CARES Act money and a decrease in the unemployment rate.

States with no business restrictions saw less severe economic impacts than Alabama. In South Dakota, Governor Kristi Noem chose not to shut down businesses. As a result of her actions the rise in the state's unemployment rate was lessened and recovered faster than Alabama. At the height of the pandemic's onset, South Dakota's unemployment rate rose to 11 percent. By July, the state's unemployment rate fell to 6.1 percent and by the end of November was lower than it was before the impacts of COVID-19 were felt by the state.²⁸

6. Alabama Should Use Remaining Cares Act Funding to Provide Tax Relief

With Congress extending the deadline to spend CARES Act money by one year, Alabama's state government will now have ample time to decide what to do with the more than \$270 million that remains unspent. The Alabama Policy Institute (API) implores state leaders to use the money wisely and in a manner that will directly benefit all citizens and businesses impacted by the coronavirus pandemic.

In August 2020, API released a proposal to use CARES Act money to provide a sales tax holiday.²⁹ With the nearly half billion dollars in funds that are still available, government could eliminate all state and local sales taxes for weeks. This would provide a much needed stimulus to individuals and at the same time encourage Alabamians to return to their local brick and mortar businesses which have been severely impacted by COVID-19.

The message is clear: elected officials can and should do better. As opposed to using the funds to further grow government or provide more poorly targeted grants, a sales tax holiday would benefit all citizens equally. API maintains that this would be the best use of unspent CARES Act funding.

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