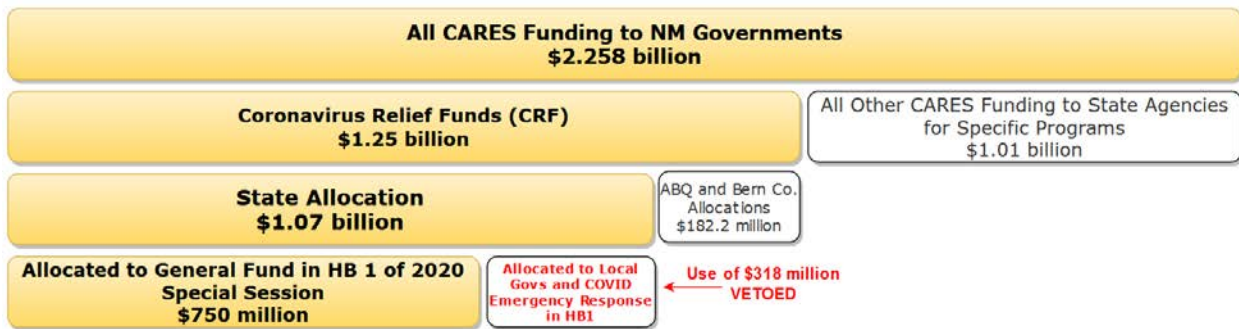


Hearing Brief: Status of New Mexico Use of Coronavirus Relief Fund and Related Funding
July 15, 2020

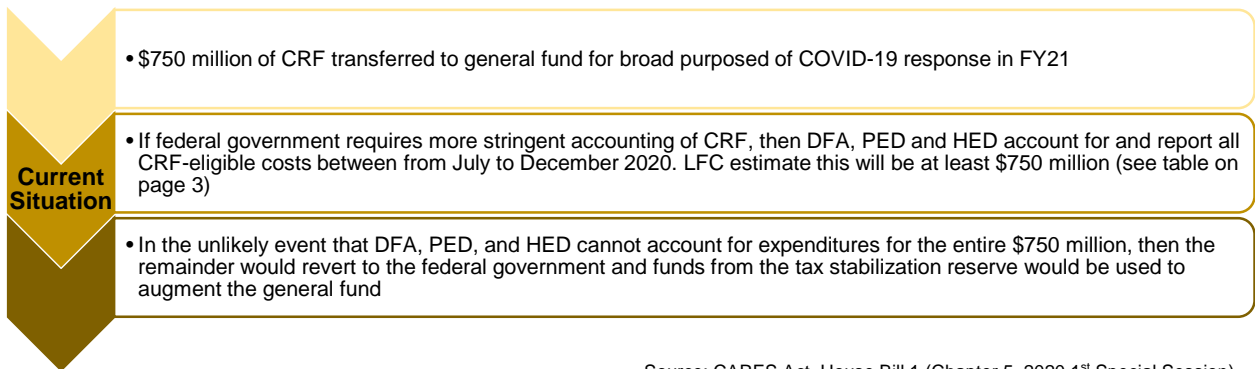
Summary

The federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, provided a stimulus package to governments, businesses, and individuals to battle the effects of the COVID-19 pandemic. New Mexico government entities received a total of \$2.58 billion in total CARES funding, including \$1.25 billion from the Coronavirus Relief Fund (CRF), of which \$182 million was earmarked for the City of Albuquerque and Bernalillo County. Not tied to any specific program, the CARES Act stipulated that CRF funds are to be used for expenditures that 1) are necessary to respond to the COVID-19 public health emergency, 2) are not accounted for in the state budget most recently approved as of March 27, 2020, and 3) are incurred between March 1 and December 30, 2020. Treasury has been clear that CRF may not be used to fill shortfalls in state revenue.

Recognizing these federal limitations, House Bill 1 (Chapter 5, 2020 1st Special Session) authorized the transfer of \$750 million of CRF funds to the general fund in FY21 for schools, colleges, and all other state government entities to respond to the COVID-19 pandemic. The legislation includes, but is not limited to, expenditures for public and higher education to facilitate distance learning and mitigate lost learning, in addition to spending on public health, public safety, and to enable remote and safe work practices. The intention of creating this broad authority was to minimize the administrative burden of allocating CRF funds for unanticipated COVID-19 related costs in FY21. If the federal government does not allow for this broad use of CRF funds, then the Department of Finance and Administration (DFA), along with the Public and Higher Education Departments will need to undertake an exercise to account for all CRF-eligible expenses between March 1 and December 30, 2020 as detailed below.



House Bill 1 authorized a three-tiered approach to using the \$750 million CRF



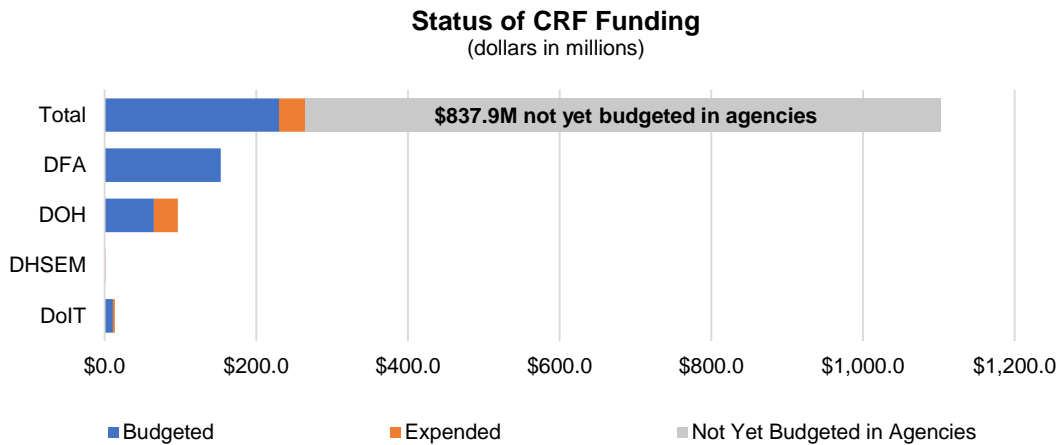
Source: CARES Act, House Bill 1 (Chapter 5, 2020 1st Special Session)

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House Bill 1, as passed, also allocated \$318 million for smaller local governments and tribes, as well as for direct expenditures related to the COVID-19 response – all of which the governor vetoed. However, the governor could still, at her discretion, transfer any amount of the \$1.07 billion CRF to localities, so long as it is for expenditures related to the COVID-19 response.

Current Status

As of July 2, DFA had allocated \$230 million of the \$1.07 billion CRF to itself, the Department of Health (DOH), the Department of Homeland Security and Emergency Management (DHSEM), and the Department of Information Technology (DoIT). Of this allocation, agencies have encumbered or spent only approximately \$63.5 million, mostly on public health staff payroll, emergency medical facilities and equipment, COVID-19 testing supplies, personal protective equipment (PPE), and emergency food and water deliveries to communities.



Data as of 7/2/2020

Source: SHARE

Estimates of CRF-Eligible Expenditures for FY21

The U.S. Department of the Treasury directed states to, by July 17, 2020, report on their CRF-eligible costs incurred between March and June in one of ten broad categories. (See attached reporting worksheet from Treasury.) In that same communication, Treasury also announced it would be creating an entirely new bureaucratic process, requiring states to submit detailed quarterly reports on the amount of CRF funds that were encumbered or expended for every detailed state project or activity.

To assist DFA staff with tracking state spending in the ten federal categories, and try to minimize the risk of CRF reversions, LFC staff have been monitoring COVID-related expenditures, and estimate the state has spent at least \$824 million on CRF-eligible expenses in the last four months of FY20 alone (March through June). LFC staff also estimate the state will spend at least another \$1 billion on CRF-eligible expenses in the six months between July and December 2020 (see table on the following page). Therefore, the risk of having to revert CRF to the federal government after December 2020 should be minimal.

Budget staff at the city of Albuquerque have engaged a consultant to assist in accounting for CRF funds and has also indicated that they will more than be able to account for their portion of CRF funds. Similar to LCF staff estimates, the city is considering broad swaths of employee payroll, including that of the Albuquerque Police Department, as acceptable uses of the CRF.

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Preliminary Estimates: Potential CRF Allowable Expenses, July through December 2020*
(in millions)

Transferred to other governments	
Payroll for public health and safety employees (general fund only)	\$182.8
PSEB for DOH's public health, epidemiology, and laboratory services programs	\$15.4
PSEB for all CYFD except program support	\$54.4
PSEB for all Department of Public Safety except program support	\$46.5
PSEB for all Homeland Security and Emergency Management except program support	\$1.1
PSEB for Correction's IMAC program, community offender management program, and costs of private prisons and prison medical contracts	\$60.1
PSEB for all Aging and Long-Term Services except program support	\$5.3
Budgeted personnel and services diverted to a substantially different use	\$13.7
PSEB for Sec. of State's elections bureau program	\$2.0
PSEB for HSD's income support program and behavioral health program	\$11.2
PSEB for Workforce's unemployment insurance program, and workforce technology programs	\$0.5
Improvements to telework capabilities of public employees	
Medical expenses	
Public health expenses	
Distance learning	\$867.6
Six months of Instructional salaries portion of K-12 SEG (portion devoted to instruction) \$3.07b * 0.5 (six months) * 0.53 (portion of SEG devoted to instruction) * 0.95 (portion of instruction devoted to salaries)	\$772.6
Six months of instructional salaries based on FY20 I&G \$663.8m * 0.5 (six months) * 0.53 (portion I&G dedicated to instruction) * 0.54 (portion of instruction devoted to salaries)	\$95.0
Economic support	
Expenses associated with the issuance of tax anticipation notes	
All items not listed above	
TOTAL	\$1,064.1

* Estimates derived from FY20 General Appropriations Act, unaudited.

Source: FY20 GAA

This July through December estimate is conservative for several reasons. Firstly, it only counts general fund expenditures for personal services and employee benefits (PSEB) for programs at agencies directly engaged in responding to COVID-19. However, current guidance from Treasury is not clear if CRF could also augment federally funded payroll costs, which could free those other federal revenues for different purposes. Secondly, LFC staff assume there may be additional agency payroll costs that might be counted as "personnel and services diverted to a substantially different use," depending on federal definitions (i.e., Cultural Affairs employees not staffing closed museums). Thirdly, the largest potential CRF costs are related to K-12 distance learning. To keep spending estimates conservative, LFC staff estimated those costs to only cover the portion of the state equalization guarantee funding dedicated to salaries for instruction (95 percent of 56 percent of SEG); though, it would not be unreasonable to think that other SEG costs such as enhanced janitorial services and instructional support spending, particularly for special education students could also be counted as COVID-19-related expenditures. Finally, in FY21, LFC staff did not add in estimates of procurement spending for additional school, college, or state agency needs in FY21 for things like teleworking support, COVID-19 testing, PPE, or any other COVID-19 related expenses, even though those will most assuredly occur.

In summary, LFC staff believe there are more than enough eligible expenses that might be accounted for by the \$750 million CRF allocated to the general fund.

Next Steps

LFC staff will continue to engage with DFA to track CRF-eligible expenditures through the end of 2020 and aid in federal reporting as is warranted. LFC staff will also continue participating in the State Auditor's COVID-19 Stimulus Oversight Workgroup, which also includes DFA and GSD representatives. The Workgroup is sharing best practices for monitoring and oversight of CRF and other CARES Act spending, with special attention to emergency procurement. LFC staff will use information from this continued monitoring to inform FY21 budget projections and recommendations moving ahead.