



STATEMENT OF

**THE HONORABLE JOE BUSCAINO
PRESIDENT PRO TEMPORE OF THE LOS ANGELES CITY COUNCIL
LOS ANGELES, CALIFORNIA
ON BEHALF OF THE NATIONAL LEAGUE OF CITIES**

**BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**

**“PROTECTING TRANSPORTATION WORKERS AND PASSENGERS FROM COVID:
GAPS IN SAFETY, LESSONS LEARNED AND NEXT STEPS”**

FEBRUARY 4, 2021

Good morning, Chair DeFazio, Ranking Member Graves and Members of the Committee:

I am Joe Buscaino, President Pro Tempore of the Los Angeles, California, City Council, and I am here today on behalf of the National League of Cities (NLC), the nation's oldest and largest network of cities, towns, and villages across America. While I happen to represent one of the biggest cities in the U.S. with one of the nation's largest ports in my district's backyard, I am proud to serve alongside great elected city leaders from Lexington, SC; Union City, GA; Bozeman, MT; Easton, PA, and so many other cities and towns of all sizes across the country. NLC is the collective voice of every town in America working with Congress on local priorities, and we are proud to be a part of each and every one of your Districts. NLC looks forward to working with you to strengthen our federal programs and policies and providing innovative solutions that can serve all our communities in COVID-19 relief and infrastructure legislation this year.

SUPPORTING ESSENTIAL WORKERS IN AMERICA'S CITIES

The nation's cities are on the front lines of the COVID-19 response, and it is clear that the health and economic crisis is not over. Together, Congress and America's communities must keep up the pace this year to respond, recover and rebuild from the COVID-19 pandemic and the economic challenges that have arrived with such a prolonged and devastating pandemic. Local governments have been the first line of defense in responding and organizing against the virus since the first cases were reported. Whether it was mask wearing policies, keeping essential workers moving, or supporting local restaurants and businesses with sidewalk and street access, we have tried to tackle each challenge head on. But COVID-19 at the local level has not been one single challenge. The ripple effect of shutdowns and devastating health impacts has docked almost every budget line in our city. Even with our best efforts, we have already lost far too many friends, family members, and local workers to this pandemic. Vaccinations cannot come quickly enough for essential workers who must stay on the job like our transportation workers, police, firefighters, and many others.

In my hometown of Los Angeles, we are doing everything we can to fight the rapid spread of the virus. My fellow city leaders across the nation also responded with urgency to protect the health of residents while also trying to keep as much of our essential businesses and services as open as possible. Yet, as we reach one year after the crisis began, Los Angeles has one of the highest concentration of cases in the country despite our efforts to combat COVID-19. To put this more starkly, one in every nine residents of L.A. County has tested positive. Now, we are reaching the end of our fiscal reserves, even while COVID cases surged in L.A. in the winter.

To pay for the COVID response essentials and services, we have exhausted our budget and typically dependable revenues are off substantially. One clear and unavoidable example is the \$92 million economic loss to Los Angeles' economy of a cancelled 2020 cruise

season out of the Port, and the loss in 2021 may be equally severe. The City Administrative Officer has projected that General Fund revenues are likely to fall short of the 2020-21 Budget by \$600 million. Closing this gap will deplete the entire \$259 million Contingency Reserve Account and Budget Stabilization Funds, created in the wake of the last recession, by the end of the fiscal year. Compounding the problem, the City already borrowed \$75 million from the Public Works Trust Fund, in order to meet immediate, emergency expenditures related to COVID, such as setting up the nation's largest testing site at Dodger Stadium and providing meal delivery for our seniors. This loan must be repaid by July 1, 2021, according to the City Charter. Congress chose not to include local aid in their December COVID response package, and we do not expect FEMA reimbursements before then. Your support in the next COVID package will make a difference as we continue to respond to every 911 call, provide housing assistance programs like Project Room Key, and keep vaccine sites like Dodger Stadium running at full pace.

Cities and towns of every size and in every state have reached out to Congress to tell you clearly – local budgets in the fiscal 2021 budget year are short by at least \$90 billion, and we have depleted our strategic reserves throughout 2020. Two-thirds of America's cities indicated in an NLC survey that they are delaying or completely cancelling capital outlays and infrastructure projects. Six out of ten cities are cancelling equipment purchases. Cities in the middle like Duluth, Minnesota, were projecting a \$25 million budget hit to its \$93 million general fund, had to lay off over 50 workers and institute a hiring freeze. Kansas City, Missouri, now anticipates a \$50-million deficit during this fiscal year despite freezes and cuts. Cities and towns have slashed programs, positions, and postponed local infrastructure projects, and the strain on keeping essential services and workers protected is nearing a breaking point. The U.S. has lost 1.3 million jobs connected to local and state government in the last year, leaving many positions unfilled and many workers doing overtime to fill in the ranks.

We need Congress to understand the urgency of the situation at home in our communities. Those cities like ours who were lucky enough to receive direct CARES Act funding have put that Congressional support to use swiftly and prudently. The City of Los Angeles has committed 96% of our Coronavirus Relief Funds (CRF) to eligible tasks, programs, and equipment, and the remainder of the funds will soon be expended. Those smaller cities and counties who received a small portion of what their states shared are moving quickly to use it on personal protective equipment (PPE) and gaps in basic needs for their residents like food, housing, and utilities. Places like North Kansas City, Missouri, used the majority of their funds for small business grants, and the remainder for rental and utility assistance as well as PPE and physical distancing supplies.

However, in most places, the CARES Act CRF funds are not equal to the need even with additional city resources. In Los Angeles, we dedicated \$100 million for rental assistance, and in less than three weeks we stopped accepting applications for the program due to the huge demand and limited funding. In many ways our cities are more directly and quickly reaching

the pressing needs of residents. The City of Phoenix, Arizona, used CRF to provide \$30 million in rental assistance compared to the state which only stood up a \$5 million rental assistance fund. As Congress negotiates the next response bill, **we implore Congress to pass additional COVID economic relief that can be quickly and efficiently delivered everywhere it is needed to combat the scale of this challenge. To fight this, we must lead together, with urgency.** This crisis continues to eat away at our communities and our economic competitiveness, and we cannot wait until there is nothing left to appropriately respond. The time to act is now, and only then will we all be prepared to tackle the important rebuilding that is ahead of us.

America's communities are proud to have a dedicated and resilient workforce of professionals who have kept everything running during these unprecedented challenges. We ask this Committee to support our transportation workers across all modes. They have been essential workers since the beginning of the pandemic, and they have kept our transportation systems for people and goods moving. Unfortunately, far too many have fallen ill or have lost their lives to protect others from the virus. Today, I'd like to highlight two groupings of local workers: those who are part of our national supply chain – like the family, friends, and neighbors in my hometown community of San Pedro that work down on the docks at the Port of Los Angeles, and those that provide transportation to our communities – and some specific actions this Committee can take to protect and support them as they earn their livelihood.

SUPPORTING TRANSPORTATION SUPPLY CHAIN ESSENTIAL WORKERS AND SAFE OPERATIONS

America's transportation supply chain is a national resource, but it all starts and ends in local areas like my District which includes the Port in Los Angeles. The Port of Los Angeles is the busiest container port in the nation and supports more than 144,000 jobs (about 1 in 13 jobs) in the City of Los Angeles and 517,000 jobs (1 in 17 jobs) in the five-county Southern California region, and 1.6 million jobs nationally. These include 15,000 members of our longshore workforce, 18,000 truckers, in addition to railroad, warehouse, and other logistics service providers. The City has worked consistently to support essential workers across the supply chain by donating masks and personal protective equipment (PPE) procured through a whole-of-city effort called *Logistics Victory Los Angeles*, as well as providing the Port a supply of industrial grade bleach from our Department of Water and Power to dilute for cleaning of terminals. The Port, in turn, worked with restaurant supply companies to provide these supplies to other essential workers as well.

The COVID-19 spread at the Port of Los Angeles is concerning. Two-thirds of all imports into our local ports make their way across the country brought by the port drivers and train operators who are delivering these goods. Almost 700 dockworkers at the Los Angeles and Long Beach port facilities alone have confirmed they contracted COVID-19, and around 10% of the longshore workforce is in quarantine. Logistics and transportation workers have seen their mortality rates increase 28% due to COVID, second only to food and agriculture workers

(39%). One of the port's largest container terminals was close to shutting down over the holidays. They were able to remain open only by adopting enhanced protocols - including remote dispatching, temperature checks for workers, and more rigorous testing. However, even with current protocols in place for cleaning and social distancing, COVID transmissions are increasing.

Port longshore workers and drivers are also staring at over 32 arriving container ships that are backed up on our shoreline – a clear visual reminder of how the pandemic is affecting our economic well-being as well as our health and the need to quickly vaccinate this essential and at-risk group of transportation workers. While COVID-19 cases have surged locally and transportation workers are trying to be careful, the port is very busy and likely will continue to be. While Americans were not taking flights or going to sporting events, they are shopping from their phones and getting everything delivered to their doorstep which all comes through the national and localized transportation network. If a large number of longshore workers are unavailable to work, or if terminals need to shut down, the waiting time to unload will increase causing a ripple through the national supply chain.

SUPPORTING LOCAL TRANSPORTATION WORKERS AND ESSENTIAL RIDES

Local transportation workers range from construction crews to bus drivers to maintenance specialists and so many more. Transportation is particularly sensitive to demand, and one of the immediate clear signs of an effective healthy stay-at-home order was that far less people were using transportation. Through shutdowns and uncertainty, COVID-19 has greatly impacted the 435,000 transportation and workers and transit agencies, like the Los Angeles Metro, as well as all the businesses they work with and riders across the nation. With the shift in demand, transit agencies and providers, like transportation network companies and scooter and bike rentals, have shifted as well with many reevaluating their routes and services and how to best protect their workers as well as the public.

For many transit providers, the stay-home orders gave a very clear view of the [essential rides they were providing for essential workers](#). For many low-wage essential workers in Los Angeles – such as grocery store workers and hospital janitorial and maintenance staff – public transit is likely their primary way to get to work, and we now have insight on how to serve them. This is also true with rural and small-urban transit providers, as recent analysis by Community Transportation Association of America shows that ridership held steady during COVID-19 at half their normal ridership, indicating these trips are for essential workers or essential functions. For a larger system like Metro which adjusted service levels during Los Angeles' *Safer at Home* restrictions, April ridership was about 31 percent, and by September, Metro was up to 55 percent of its normal ridership.

Transit providers, including Los Angeles' Metro, worked collectively with the [American Public Transportation Association \(APTA\) to commit](#) to actively communicate with riders and to show exactly what transit agencies are doing to help keep their service as safe as possible and slow

the spread of COVID-19. For workers, the necessary PPE continues to be distributed and procured as safety of employees is one of Metro's top priorities. For customers, mask requirements and cleaning have been a visual and robust reinforcement of the commitment to reduce the spread. Metro mandated the use of operator safety barriers on all buses to ensure the separation of bus operators from customers. To spread out passengers and avoid frequent contact with bus drivers and the public, many systems implemented rear door boarding and alighting, with the exception of our ADA passengers requiring the use of wheelchair lifts to safely board buses.

For those required to work at Metro locations, masks are required for all employees, vendors and customers; self-symptom self-checks are required prior to entering Metro facilities and locations; social distancing requirements are posted and monitored by management; and hand sanitizers are installed at locations and stations. Metro continues to issue trainings, communications, and written guidance to employees regarding safety and social distancing requirements. The agency has issued daily communications to all employees regarding COVID updates, leave requirements, emergency telecommuting, deaths and positive case counts, and revenue service updates. For all administrative staff, Metro has expanded its telecommuting policy to allow for emergency telecommuting for all positions whose jobs can be performed remotely. This has significantly reduced onsite workforce and has resulted in the use of modified work schedules to allow for telecommuting where practicable.

While we are arriving at the one-year anniversary of COVID, only this week has a comprehensive national mask mandate while traveling across modes been in place with the executive action of the President and the Centers for Disease Control and Prevention (CDC). Cities welcome this support as one of the most effective ways to keep everyone across the transportation chain safer as they work. As COVID cases and deaths increase in communities, transportation workers are at risk as their jobs are often performed by necessity in the public sphere and in close proximity to the public or with colleagues. Masks and social distancing are key to stopping transmission so much so that some transportation service providers went as far as to pause all fare collection temporarily to limit interaction time with drivers. In Los Angeles, Metro's transit drivers confirmed COVID cases track with community spread, but as with most skilled transportation workers, the pool of qualified workers is limited, sometimes leading to more overtime hours and therefore, more transmission risks just from time spent on the job.

As the vaccine rollout begins, urban and rural transportation services will be essential to getting at-risk populations to vaccine sites. Forty-four percent of rural transit system responders reported they are already engaging with public health officials at the local level to assist in a variety of ways with vaccine distribution. Private transportation providers are also stepping up their advertisements and support for this as well. Transit has benefited from previous Congressional COVID packages, but the financial limits to providing service with limited passengers and farebox revenue is challenging many of the largest systems. As

vaccinations increase, the CDC guidance and federal and state strategies must continue to take into account the critical interaction of essential workers who serve the public daily.

COVID-19 LESSONS LEARNED THAT CONGRESS CAN ACT ON

1. Share Essential Supplies with Essential Workers

Locally, we ensured that all local and state emergency orders recognized workers across the supply chain as “essential,” as defined by the U.S. Department of Homeland Security Cybersecurity and Infrastructure Security Agency (CISA). As we reflect on the gaps for port and supply chain workers, their delineation as “essential workers” by CISA did not provide them any minimum guarantees of protective equipment by the federal government, and in fact, it increased their risk. Essential workers were encouraged to go to work even without access to PPE, and in some cases, such as port drivers who are identified as independent contractors, their employers did not have to provide them PPE. The City and our Port made every effort to fill these gaps. Since a larger percentage of the nation’s essential worker jobs are held by people of color, it is concerning that the risks of our policies are being passed on disproportionately. From a national legislative perspective, a stronger connection between FEMA declarations during a pandemic and CISA definitions of essential workers would establish a clearer process to procure essential protection items for essential workers.

2. Improve the National Pandemic Procurement Strategy

Unfortunately, the federal government’s lack of national procurement strategy of PPE led to higher prices for local and state governments, health care workers, and essential workforces. Many suppliers were profiteering middlemen that sold at highly inflated prices, set unacceptable terms, or offered shipments of goods that could not be verified as legitimate, medical grade PPE. During that period, L.A. competed with other government agencies to procure N95 masks; in another, a shipment targeted by L.A. for potential procurement was seized by the federal government. In a pandemic, local governments should have insight into how their mask and PPE acquisitions would be aligned with national procurement as well as the number of essential CISA workers in their cities. The federal government may learn from Los Angeles’ whole-of-city effort, *Logistics Victory Los Angeles*.

3. Provide More Transportation Workforce Testing and Targeted Vaccinations

Each state is providing vaccinations to essential workers differently, and some have prioritized transportation workers more than others. In my role with the City of Los Angeles, I have led a resolution in Council to ask our state legislature and administration to support the Port’s essential waterfront workers and prioritize distribution of the COVID-19 vaccine for essential waterfront workers. The need for both prioritized vaccination and available testing for essential workers is clear. Scaled up and more frequent testing is necessary to get a more accurate

assessment of positivity rates. The Los Angeles Port is working with stakeholders to identify a location for large scale testing and vaccination of the workforce.

4. Direct Funding Is the Quickest Delivery of Emergency Relief

Local officials are distinctly positioned to protect the health and safety of America's residents and to provide reassurance in times of crisis. In the future, NLC recommends that all pandemic emergency funding should use an allocation formula based on the Community Development Block Grant program (CDBG) as approved by the House in the HEROES Act and now H.R.199. Relying on a CDBG framework would eliminate the time-consuming need to stand up a completely new administrative or regulatory framework as was required by the CARES Act Coronavirus Relief Fund (CRF). CDBG is also the most familiar revenue sharing mechanism for states and localities. Additionally, entanglement of state and local funding should be minimized. A lack of clarity burdened communities trying to responsibly use the CARES CRF from the start, resulting in confusion, delays, and infighting among primary and secondary grant recipients.

Federal transit support in Congressional COVID relief bills has been incredibly effective and efficient using existing and dependable formulas to support local transit agencies. We urge you to consider the level of service reliability that may be jeopardized if draconian cuts must be made to transit service and workers. APTA has recommended a funding level of an additional \$39.3 billion in additional COVID-19 emergency funding to help public transit agencies continue to provide a critical lifeline to essential workers and to help our communities begin to rebuild our economy. Unfortunately, the ability of cities to fill gaps in local transit budgets are now limited by our financial challenges from COVID, and depending on action by Congress, the ability to support additional service may be limited.

5. FEMA Must Be Reliable, Relief Must be Accessible and Available Quickly in the Future

The Federal Emergency Management Agency (FEMA) is responsible for assisting communities in disaster, but the level of support is dependent on quick Congressional action or Presidential Executive Order. Congress and this Committee introduced H.R. 8266, the FEMA Assistance Relief Act of 2020, adjusting the FEMA cost-share for all COVID-19 related Emergency and Major Disaster declarations to 100 percent, and while it did not pass, President Biden's recent executive order has unlocked future FEMA support at 100 percent. However, a gap remains that Congress could fill now and provide some relief to communities who still have to meet the matching requirements for last year after their budgets have been depleted by COVID-related expenses. **Congress must pass legislation that would consistently provide 100 percent federal support under all COVID FEMA emergency designations rather than only some.**

We would also strongly encourage legislation to confirm that communities could be reimbursed for certain expenses including PPE for public transit, public utilities and other government

buildings and services, and for FEMA to rescind their prior policy guidance which does not allow for essential workers to receive essential protective equipment. NLC also strongly encourages all action to expedite FEMA repayment so that communities do not have to float costs over budget cycles. Cities and towns across this country employ thousands of dedicated police officers, firefighters and transportation workers that courageously serve the public and keep our communities moving, even in the most challenging times. They rely on the cities and towns across this country to meet their biweekly or monthly payroll obligations. Delayed FEMA repayments will result in layoffs of critical frontline workers. Lastly, we also urge action to limit the amount and standards for FEMA to claw back reimbursements that were approved.

6. Broadband Remains a Pandemic Gap and Future Transportation Demand

Connectivity became an essential utility for workers and students during the pandemic as much as water and electricity, and with connected vehicles, signals and other infrastructure, transportation is poised to benefit from a reliable broadband “highway” nationally. A serious national connectivity effort is needed to meet the demands of business and our transportation future. However, local investment has been hampered by state and federal preemption, digital redlining, and monopolistic practices by incumbent providers. Congress should prioritize rectifying these mistakes and invest in broadband as a national priority as part of any recovery or infrastructure effort. This Committee could allow for broadband buildout alongside all federally funded transportation projects. Regrettably, cities in half of the U.S. states are prohibited from building, owning, or operating broadband service that is essential to our residents. Congress could include the Community Broadband Act in future legislation to free cities from these state limitations, at no cost to the federal government. The Protecting Community Television Act and Accelerating Broadband Development by Empowering Local Communities Act would provide communities with needed flexibility and more substantial support to protect residents and promote digital equity, again at no cost to the federal government.

CONGRESS CAN PARTNER WITH LOCAL GOVERNMENTS

America’s cities, towns and villages need urgent support from Congress to keep essential services and workers moving locally, and we remain fully committed to being the federal government’s partner in fighting this pandemic and solving the challenges we are confronted with. It cannot be overstated that U.S. transportation patterns and revenues changed overnight, and cities, states, and this Committee must analyze what is fundamentally changed, along with what is temporarily changed yet extremely difficult, and, finally, what advantages and disadvantages exist as we rebuild and reimagine our current assets and goals for transportation. The National League of Cities looks forward to the discussions to come to address this and how to improve and innovate across the nation’s transportation systems.

APPENDIX



The financial health of America’s cities, towns and villages is on the brink.

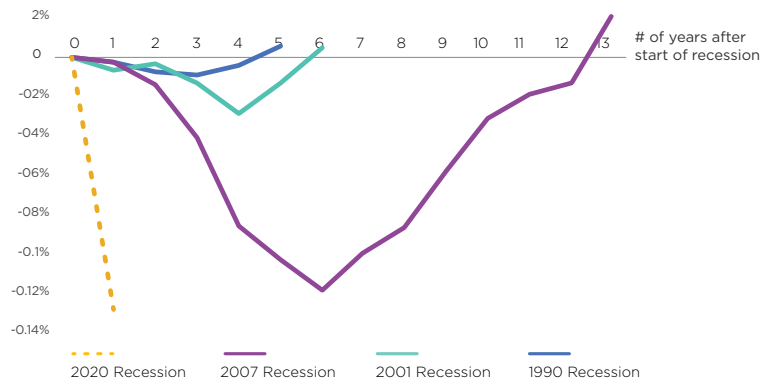
A Recession Faster Than Imagined

The consequences of this economic fallout are impacting our hometowns faster than we could have imagined.

The revenue decline that took 6 years for cities to fully feel in the Great Recession is already happening in just the few short months of this pandemic-downturn - and it won’t go away easily.

It took over a decade for local revenues to bounce back from the Great Recession. It’s predicted that it will take years for local economies to recover from this recession.

COMPARATIVE REVENUE TRENDS DURING RECENT RECESSIONS



Tax Sources Suffer: Fiscal Structure and the Economy

Cities generate most of their revenue by designing their own tax and fee structures within limits imposed by their states. Consequently, cities’ fiscal structures vary across the country.

Each source of revenue responds to economic changes differently.

- Property tax revenues typically reflect the value of a property anywhere from 18 months to several years prior, so they are less immediately responsive to economic changes.
- Sales taxes are more responsive to economic changes and often better reflect economic shifts.
- Like sales taxes, income taxes are also a more responsive source of revenue.

COVID-19'S IMPACT ON TAX SOURCES

Data from 2019 indicated that all three major tax sources were continuing to grow at a robust rate – **then the pandemic hit.**

Budget estimates for 2020, which were collected only two months after the pandemic started, demonstrate the immediate impact coronavirus had on sales and income revenues sources. Even property tax, which lags in comparison, will slow its rate of growth this year until it begins to experience decline in the coming years.

YEAR-OVER-YEAR CHANGE IN SALES, INCOME AND PROPERTY TAX RECEIPTS



This Is Just the Beginning: Fiscal Year Start Month and Budget Response

City fiscal years vary, many beginning January 1, July 1 or October 1, with some during other months.

- Because of this, some cities' 2020 fiscal years were just beginning as the coronavirus spread and their budgets are facing the full brunt of the economic downturn throughout 2020.
- Those that started their fiscal years in 2019, reaped the benefits of a stronger economy and only felt the downturn in the tail end of their fiscal year.

This is just the beginning – the true depth of financial impact will only become more evident and more severe in the years to come as budgets absorb this economic hit.

FISCAL YEAR START MONTH



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Kathy Maness
Councilmember
Lexington, South Carolina

First Vice President
Vince Williams
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Union City, Georgia

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Victoria Woodards
Mayor
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Joe Buscaino
Councilmember
Los Angeles, California

Chief Executive Officer/
Executive Director
Clarence E. Anthony

January 15, 2021

The Honorable Mitch McConnell
Majority Leader
United States Senate
S-230, The Capitol
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
United States House of Representatives
H-232, The Capitol
Washington, D.C. 20515

The Honorable Charles Schumer
Minority Leader
United States Senate
S-221, The Capitol
Washington, D.C. 20510

The Honorable Kevin McCarthy
Minority Leader
United States House of Representatives
H-204, The Capitol
Washington, D.C. 20515

Dear Speaker Pelosi, Leader McConnell, Leader McCarthy, and Leader Schumer:

The National League of Cities (NLC) is the nation's foremost resource and non-partisan advocate for municipal governments and their leaders, representing all of America's 19,000 cities, towns, and villages. For nearly a year, local leaders have persevered against unavoidable fiscal decline to maintain essential government operations and services. At the same time, local governments have diligently implemented federal emergency aid to stabilize households and small businesses harmed by the coronavirus pandemic.

We are grateful for programs and funding that have been enacted under prior emergency appropriations packages. The fact remains, however, that most municipalities still have not received meaningful levels of federal aid. By separating, and ultimately dropping, state and local aid from the omnibus appropriations and emergency spending bill, Congress has injected significant uncertainty into the capability of local governments to carry out their operations just as a third wave of COVID-19 infections threaten to spread uncontrollably.

Consequences of Local Government Decline

Without any form of emergency federal aid whatsoever, NLC calculated the worst possible outcome for municipal governments would likely have been a \$360 billion decline in revenues over three years from the start of the pandemic. Fortunately, the three emergency appropriations packages approved by Congress has improved the outlook for local revenues, but they remain far below normal collections. **NLC's revised estimate, based on the most recently available fiscal data and updated survey results, is that municipal governments are still facing a \$90 billion blow to their current year revenues.**¹

¹ [Over Two Thirds of Cities Say Condition Will Worsen Without Federal Stimulus, NLC](#)

For local governments, the unmet urgent need for federal aid strikes at the heart of their capacity to both carry out emergency response and participate in economic recovery. Loss of capacity is directly related to local government job losses. U.S. labor market data reported on January 8th showed that state and local governments are still cutting jobs to offset revenue losses and pay for measures taken in response to new waves of COVID-19. According to the Bureau of Labor Statics December 2020 jobs report, local governments shed 32,000 jobs². Moreover, state and local government employment is still down by 1.385 million jobs compared to February 2020, just before major actions to control the spread of coronavirus went into effect.³

Municipal job cuts, and the resulting loss of capacity, has real-world consequences for residents, households, and small businesses. When residents lose jobs, demand for state and local government services increase. According to a recent Brookings report, COVID-19 triggered unprecedented increases in unemployment that overwhelmed state unemployment programs.⁴ Residents are relying on local governments for stabilization services through the long wait for unemployment assistance. Federal programs such as CDBG, Homeless Assistance Grants, and the Coronavirus Relief Fund under the CARES Act provided cities with additional resources to stabilize residents but did little to ensure local governments had the capacity to carry out those programs quickly or efficiently. Without federal aid for all local governments, there is no question that local capacity to administer emergency stabilization aid such as rent, utility assistance, and anti-hunger programs will decline.

Household services are also being scaled back, resulting in quality-of-life declines. According to NLC's City Fiscal Conditions 2020 report, nearly 8 in 10 finance officers say their cities are less able to meet the needs of their communities in 2020 than in 2019.⁵ A December update to NLC's survey of municipal officials found that 90% of municipal governments have experienced a revenue decrease of 21%, and 76% have experienced an expenditure on average increase of 17%.⁶ For households, among other things this means reductions in waste collection and recycling programs, delays in permitting for home construction and renovation, longer wait times for inspections and licensing, reduced services for households that rely on public transit, and pausing plans for utility build-out and upgrades such as water and sewer lines and broadband infrastructure.

Contractors that do business with local governments are also being harmed by the unavoidable decline in local government operations. NLC research shows that the deepest cuts from the pandemic are not showing on the stock market but on the Main Streets of cities and towns across America. According to NLC's Local Impact Survey⁷, 65 percent of cities have been forced to delay or cancel capital and infrastructure projects because of COVID-19 related revenue losses. Given that local governments contract months and years ahead, this means that the cuts will increasingly reveal themselves to businesses that bid for work in the months ahead. For small businesses that were unable to access Treasury aid like the Paycheck Protection Program, local governments served as their last resort for access to credit. NLC is documenting⁸ steps local governments have taken to support small businesses including halting or deferring the collection of taxes, utility payments, and licensing fees; offering zero-interest loans to those unable to access credit from financial institutions; and offering technical assistance to small-business owners applying for SBA loans. Conversely, slow-downs in inspections means costly opening and re-opening day delays and associated loss of wages for employees.

Direct Intervention for Local Governments

The fiscal decline associated with the coronavirus pandemic has placed unprecedented stress on both states and localities, as evidenced by intergovernmental infighting over CARES Act Coronavirus Relief Funds. Of the 19,000 cities, towns, and

² [Bureau of Labor Statics December 2020 Jobs Report](#)

³ [Hilltop Securities Municipal Commentary January 11, 2020: State and Local Government Job Losses in Three of Last Four Months Illustrate Continued Budget Pressures](#)

⁴ [The social safety net: The gaps that COVID-19 spotlights](#)

⁵ [City Fiscal Conditions 2020, NLC](#)

⁶ [Over Two Thirds of Cities Say Condition Will Worsen Without Federal Stimulus, NLC](#)

⁷ [Congress' Delay Slashes Main Street Investments Amid COVID-19, NLC](#)

⁸ [Five Ways Local Governments are Supporting Small Businesses During COVID-19, NLC](#)

villages in the United States, only 36 municipalities, each with more than 500,000 residents, were provided direct assistance under the CARES Act CRF. Specifically, the 36 municipalities with populations over 500,000 received about \$7.9 billion of the \$150 billion. As a result, the majority of the 19,000 municipalities below the 500,000-population threshold were excluded from a guaranteed minimum level of assistance. In May, NLC raised the alarm that more than half the states had not at that point allocated any CRF funds to small and rural localities.⁹

The lag in state action to share federal aid with local governments can be attributed to several factors, including unclear authorizing language and inconsistent rolling guidance from the Treasury Department. But the largest factor was likely the fact that the overall aid made available under CRF was less than the pandemic related losses for states alone. As of last November, NLC estimated 29%, or about 6000 municipal governments, had not received any CRF, HUD, or FEMA funds from the CARES Act.¹⁰

The lesson for Congress is that federal aid for localities should not be contingent on time-consuming state determinations and processes. Rather, federal intervention to prevent the decline of local government operations should take the form of direct allocations of aid to all local governments to ensure all cities, towns, and villages have the opportunity to access federal aid where it is needed to maintain essential government operations and services.

Hard-won lessons learned from the opioid addiction crisis reinforce this conclusion. Too often, desperately needed addiction treatment and recovery funds provided by Congress were delayed or made unavailable to local governments as a result of complex or unclear instructions between federal, state, and local authorities. To the extent that federal resources are allocated to state governments for use by states and localities, the federal government should include iron-clad language requiring states to clearly and efficiently pass-through funds to local governments within a defined period of time.

Appropriate, Fair, and Equitable Funding for All Municipal Governments

Federal lawmakers should adhere to the following principles for direct intervention and prevention of local government fiscal decline resulting from the COVID-19 pandemic:

1. **Emergency funding should be fair and appropriate for each and every local government, with no minimum population threshold for eligibility.** Residents, households, and small businesses should not tolerate a preventable decline in local government operations as a result of being excluded from emergency federal assistance.
2. **Aid should be directly allocated through familiar and proven government revenue sharing programs.** We recommend an allocation formula based on the Community Development Block Grant program (CDBG) as approved by the House in the HEROES Act. Relying on a CDBG framework would eliminate the time-consuming need to stand up a completely new administrative or regulatory framework as was required by the CRF. CDBG is also the most familiar revenue sharing mechanism for states and localities operating at reduced capacities due to staff furloughs and layoffs.
3. **Entanglement of state and local funding should be minimized.** A lack of clarity burdened the Coronavirus Relief Fund from the start, resulting in confusion, delays, and infighting among primary and secondary grant recipients. Federal aid for states and localities should be allocated through three distinct funding streams for state government, municipal government, and county government. Overall federal aid for municipal governments and county governments should be provided at equal levels.

⁹ [Local Governments Report Progress on Coronavirus Relief Funds, But Few Unobligated Dollars Remain for Cities and Towns Waiting for Aid, NLC](#)

¹⁰ [Cities are Essential, The COVID-19 Recession, NLC](#)

4. **Eligible expenditures should be targeted to the widespread health and economic consequences of COVID-19**, including unavoidable revenue shortfalls resulting from federal, state, and local measures to contain the spread of coronavirus.

Appropriate Guardrails

Appropriate guardrails can ensure federal assistance is appropriately allocated and spent to address losses and recovery related to COVID-19.

1. **Congress should enact guardrails to ensure additional federal intervention does not exceed reasonable levels of assistance to any municipal government**; and that the public can be confident that taxpayer funds are appropriately spent.
2. **To safeguard against funding levels greater than appropriate to meet the responsibilities delineated to municipal governments**, allocations for non-entitlement municipalities ought to be capped at 75% of their total annual budget.
3. **To safeguard against incentives to use federal aid as an offset for unwarranted cuts in state or local aid, a maintenance of effort requirement should be included to prevent any level of government** from imposing eligibility standards, methodologies, procedures, or other constraints on any other unit of government that are more restrictive than those that were in place upon enactment of the bill, in order to receive aid under this title.
4. **To safeguard against expenditures for long-standing unfunded liabilities**, pension funds should be designated an ineligible expenditure.

Additional Federal Aid

To help local governments offset the costs associated with the current national emergency response to this ongoing pandemic, Congress should include key provisions within H.R. 8266, the FEMA Assistance Relief Act of 2020, including adjusting the FEMA cost-share for all COVID-19 related Emergency and Major Disaster declarations to 100 percent. Additionally, Congress should include provisions within H.R. 8266 that would adjust the FEMA cost-share for all emergencies and major disaster declared in 2020 to not less than 90 percent federal and 10 percent non-federal, as well as a vital provision that would clarify that FEMA – under COVID-19 declarations – should continue to reimburse for certain expenses including personal protective equipment (PPE) for public schools, public transit, public utilities, courthouses and other government buildings and services.


Lastly, states and localities need more flexibility to use already appropriated CRF funding than is provided by the CARES Act. Amending CARES Act language to enhance flexibility for CRF by making “replacement of lost revenue” an eligible expenditure would meaningfully aid state, county, and municipal governments. We recommend CARES Act language be revised to read: *Title VI, Sec 601 (d):(1) are necessary expenditures or lost revenue incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).*

Conclusion

To be clear, we are not seeking federal assistance to “bail-out” local governments. Local governments do not expect the federal government to make up for every loss of local revenue. Rather, NLC is seeking an additional lifeline for local governments to put off and ultimately avoid options of last resort, including making temporary cuts permanent at a time when communities need local services most, laying-off furloughed municipal employees who comprise a large share of America’s middle class, and indefinitely cancelling capital projects that will further impact local employment, business contracts and overall investment in the economy. In other words, we are seeking federal assistance to save America’s cities, towns, and villages; and to make local leaders part of the solution to economic recovery.

Thank you for considering our urgent request for additional emergency aid to stabilize residents and maintain local government operations. If NLC can be of further help to you, please contact Irma Esparza Diggs, NLC Senior Executive and Director of Federal Advocacy, at 202-626-3176 or diggs@nlc.org.

Sincerely,

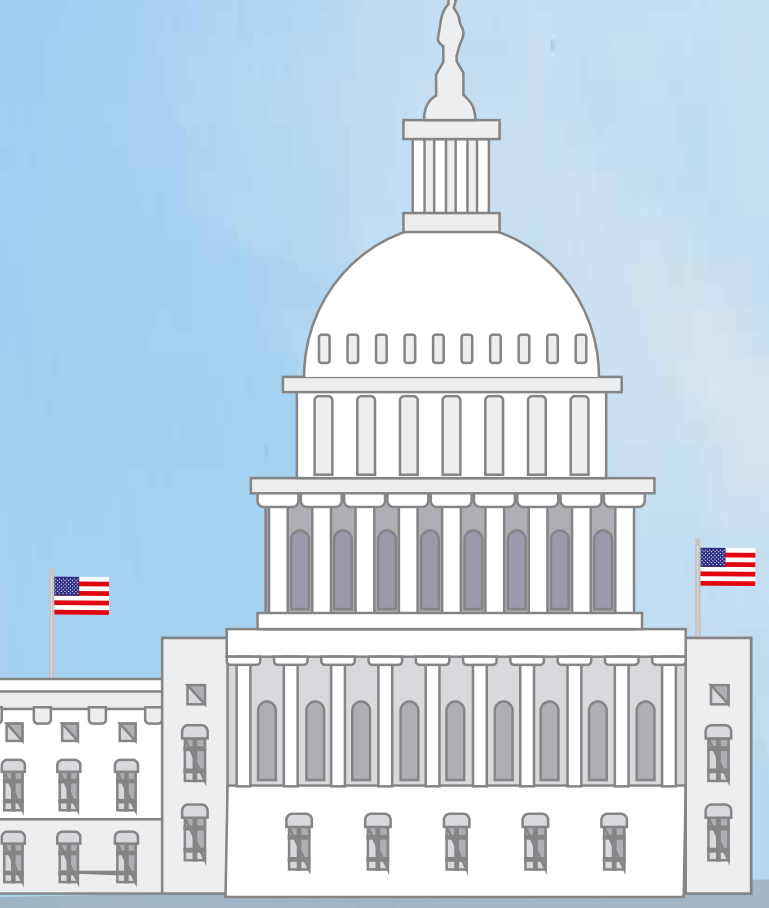
A handwritten signature in black ink, appearing to read 'Clarence Anthony', with a long horizontal flourish extending to the right.

Clarence Anthony
CEO and Executive Director
National League of Cities

Cc: Office of President-Elect Biden
U.S. House of Representatives

AMERICA'S CITIES NEED AID NOW

LOCAL GOVERNMENTS HAVE BEEN SUPPORTING THEIR RESIDENTS THROUGH THIS PANDEMIC:



It's time the federal government supported our local leaders.



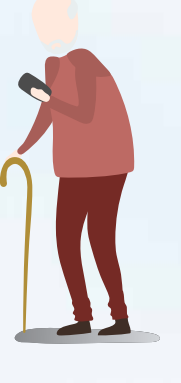


Municipalities need federal aid now.

70% of Americans

believe the federal government is **directly responsible** for helping local governments recover from the coronavirus pandemic

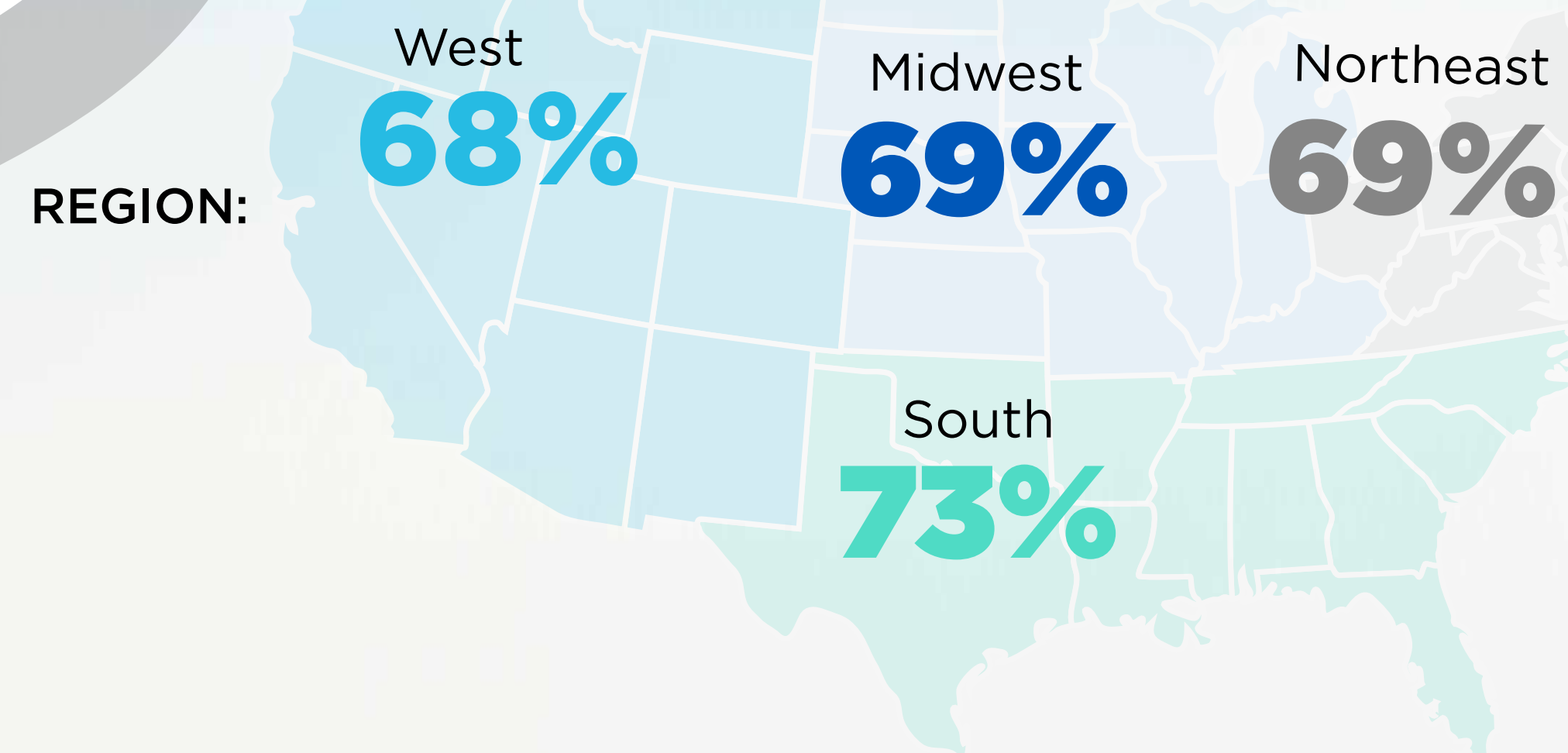
SUPPORT FOR FEDERAL AID TO LOCAL GOVERNMENTS IS **BIPARTISAN, NATIONAL AND SPANS DEMOGRAPHICS.**

AFFILIATION:	REPUBLICAN	DEMOCRAT	INDEPENDENT
	72%	71%	68%
AGE:			
	MILLENNIAL 66%	GEN X 73%	BOOMERS 73%

Americans agree.

88%

of Americans are concerned that coronavirus is going to drastically affect their local economy



Nearly 100% of cities with **populations above 50,000** will see a revenue decline this year.

Not only are Americans worried about the economy:

45%

are concerned that this pandemic will directly impact their jobs.



Between **300,000 and 1 million** public-sector workers could be laid off or furloughed



More Americans agree the way their local government is handling the spread of COVID-19 is better than how Congress is.

APPROVE OF LOCAL GOVERNMENT

73%
Registered voters

77%
Republican

73%
Democrat

68%
Independent

APPROVE OF CONGRESS' HANDLING

49%
Registered voters

54%
Republican

50%
Democrat

40%
Independent

Methodology: This data is based off review of census and municipal salary data, and secondary research from the National League of Cities that extrapolated public statements, records and news articles on municipal layoffs and furloughs.

Methodology: A total of 2,463 cities, towns and villages responded to the survey, with final responses received on April 7, 2020. 2,191 of the cities are under 50,000 population; 181 are between 50,000 and 199,999; 56 are between 200,000 and 499,999; and 35 have a population of 500,000 and above -- a group that includes 19 of the nation's 20 largest cities. The survey cities represent 57% of the nation's municipal finance sector and 10% of its municipal governments. Their population totals 93,015,252, which is 28% of total U.S. population.

**SURVEY DATA BY MORNING CONSULT*

Methodology: This poll was conducted between April 24-April 26, 2020 among a national sample of 1984 Registered Voters. The interviews were conducted online and the data were weighted to approximate a target sample of Registered Voters based on age, educational attainment, gender, race, and region. Results from the full survey have a margin of error of plus or minus 2 percentage points.

***SURVEY DATA BY MORNING CONSULT + POLITICO*

Methodology: This poll was conducted between April 24-April 26, 2020 among a national sample of 1991 Registered Voters. The interviews were conducted online and the data were weighted to approximate a target sample of Registered Voters based on age, educational attainment, gender, race, and region. Results from the full survey have a margin of error of plus or minus 2 percentage points.

<https://morningconsult.com/2020/04/29/coronavirus-funding-poll-state-local-governments/>

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the maritime industry has continued to operate throughout the global COVID-19 pandemic despite major disruptions to global supply chains; and

WHEREAS, the Port of Los Angeles is a linchpin in the economic vitality of multiple critical infrastructure sectors locally and nationally; and

WHEREAS, the maritime industry is fueled by the work of essential waterfront workers who have taken on extensive risks in order to ensure the continued flow of goods and materials through the Port; and

WHEREAS, the State is developing guidelines for the distribution of COVID-19 vaccines to essential personnel once medical workers, first responders, and vulnerable populations have been successfully vaccinated; and

WHEREAS, the health and safety of waterfront workers is crucial for the continued recovery from the economic devastation wrought by the global pandemic; and

WHEREAS, the State should prioritize protection of the waterfront workers who continue to risk their health to maintain our local and national economies;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2021-2022 State Legislative Program SUPPORT for any legislation or administrative action that would prioritize distribution of the COVID-19 vaccine for essential waterfront workers.

PRESENTED BY: _____
JOE BUSCAINO (verbal)
Councilmember, 15th District

CO-PRESENTED BY: _____
PAUL KORETZ (verbal)
Councilmember, 5th District

SECONDED BY: _____
MIKE BONIN (verbal)
Councilmember, 11th District

Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder

January 6, 2021

Sector View: Negative

Our view of the sector remains negative given the level of pressures brought by COVID-19 and the recession. While we expect most credits will experience only slight, if any, deterioration in 2021 and beyond, in the current environment we still expect downgrades to outpace upgrades. Credits that maintain higher reserves are better positioned to withstand revenue and expenditure pressure, but for most, active management of any shortfalls will still be critical to maintaining credit quality. Local governments that have weaker financial reserves and less flexibility, and don't proactively manage their budgets in 2021, will be most at risk for credit deterioration.

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What We're Watching – Local Governments



Stimulus

Timing and magnitude of possible federal support for local governments.



COVID containment

Vaccine and a January start to a more coordinated federal approach could slow spread.



Uneven health recovery

Different state and regional fiscal and physical recoveries.



Widening budget gaps

Use of short-term solutions for long-term pressure (pensions, capital).



State fiscal health

Pressure at state level often shared with locals.



U.S. economic recovery

Housing market strength, unemployment, retail/commercial recovery.



Federal policy focus

Immigration, pandemic, economic, tax, infrastructure.



Lower interest rates

Bring a lower cost of capital and fuel mortgage lending.

Local Governments By The Numbers

Drop in state and local tax revenues between Q1 and Q2 2020

-17%



-0.1%



Drop in state and local expenditures between Q1 and Q2 2020

Revenue lost by state and local governments between 2020 and 2022

\$467 bil.



\$150 bil.

CARES Act Corona Virus Relief Fund

U.S. unemployment rate



6.7% vs. 3.5%

November 2020

November 2019

7%



NLC survey respondents who said CARES Act met their funding gap.

\$13 bil



Income tax generated from the additional unemployment benefits under the Paycheck Protection Program

10.4%



Share of U.S. GDP made up by state and local governments

Drop in local government employment between March and May 2020

-8.6%



1.4 mil.

Projected nationwide housing starts in 2021, up from 1.3 M in '19 and '20



Sources: FRED (St. Louis Fed); Brookings Institute; U.S. Treasury; S&P Global Economics; Bureau of Labor Statistics; National League of Cities. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

In 2020 local governments across the country took the lead to innovate through the pandemic and recession. We expect this to continue in 2021 as they address challenges surrounding vaccine distribution. All of this must be done while addressing day-to-day government needs, sometimes in the face of revenue shortfalls. As we look to the year ahead, given the challenges presented, we know some downgrades are unavoidable, although not all issues placed on negative outlook in 2020 will go down (see Rating Actions And Distribution below). Local governments with flexibility borne by reserves, revenue, or expenditure flexibility have a head start for maintaining credit quality. But even proactive management teams with their hands on the wheel may find there is a limit to what they can do in the current environment.

Our view on 2021 highlights five questions that matter for the health and stability of local government credit quality. Some questions have specific factors that could affect the trajectory, but there are several potential disruptors that span broadly. These include delays in federal stimulus and/or an effective immunization campaign; a double-dip recession; and a markedly slower economic recovery than currently expected, either nationally or on a state level.

Questions That Matter

1. What are the federal fiscal and policy initiatives that will be meaningful for credit?

After months of waiting, the federal relief bill passed in December but did not include money for state and local governments. While that outcome was not a complete surprise, it is still a blow to local governments trying to make ends meet during revenue shortfalls brought on by COVID-19 and the recession. The National League of Cities' (NLC) annual survey of over 900 municipalities, taken before Congress's December action, put numbers to the pressure local governments have been seeing all year, with 71% of cities surveyed saying their government's condition will worsen unless Congress passes additional stimulus. A similar survey from the National Association of Counties with 1,800 respondents puts the number higher, at 91%.

How this will shape 2021

No new stimulus for locals will make a difficult budget year even harder. Locals know that without meaningful federal stimulus, balancing 2021 will be even more difficult and we're likely to see deeper budget cuts.

Low interest rates will continue to help with cost of capital, providing some budgetary flexibility. With the Federal Reserve pledging to keep rates low for the foreseeable future, locals will be able to take advantage of low borrowing costs. Lower interest rates also help offset the loss of tax-exempt advanced refundings, but a taxable refunding still won't save as much as a tax-exempt one.

A national infrastructure package would create jobs and rebuild assets. The greatest value would come from the inclusion of projects that benefit locals and schools, plus a broad-scale infrastructure program brings jobs directly to communities.

What we think and why

Absence of meaningful federal stimulus could lead to credit deterioration and rating changes. An early-on infusion of \$150 billion in CARES Act Coronavirus Relief Fund money was a big help for locals but it wasn't enough to completely offset revenue decline due to the recession and additional pandemic-related costs. While the CRF dollars were shared broadly, the NLC estimates 29% of locals received no CARES Act funding.

Premature austerity pressures the economy. Given that state and local government makes up 10.4% of national GDP, continued budget cuts and employment reductions will slow down the national recovery and in turn slow local revenue recovery which adds to credit pressure.

What could change the trajectory

Continued gridlock in Congress. This could limit policy initiatives favorable to local governments from an economic or financial standpoint.

Chart 2

The Pandemic's Impact On Cities

90%

saw lower
revenues

76%

had higher
expenditures

On average,
expenditures
went up

17%

On average,
revenues
went down

21%

Source: National League of Cities survey of 900 municipalities.
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2. Will the uneven health recovery weigh on credit quality?

Throughout the pandemic we have seen the virus affect the U.S. unevenly, from illness spikes to tax revenue shortfalls brought on by state-mandated social distancing. As we move through the virus' winter surge, we expect the impact will be uneven. This puts harder-hit issuers at a different starting point than others as the world turns its sights to widespread use of a vaccine in 2021.

How this will shape 2021

State and regional recovery readiness varies. Some parts of the country may be ready to move forward post-virus more quickly, growing revenues and expanding the local economy, while others take longer. During 2020 we saw more differences between states than regions, as demonstrated by variations in unemployment rates as shown in chart 3.

Limited budgetary flexibility. As economies reopen, significant budget cuts will be necessary for some issuers to bring revenues in line with expenditures. This provides less flexibility in budgeting for 2021 and beyond.

What we think and why

Uneven health recovery will continue for some time. Since states are experiencing the virus differently, there will be different outcomes for revenues, expenditures, and credit quality. Economies that take longer to recover will continue to see more pressure on sales taxes and other revenues.

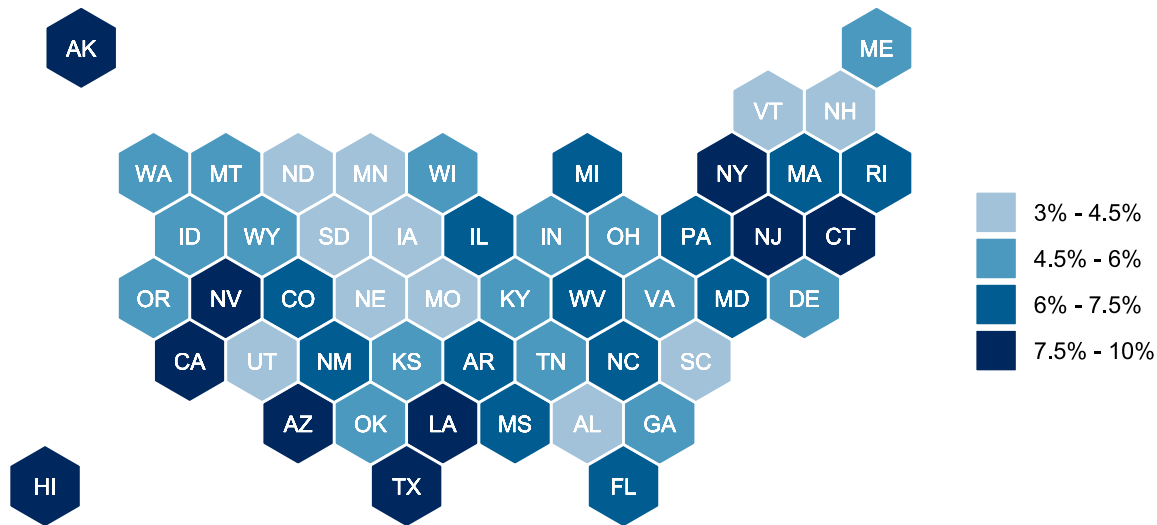
Property tax collections remain on track, providing stability for many. In areas where housing demand was high there could be a notable increase in the taxable valuation. Housing starts are very strong across the U.S., as is price appreciation in many areas. A slowdown in either won't necessarily signal weakness, but rather normalization.

In the event of another lockdown, sales taxes may not drop as much as feared. Sales and other user taxes were hit hard in general, but for many it was not as bad as original expectations. Should there be another virus spike, this should help provide stability.

Slow economic growth and vaccine-shy constituents could keep some areas from coming back quickly. This would be consistent with what we've seen where shutdowns happened earlier and/or lasted longer.

Chart 3

2020 Unemployment Rates: Higher, But With Significant Variance Across States



Source: Bureau of Labor Statistics.
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3. How does our negative view of the state sector relate to local governments?

While there is no direct correlation between the sector view on states and individual local government credits, the overall health of state finances can have a direct impact on locals. Some local governments—including school districts, where state revenues make up an average of 51% of funding—are dependent on the state for operating revenues. After a period of remarkable stability, in 2020 there were three state downgrades and 14 negative outlook revisions. Nearly all states are required to maintain a balanced budget, and when cuts are necessary to regain balance, one of the most common actions is to reduce aid to locals. Not all states head into 2021 with significant budgetary weakness, but where it exists we expect locals may feel it, too.

How this will shape 2021

Budgetary pressure at the state level can move quickly down to locals. If states need to make cuts to local governments and school districts to regain balance, these adjustments can result in mid-year budget cuts. Depending on the timing of the cuts, these are often offset by using reserves since making impactful spending adjustments can take longer.

Regardless of location, operations are tight for most. The uneven health recovery varies across states, and some are experiencing less revenue pressure than others. However, for those under strain, the pressure is likely to ramp up without additional federal stimulus.

Pain is likely to continue since 2022 doesn't look any better for many. Many states are talking about 2022 budgetary imbalances, another signal of an increased chance for revenue sharing cuts, potentially for more than one year.

What we think and why

Being prepared for potential cuts is important. When state budgetary imbalances occur, it may only be a matter of time until they hit locals. Early on in the pandemic school aid was cut in several states, but the December relief bill included \$54 billion for public K-12 schools which will help, particularly since the bill didn't include stimulus money for states.

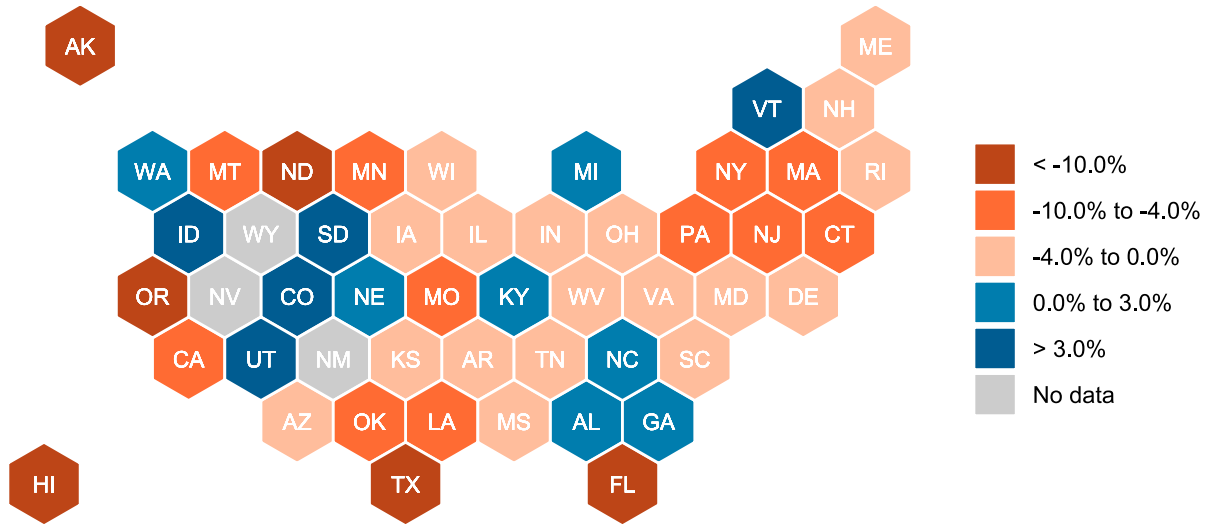
States with slower economic recoveries will exacerbate problems for locals. If the national economic recovery is slow and other revenues are similarly pressured, the situation will be exacerbated. Locals with their own revenue weakness will be hit even harder.

Some states may be waiting for the other shoe to drop. Local governments with a Jan. 1 budget year couldn't wait for possible federal stimulus to finalize their budgets. Any governments that were disappointed by a lack of stimulus for states and locals in the congressional bill may now have to make more sizable budget cuts.

Governments are on the front lines of the pandemic and their finances are showing it. Total revenues have been down across the country, with most states reporting year-over-year drops through September, and six states in excess of 10%.

Chart 4

Percent Change In State Tax Revenues, March - September 2019 vs March - September 2020



Source: Urban Institute's State and Local Finance Initiative.
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4. Will ESG issues remain a front-and-center challenge that affects credit quality?

After many years of ESG conversations focused on 'E', in 2020 'S' and 'G' topics were also prevalent. This included civil unrest associated with George Floyd and subsequent calls for police reform. In the 'G' space, in addition to a myriad of pressures related to COVID-19 response, we saw ongoing cyberattacks on local governments. We expect all of this to continue at some level in 2021.

How this will shape 2021

ESG conversations will ramp up. Issuers, investors, and credit ratings firms will spend more time discussing ESG issues and determining how best to disclose the effect of these factors on credit quality

Social and Governance topics head to the fore. 'S' risks associated with civil unrest may start to gain prominence, as 'G' modifications are implemented to quell community concerns

Data, data, data. We expect additional information and data to be more readily available as extreme weather, chronic and increasing climate impacts, cyber security, and public safety conversations ramp up.

What we think and why

ESG will continue to move ratings. Addressing current 'E' and 'S' pressures through short and long-term planning initiatives is an important part of 'G'. In some cases, management's long-term view of these credit factors can mitigate a precipitous deterioration in credit quality.

Environment is back on the table at the White House. The change in administration will likely result in federal prioritization of transition and physical risks associated with climate change, prompting more conversations at the state and local level.

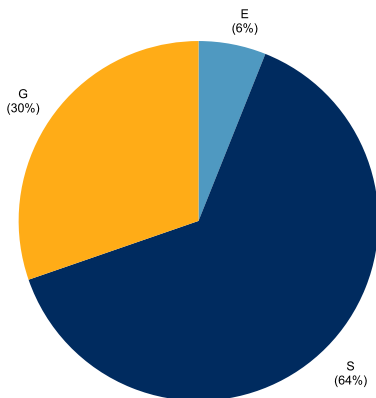
Data improvements and availability will be critical. Comparability of environmental data will continue to improve, prompting more meaningful conversations with many issuers around mitigation and long-term stability.

ESG-related rating changes--pandemic and non-pandemic

ESG-related rating changes in 2020 showed an uptick in 'S' factors, reflecting the influence of COVID-19 on local government credit quality, although not all the changes were pandemic-related.

Chart 5

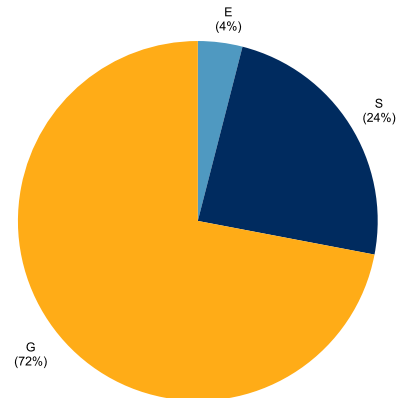
ESG Rating Changes During COVID-19 Pandemic
March - December 2020



Source: S&P Global Ratings
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Chart 6

ESG Rating Changes, Non-Pandemic
2017 and 2018



Source: S&P Global Ratings
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5. Will COVID-19 have long-term implications for local governments?

Many governments will be unable to close COVID-created budget gaps using only structural measures, and we expect some one-time uses to be common. With 1.2 million jobs lost in the local government sector since March 2020, we expect more cuts to come, forcing harder choices and requiring locals to do more with less. With a winter COVID spike and a slower economy going into 2021, it will likely take local governments longer to recover to pre-recession revenue levels, especially as they grapple with any "new normal" shifts, such as changes in tax revenue trends or demographics.

How this will shape 2021

Given the trajectory of the recovery, we anticipate a slower start for the economy heading into 2021. A slower pace will translate into slower revenue recovery for many, resulting in more cuts to restore budgetary balance. This includes delaying capital projects which can result in growing deferred maintenance. For some, it will also mean pension contribution reductions.

Budget cuts continue and may ramp up. Some state and local governments waited to see what happened with federal stimulus before making significant budget cuts. With no stimulus for state and local governments forthcoming, we expect there could be significant adjustments, and in the interim, more use of reserves.

What we think and why

Proactive management remains critical for credit stability. Local governments that started out with more cushion will be better insulated from revenue shortfalls, but only if they manage things well. Avoiding budget balancing strategies that threaten longer-term stability--such as a marked increase in debt or a reduction in pension contributions—will be critical to success.

It will take time to see what the post-vaccine "new normal" looks like. Trends that started in 2020 may lead to longer term shifts in retail and demographics. For example, in a recent report, S&P Global Ratings said that "the U.S. commercial real estate market, already hammered by retail and lodging woes, may face more long-term damage if the pandemic-related population-shift away from larger cities, work-from-home arrangements, and corporate cost-cutting strategies stick."

Switching gears to recovery from pandemic management may be difficult. For issuers whose primary focus must remain on managing the pandemic, rebuilding may take the place of economic expansion.

Staying the course on pension and infrastructure funding is critical to long term credit quality. Even small changes to pension contributions in current budgets can have a significant impact on funding levels in the long term. For governments with already high fixed costs, the balancing act is even harder.

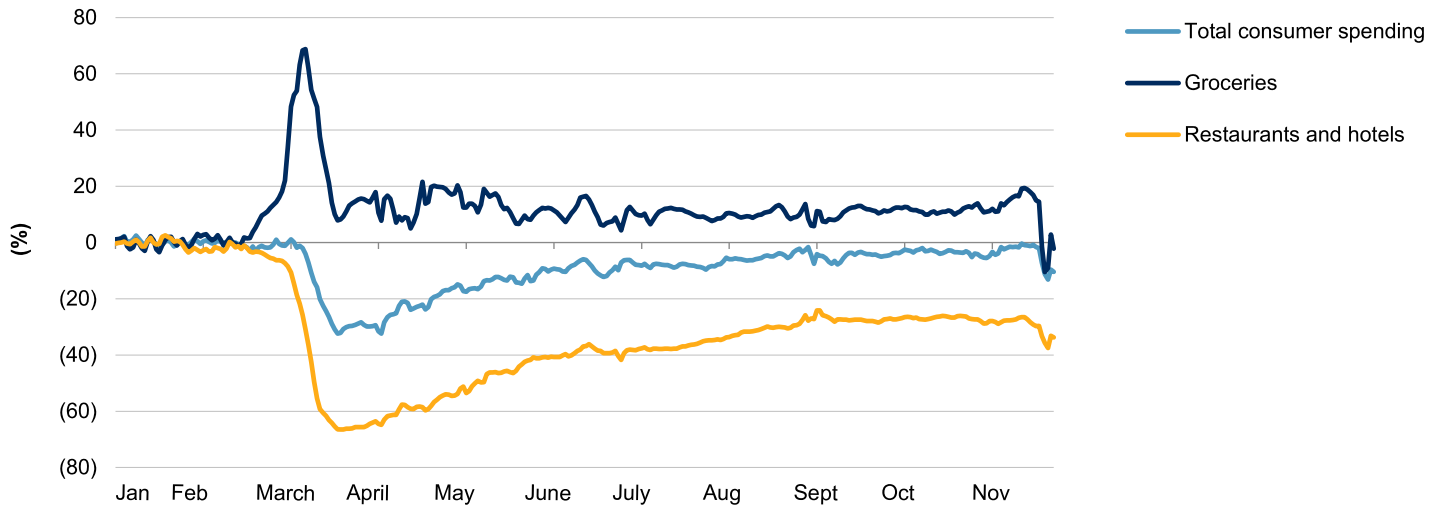
What could change the trajectory

"New normal" takes longer to shake out. S&P Global Economics projects growth will start to tick up in the second half of 2021, but we don't expect an automatic reset to pre-COVID times. Delays in a national economic recovery could jeopardize local growth.

We saw notable shifts in consumer habits in 2020 that had an effect on sales tax collections. Personal consumption expenditures dropped 18.6% between February and April, and as of October had not yet recovered completely. With the onset of social distancing, segments of the retail market show differing outcomes.

Chart 7

Change in Retail Spending By Consumers, March – December 2020



Source: Opportunity Insights Economic Tracker
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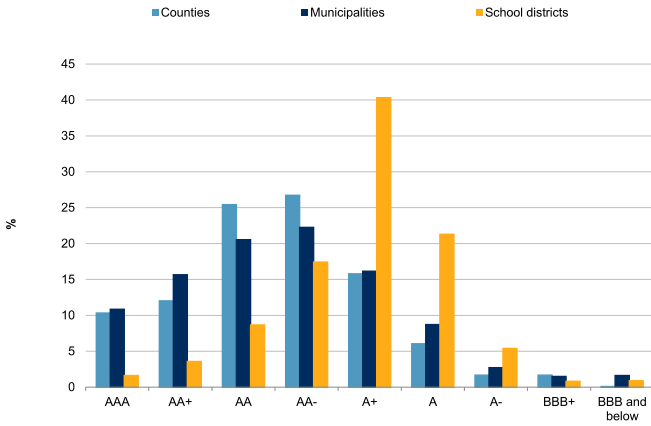
Rating Actions And Distribution

Most local governments started 2020 from a position of strength, and despite the pandemic and recession, rating distribution in the sector remained largely the same at year-end. We responded to the pandemic with more outlook changes than downgrades; overall, 88% of local government COVID-related actions were negative outlook revisions.

Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder

Chart 8

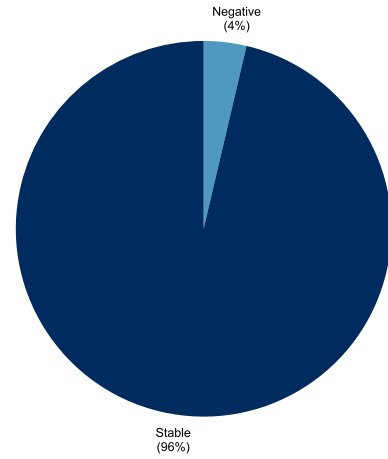
County, Municipality, And School District General Obligation Ratings Distribution



Source: S&P Global Ratings. Data as of Dec. 31, 2020. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 9

Local Government Outlook Distribution

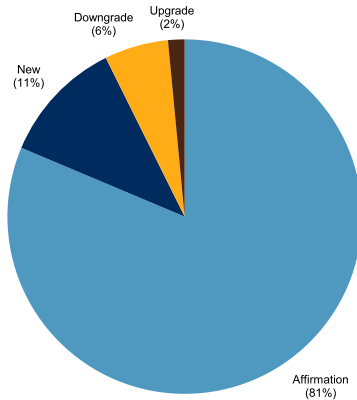


There are no ratings with a positive outlook. Source: S&P Global Ratings. Data as of Dec. 31, 2020. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

In 2020 local government downgrades outpaced upgrades by a factor of four, a sharp departure from 2019's rating actions. Approximately one-third of 2020's rating actions were directly attributable to COVID-19.

Chart 10

2020 Local Government Rating Actions



Source: S&P Global Ratings. Data as of Dec. 31, 2020. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

This report does not constitute a rating action.

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