

Corona Virus Response Update
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This is our third memo on the CV crisis. It updates the status of some of the initiatives contained in Phases I-III (including the CARES Act), discusses early planning for Phase IV (or CARES Act 2), and describes efforts to secure smaller or rural government relief in Phase IV.

The House and Senate leadership along with top Administration officials have been communicating about Phase IV legislation. Some tentative ideas being circulated include an additional \$1 trillion in relief with a focus on replenishing or expanding existing initiatives (including fixing unaddressed issues) funded in Phases I-III. This would include additional funding for the small business Payroll Protection Program (PPP) (Note: the PPP may receive additional funding sooner, possibly this week); State and local governments (including smaller governments); unemployment insurance; direct individual payments; and public health and the healthcare industry. There was discussion between the Speaker and the Administration last week about a \$2 trillion infrastructure investment package, but that plan has been shelved for consideration later in the year. The focus remains for now on actions that have a more immediate economic and public health benefit.

Congress “returns” April 20 and we can foresee much of the work on Phase IV gaining momentum then. Both the House and Senate have been in short pro forma session but Members and staff have been almost entirely been operating remotely. There have been “paper only” hearings and legislation is being introduced with changes in procedure allowing for electronic filing. Washington, DC is seeing an increase in CV cases and deaths but the virus’s impact is less than that of New York, New Jersey, Louisiana and a few other states. There have been changes in how Members and staff interact, stand and seat on the House and Senate floor but thus far neither body is moving forward with remote or electronic voting.

Smaller Local Government Relief

The CARES Act did not include relief targeted for smaller local governments in its \$150 billion provided for the State and local government stabilization fund. As reported in our last memo, the State of Alaska will receive \$1.25 billion which the statute requires be transferred from the Treasury by the end of the month. Larger local governments (>500,000 residents) can apply directly for funding from the Treasury Department. No Alaska municipality meets the population to apply to the Treasury directly. States and eligible local governments must use the funding for CV-related expenditures incurred between March 1 and December 30, 2020. \$35 million is provided for Dept of Treasury Inspector General audits. There is a claw back provision for Federal recovery of any funding that is spent on activities unconnected to the CV emergency.

There are efforts underway as part of Phase IV development to address the exclusion of smaller local governments (<500,000) from this relief. A group of 128 House Democrats last week wrote the Speaker to urge her to make smaller governments eligible for the same funding provided to States and larger localities. Additionally, Rep. Andy Levin (D-CA) and Joe Neguse (D-CO) have introduced legislation – the Coronavirus Community Relief Act -- this week to provide \$250 billion in smaller local government relief.

The formula is solely population-weighted with the initial allocation first weighted by State population then by locality population within that State. It would provide very minimal funding to rural local governments based in rural states. The same requirements for CV-related spending, audits and claw back would apply as in the CARES Act.

The CARES Act does set a minimum floor for State payments so that rural states receive a fair share while allowing population to determine remaining funding awards. Should the Coronavirus Community Relief Bill be included in Phase IV and pass the House, it is reasonable to assume with a large number of Senators representing rural states, the formula will be tweaked to establish a similar floor.

Separately, we think an increase this year in community PILT and Secure Rural Schools payments as a way to provide relief to more rural local governments is worth pursuing. Both programs have the advantage of existing statutory frameworks, set funding formulas, bureaucratic processes already in place for getting money out the door, and local flexibility. NACO has sent a letter that supports long-term reauthorization of both programs, including a halt in the 5 percent SRS annual reduction in payments embedded as well as enactment of the Small County PILT Parity Act. We recommend outreach made to AML and your area municipal conference to help in securing Delegation support as well as requesting support directly via a resolution.

Public Health

Phase IV is likely to include additional resources to address public health, including hazard pay and protections for frontline health care workers.

There is discussion of adding \$10 billion in funding for Community Health Centers. Separately, the Department of Health & Human Services has announced \$100 million in Center grants for CV response. This splits out to \$50,000 to \$60,000 per Center among the 27 funded in Alaska.

As noted in our last memorandum, critical access hospitals can request up to 125% of their Medicare payment amount for a six-month period as an advance. The Center for Medicare Services has clarified that those hospitals will have up to one year to repay the balance of any advance payment. The Center has a helpful FAQs at the link about the initiative. It has also announced that \$34 billion has been approved so far for the initiative.

<https://www.cms.gov/files/document/Accelerated-and-Advanced-Payments-Fact-Sheet.pdf>

The Department of Health & Human Services has announced \$186 million in Center for Disease Control grants to States and localities for CV testing and surveillance. Alaska funding partners will receive \$4.9 million.

The award of \$100 billion in CV emergency funding to hospitals could come later this week. Hospitals are receiving approximately additional \$10 billion in funding through the rest of the year in Medicare payments through the suspension of the 2 percent Medicare sequester cut, as well as a 6 percent enhanced Medicaid Federal match.

Rural Carrier Air Service

The initial Stimulus measures do not appear to fit the smaller regional air carriers. The relief provided for air carriers in Stimulus III provides grants for payroll but not other fixed costs. In essence, it assumes that the air carrier has sufficient cash on hand to weather the economic crisis if their payroll is covered. This has not worked in Alaska. The best example is Rav'n Air, which served 115 communities throughout the State. Rav'n ran out of cash last week while its grant application was pending, and was forced to file for bankruptcy protection. It has called all of its aircraft back to Anchorage and terminated all its employees. U.S. DOT issued a show cause order to the company this week reminding Rav'n that it has two Essential Air Service routes under contract (McGrath and St. Paul), and requesting an immediate answer about when the company intends to resume service. As of today, we have not seen a reply but think it highly unlikely that Rav'n will resume its EAS routes in the near term.

U.S. DOT also issued a final determination conditioning any financial assistance to air carriers on the continuation of their air service frequencies. The final determination does have some flexibility to reduce the number of flights based on the numbers of passengers moving through the hubs. This should apply to Alaska, United, and Delta within Alaska and to the Lower 48.

U.S. DOT has also informed Essential Air Service carriers that they need to continue their EAS frequencies, even if it means they are flying empty. DOT has promised to adjust subsidy payments to account for the loss of passenger revenue. We have not yet seen how the Essential Air Service program intends to respond to the lack of service to currently unsubsidized communities. Most rural communities in rural Alaska are designated as Essential Air Service communities, even if currently unsubsidized. U.S. DOT has an obligation to find some way to restore a minimum level of service to these communities.

Fisheries & Small Business Relief

As reported in our last memo, the CARES Act has \$300 million in NOAA fisheries disaster relief funding for commercial fishery, charterboat and some aquaculture participants who have suffered a greater than 35 percent revenue loss due to CV-19. The funding is to be awarded on a rolling basis and waives the usual Governor's disaster request and Secretarial determination. NOAA Fisheries is still working on the process and criteria for relief distribution. In informal conversations, the agency has told us that interested fishing groups should work with ADF&G to provide relevant economic data. It will use the states to ground truth the data and develop the requisite cost estimates and expenditure plans.

So far it appears that Alaska's federal fisheries are adjusting rapidly to remain operational. The fishing and processing sectors have developed COVID emergency response protocols to protect the health of the workforce and minimize the chance of virus spread. Dillingham has already called for the cancellation of the Bristol Bay red salmon fishery. Other communities appear to be supporting the fishing industry's efforts to remain operational.

For those fishermen and processors interested in pursuing funding from the Small Business Paycheck Protection Program (PPP), the SBA uses a different standard based on NAICS industry size codes for what constitutes "small" relative to the definition for most other industries (<500 employees). For commercial fishermen, the standard is revenue-based (<\$22 million/yr); for processors it's employment (<750 employees). Fishing vessel owners can only use standard employee costs when calculating monthly payroll amounts in applying for the forgiveness portion of the loan and cannot use captain or

crew compensation that is paid via IRS section 1099 income payments. Those who are paid via 1099s can apply directly for PPP funding as independent contractors starting April 10.

The PPP is very popular but there have been glitches in its rollout, including some banks imposing additional requirements of applicants that were not included in the law or implementing regulation, others cutting off lending after just a few days, overloaded phone lines, and web site crashes. Some of these problems are to be expected in implementing such a large new program and should be corrected over time. We have heard that applicants have had more success applying through local community banks as opposed to the large national chain lenders. The Federal Reserve is expected to provide additional financing to banks to encourage greater involvement in the PPP.

The PPP was funded at \$349 billion, but the Congress may act as soon as this week to add an additional \$250 billion so that it does not run short of funding given the high demand. They may also add criteria to boost lending in underserved (including rural) areas. Loans have been processed representing roughly 25% of the initial funding for the PPP. This figure does not represent approvals.

SBA's Economic Injury Direct Loan Program has received less attention despite its ability to provide a \$10,000 advance within three days of receipt of an application.

Ferry System

The Department of Transportation has made awards from the \$25 billion in mass transit funding in the CARES Act through the Federal Transit Administration (FTA). It includes \$144 million in FTA mass transit grants to Alaska. These monies are all add-on funding to existing FTA formula programs. The formula add-on grant provides \$111 million to Anchorage, \$5 million to Fairbanks and \$29 million in rural area apportionment funding that is not specified by community. By way of comparison for FY 2020 under the annual FTA formula, Anchorage received \$16 million, Fairbanks \$1.4 million and \$9.6 million was provided in rural area apportionment. There is no state/local cost share on any of this money.

An unknown question is whether and how much the State will designate of the \$29 million in rural area funding to the AMHS and/or other regional/local ferry services. Separately, the Department of Transportation has granted Buy America Act waivers to the Inter-Island Ferry Authority for procurement of non-domestic iron and steel components for refurbishment of the M/V Stikine and the M/V Prince of Wales.

Education

As noted in our last memo, the CARES Act provides \$30.8 billion for grants to states, higher education institutions, and local education agencies from the Department of Education. Under the CARES Act, the Department is supposed to announce application procedures within 30 days (late April) and award funding within 30 days of receiving an application. The Department has not announced funding application procedures or awards. Pressure is mounting on the Department to act quickly, with the National Governor's Association urging funding decisions to be made by mid-April along with maximum flexibility on use of funding by State and local governments.

Separately, the Department is moving forward to implement the funding and regulatory flexibilities provided in the CARES Act in order for local schools to facilitate at home and online learning. These waivers were announced on April 6 with details at the link.

<https://www.ed.gov/news/press-releases/secretary-education-betsy-devos-authorizes-new-funding-flexibilities-support-continued-learning-during-covid-19-national-emergency>