

Public Sector Practice

US coronavirus relief funds: A guide for state and local governments

State and local leaders can consider several steps now to capture the full humanitarian and fiscal benefits of the roughly \$2 trillion federal relief package.

by Trey Childress, Stuart Skeates, and Todd Wintner



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The ratification of the historic Coronavirus Aid, Relief, and Economic Security (CARES) Act floated a life raft of \$2 trillion to \$2.2 trillion¹ to many US businesses, families, and local governments reeling from the economic shutdown (exhibit).

Some of these benefits, including \$300 billion in direct payments to households, are expected to hit the economy as soon as mid-April. Others may take a month or longer before agency rulemaking, allocations, and recipient certifications allow funds to reach the hands of end beneficiaries.

McKinsey's preliminary analysis of the CARES Act estimates that nearly half of all appropriations in the legislation will be distributed through state and local governments. These funds will primarily cover spikes in demand for state and local services—for example, the more than 6.6 million Americans who filed for unemployment in the last week of March alone²—but also help state agencies and local organizations recoup lost revenue, as with transportation grants to help the nation's airports stay afloat amid a drop in passenger demand. CARES Act provisions directed at federal agencies, such as the expansion of subsidized loan programs from the Small Business Administration, are also of great interest to state and local governments because they directly benefit vulnerable constituents and present opportunities for complementary relief measures.

If the American Recovery and Reinvestment Act of 2009 taught us anything, it is that time matters. State and local governments must act swiftly to get money into the hands of beneficiaries. This urgency is one of humanitarian necessity: similar to the previous relief packages, most of the CARES Act programs provide immediate health-related response measures (for example, enhancing hospital capacity). Disbursing money quickly is also an economic imperative: 50 percent of Americans work for or own a small business and, on average, these businesses have only 27 days of cash flow.³ In the aftermath of the Great Recession, states accumulated a total of \$500 billion in budget

shortfalls, state tax revenue fell 17 percent below the previous year's levels, and personal income taxes dropped 27 percent⁴—despite federal transfers that helped soften the blow.

In this article, we discuss the steps state and local governments can consider to maximize the impact of the CARES Act. These actions include assigning leaders to spur accountability, establishing mechanisms to coordinate with federal counterparts, planning for financial inflows, providing appropriate resources for agencies to handle the influx of demand, and overcommunicating with the individuals, businesses, and organizations that might benefit.

Distribution complexity will vary by benefit and program

Given the multiple types of distribution mechanisms—each with its own complexities—and the volume of funds to be distributed, state and local governments must prepare for a likely capacity challenge.

One bucket of support, which we estimate to be less than 10 percent of the money allocated to state and local governments, augments existing benefit programs that require minimal additional capacity to distribute. An example would be increasing the Federal Matching Assistance Percentage, which determines the degree to which the federal government finances states' Medicaid programs. Increasing the matching rate for state funds would allow the federal government to provide states with much-needed relief from entitlement obligations.

A second bucket of support will require a moderate increase in capacity to get money out the door. We estimate this approach to include 65 to 75 percent of funds allocated to state and local governments. This funding often requires state or local governments to derive or amend their own allocation and allotment processes for third-party beneficiaries (for example, hospitals and nonprofits) that will deliver direct services. Sometimes the state's own capacity, such as eligibility verification for new unemployment benefits, will need to be augmented.

¹ Total is an estimated range as some programs are based on volumes and therefore there are not defined amounts allocated in the bill.

² "COVID-19 impact," U.S. Department of Labor, April 2, 2020, [dol.gov](https://www.dol.gov).

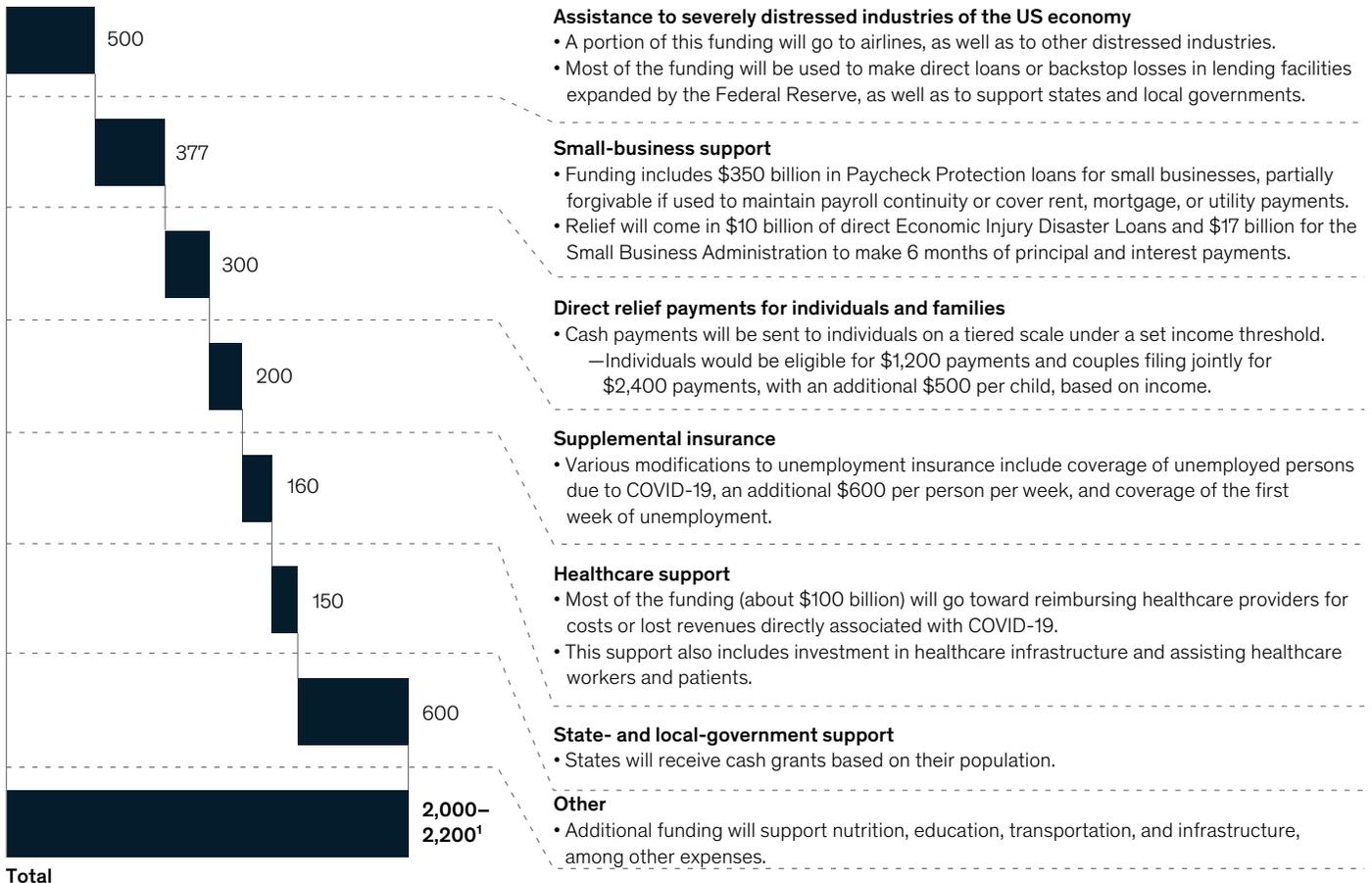
³ Ross Baird, Colin Higgins, and Bruce Katz, "Rethinking disaster relief for small businesses," *New Localism*, March 18, 2020, thenewlocalism.com.

⁴ Tracy Gordon, "State and local budgets and the Great Recession," Brookings Institution, December 31, 2012, [brookings.edu](https://www.brookings.edu).

The CARES Act will provide economic support across six core areas.

Breakdown, \$, billions

Areas of focus in the bill:



Note: Preliminary estimates; specific allocations may change through regulatory updates.

¹ Total may not sum, because of rounding. It is an estimated range because some programs are based on volumes and therefore there are not defined amounts allocated in the bill.

Source: Advisory Board; CNN; Holland & Knight; *National Review*; *Politico*; *Wall Street Journal*

A final bucket of support—which we estimate may near 25 percent of these funds—will likely require significant investment in new capabilities (and perhaps innovation) to reach beneficiaries. One example is the expansion of funding for food purchases and demonstration projects to increase flexibility for schools to provide free meals. School districts around the country have scrambled to build creative solutions for distributing these meals during a time of physical distancing and widespread school closures.⁵

State and local governments can consider steps to maximize the impact of the legislation

All levels of government are fully immersed in responding to the most immediate humanitarian needs, so leaders can consider several steps now to ensure maximum impact from additional funds. Many of these actions are based on the experience of state and local governments' responses to the American Recovery and Reinvestment Act as well as the early

⁵ Anya Kamenetz and Cory Turner, "Schools race to feed students amid coronavirus closures," NPR, March 20, 2020, npr.org.

experience of states in developing their COVID-19 crisis nerve center.⁶

Assign leaders to spur accountability and improve transparency

- *Appoint a relief and recovery lead* to coordinate across state and local agency officials. This appointee should be senior enough to convene principal-level leaders in each responsible agency. This appointee is often a deputy chief of staff or chief operating officer.
- *Establish a response lead in each agency* to manage the response (including federal-agency interaction) for the department. This leader is often a deputy commissioner or secretary.

Establish mechanisms to coordinate with federal agencies

- *Track agency-level rulemaking and appropriations.* States can continue to rely on tools such as the Federal Funds Information for States that provide leaders with real-time information on disbursements and restrictions.
- *Reach out to federal agencies early.* Contact US government leaders in national, regional, and state offices as appropriate; in doing so, establish a protocol to maintain open lines of communication as resources go online.
- *Centrally track applications and deadlines required by various federal agencies.* Doing so will allow states to recoup qualified expenditures or receive up-front payments.

Plan for financial inflows

- *Track already-authorized emergency costs* to both ensure full understanding of expenditures related to COVID-19 and receive reimbursement from relief packages where applicable.
- *Project benefit demand* to evaluate financial impact as well as operational considerations.

- *Identify sources of working capital* (for example, emergency reserve appropriations and interfund borrowing) at the agency level to finance spending surges before federal money becomes available, particularly in the case of reimbursement programs.
- *Begin the allocation process* by cataloging existing programs, municipalities, and nongovernmental agencies that will be the ultimate recipients of many funding streams. Also, start discussions on distribution criteria and application processes before funds are available.
- *Weigh appropriate fraud, waste, and abuse controls*, particularly for programs with new eligibility requirements, such as unemployment benefits.

Provide appropriate resources for agencies to handle the influx of demand

- *Redeploy staff* to areas of higher demand to alleviate bottlenecks in relief fund distribution; state and local governments might even consider augmenting full-time employees with recently furloughed or unemployed private-sector workers as a means of further economic stimulus.
- *Test all aspects of systems*, such as IT infrastructure and administration capacity, that are likely to experience record levels of use in services—for example, from applications for unemployment insurance and aid through the Supplemental Nutrition Assistance Program.
- *Evaluate and upgrade IT infrastructure*, including fast-tracking procurement for third-party vendors where needed to accelerate capabilities.

Communicate, communicate, communicate

- *Build a simple, one-stop web portal* with clear, up-to-date links to state and federal resources (overseen by the relief and recovery lead mentioned above) for individuals, businesses, and community organizations seeking information.

⁶ For more on crisis nerve centers, see Adi Kumar, Leah Pollack, Navjot Singh, and Catharina Wrede Braden, "Crisis nerve centers: Supporting governments' responses to coronavirus," March 2020, on McKinsey.com.

- *Establish a hotline* to support agencies in addressing questions related to relief funds.
- *Require agencies to submit citizen outreach strategies* to reach relevant segments such as loan recipients eligible for relief. Agencies can also go beyond explanations of benefits to connect vulnerable institutions and firms to service providers (for example, identifying local lenders certified by the Small Business Administration).

government leaders who hope the next wave of relief will focus on longer-term economic stimulus to the same degree that the CARES Act provides near-term relief. We will continue to monitor developments and share additional guidance as the landscape changes.

Establishing these basic organizational structures and operating processes will leave governments better able to respond to a prolonged economic shutdown. It is ultimately in the hands of state and local leaders to put relief legislation to work to get the money flowing.

Based on what we see today, state and local governments are likely to see revenue shocks as severe, or worse, than those experienced during the Great Recession. We have heard from many local

Trey Childress is a consultant in McKinsey's Chicago office; **Stuart Skeates** is a consultant in the Washington, DC, office, where **Todd Wintner** is a partner.

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