

State Fiscal Policy in a Time of COVID-19

Key challenges and considerations for state and local policymakers

Webinar | January 21, 2021



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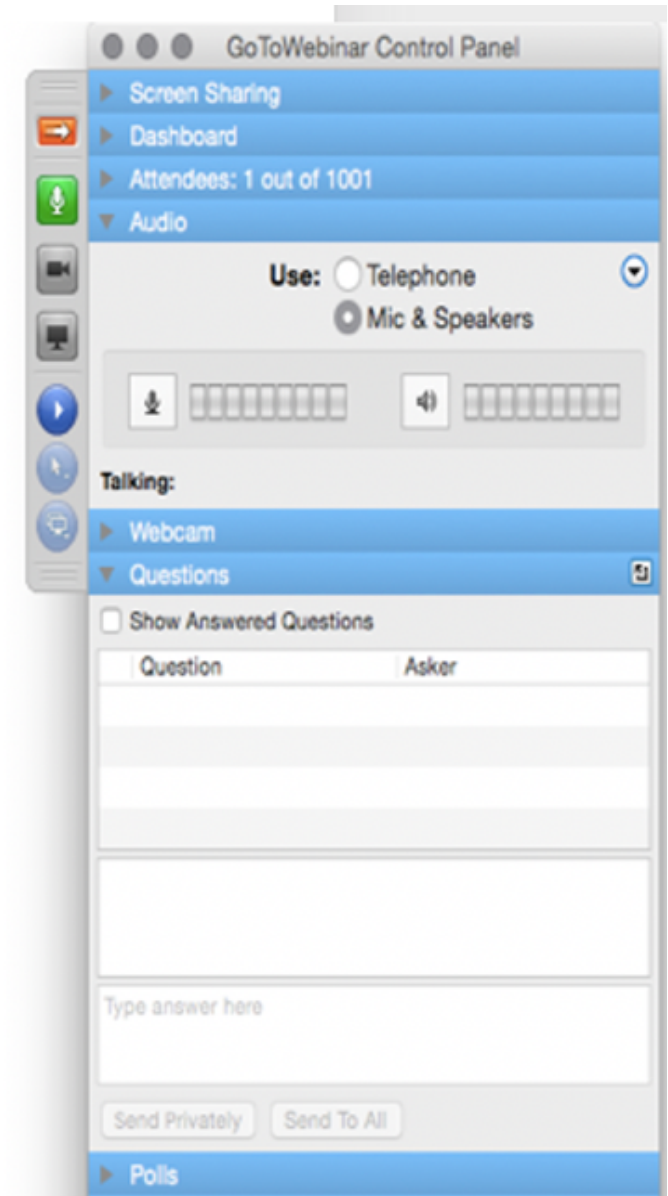
Agenda

- Logistics
- Introductions
- Overview of State Fiscal Policy During COVID
- Questions



Logistics

- Attendees in listen only mode.
- Questions welcome. Type question using “Question” function on control panel, and we will answer.
- Audio, technical issues during webinar, call GoToWebinar at 1-800-263-6317.
- We are recording this session, and webinar replay and slides will be posted at <https://www.nirsonline.org/events>.



Speakers



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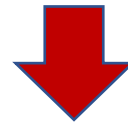
COVID-19



1) Public health emergency



2) Deep economic recession



3) Serious state and local fiscal crisis



4) Ongoing policy challenge

New deaths reported per day

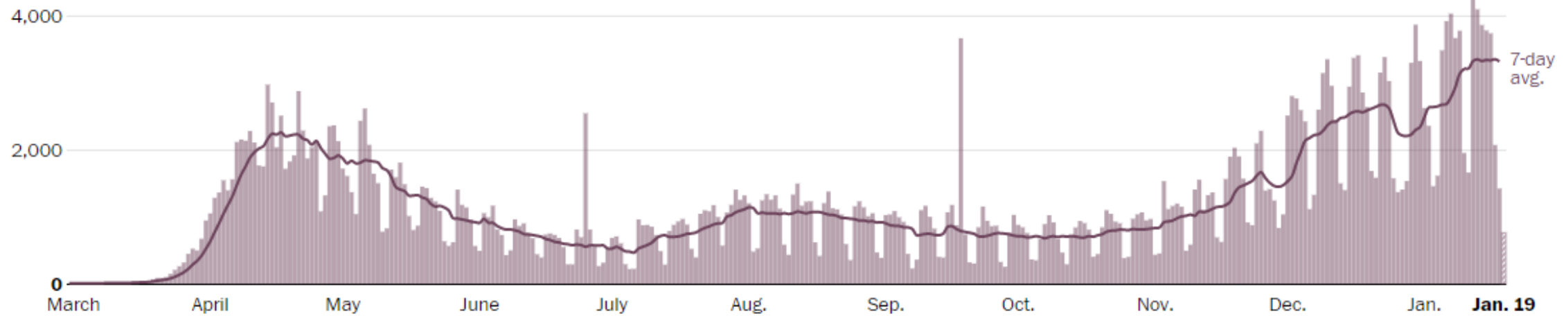
Deaths

Cases

At least 398,883 have been reported since Feb. 29.

Show by

All U.S.





A red rectangular sign with a white border is suspended by a silver metal chain. The sign features the word "Closed" in a white cursive font, followed by "due to" in a white sans-serif font, and "CORONAVIRUS" in a large, bold, white sans-serif font. The background is a blurred, brownish-gold color.

Closed due to
CORONAVIRUS

JOB LOSSES SOAR; U.S. VIRUS CASES TOP WORLD



Since the coronavirus descended on Brooklyn Hospital Center three weeks ago, the staff has handled over 800 potential cases.

New Data Shows Staggering Toll of Outbreak

This article is by Ben Cassano, Patricia Cohen and Hilary Keiser.

More than three million people filed for unemployment benefits last week, sending a collective shudder throughout the economy that is unlike anything Americans have experienced.

The alarming numbers, in a report released by the Labor Department on Thursday, provide some of the first hard data on the economic toll of the coronavirus pandemic, which has shut down whole swaths of American life faster than government statisticians can keep track.

Just three weeks ago, barely 200,000 people applied for jobless benefits, a historically low number. In the half-century that the government has tracked applications, the worst week ever, with applicants swelled by initial claims, had been in 1982.

Thursday's figure of nearly 3.3 million set a gross record, "a large part of the economy just collapsed," said Ben Barlow, executive director of IHS Markit, a business data and analysis firm.

The numbers provided only the first hint of the economic catastrophe in progress. Even comparatively optimistic forecasts expect millions more lost jobs, and with those forebodings, crises and hardships. Thousands of businesses have closed in response to the pandemic, and many will never reopen, some economists say. The decline in gross domestic product this year could rival the worst years of the Great Depression.

And there was fresh evidence on Thursday of the relentless nature of the virus itself. Cases in the United States now exceed 80,000, the most of any nation, over China and Italy, according to a New York Times database. More than 1,200 deaths across the country have been linked to the virus.

At least 140 million people remain out of work.

Labeling Regions by Risk
President Trump said governors be pleased to classify counties according to the danger of coronavirus infection. Page A11.

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Nearly 3.3 million unemployment claims were filed last week, a record number.

Under Trump, Unfilled Posts Hinder Action

By JENNIFER STEINBERG and DEAN KANNO-VINCE

WASHINGTON — Of the 15 vacant positions at the Department of Homeland Security, 10 are either vacant or filled by acting officials, including Chad J. Wolf, the acting secretary who recently was unable to tell a Senate committee how many inspectors and governors have made were available in the United States.

The National Park Service, which like many federal agencies is full of vacancies in key posts, used this week to fill the job of a director for the national capital region after a series of vacancies.

Declined to see the cherry blossoms near the National Mall, owing to a potential public health hazard as the coronavirus continues to spread.

At the Department of Veterans Affairs, workers are scrambling to enter medical supplies on Amazon after its leaders, lacking experience in disaster response, failed to prepare for the influx of patients at its medical centers.

Ever since President Trump came into office, a record high turnover and unfilled jobs have emptied offices across wide sections of the federal bureaucracy. Now, current and former administration officials and disaster experts say the coronavirus has exposed those failings as never before.

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Online Class With No Way To Get There

By NIKITA STUART

Alia Pralgo was excited about picking up an old teacher's school in Harlem last week. She did not want to miss any classes and hoped to lead on the fourth-grade honor roll again.

On Monday, the first day that New York City public schools began remote learning, she 10-year-old daughter had a trip she set up over her phone as a virus had it a week that she shares with her mother and grandmother inside a bathroom shelter on the Upper West Side.

And then, Alia saw nothing. "I read something to find out that they don't have any internet," said Kaitlin Phillips Lewis, Alia's mother. "That's something up my daughter's education. You want to score on a 7? Fine. But not my daughter's education."

The Department of Education, which runs the largest school system in the country with more than 1.1 million students, began attempting to teach all students through remote learning this week because schools were closed to slow the spread of the coronavirus.

Shutting the vast system, which includes 1,800 schools, was a serious challenge for the city, and the large-scale, multiple school closures are uncharted territory, altering its reach and reach.

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Courage at a Brooklyn Hospital, At the Front of an Invisible War

By SHREYAS

It was not even 3 to the morning and Dr. Sylvia de Souza's green lab coat, which was supposed to be a red against her face, was already stained.

In brooding rain on Monday, she struggled to juggle between the emergency department, the chairs at the Brooklyn Hospital Center and a secret mission, keeping a sharp eye on the virus she, nurses and other staff members who would serve nearly 500 walk-in patients for the coronavirus this day.

And then, Alia saw nothing. "I read something to find out that they don't have any internet," said Kaitlin Phillips Lewis, Alia's mother. "That's something up my daughter's education. You want to score on a 7? Fine. But not my daughter's education."

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With Supplies Waning, Workers Soldier On

By DAN BARRY

Professional baseball played a new season this afternoon with an Opening Day game for the ages, an extra-inning masterpiece that vividly embodied the unadaptable field of the imagination.

The crack of the bat would almost be heard, the blur of white streamers, the commensal pop nearby.

From the moment the first bat was tipped his helmet — and a hard blow — to the mid-air home run by a following pitcher, this 11-inning affair unfolded what constitutes a perfect game. No one cared about the outcome; the description was revealed enough. That's unimagineable! This

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News from EPI Unemployment insurance claims jumped nearly 1,500% in two weeks

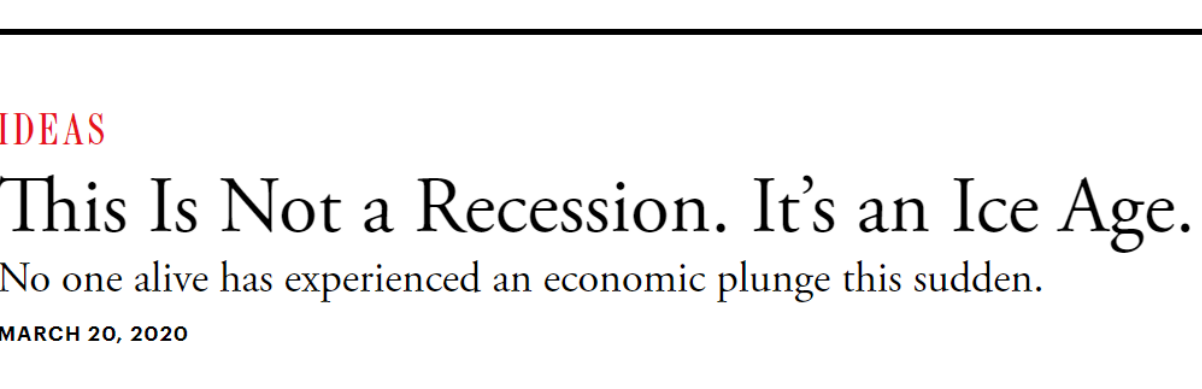
I have been a labor economist for a very long time and have never seen anything like this

Statement • By Heidi Shierholz • March 26, 2020

CHART

Breathtaking spike in UI claims

Initial weekly unemployment claims, 1967–present



IDEAS

This Is Not a Recession. It's an Ice Age.

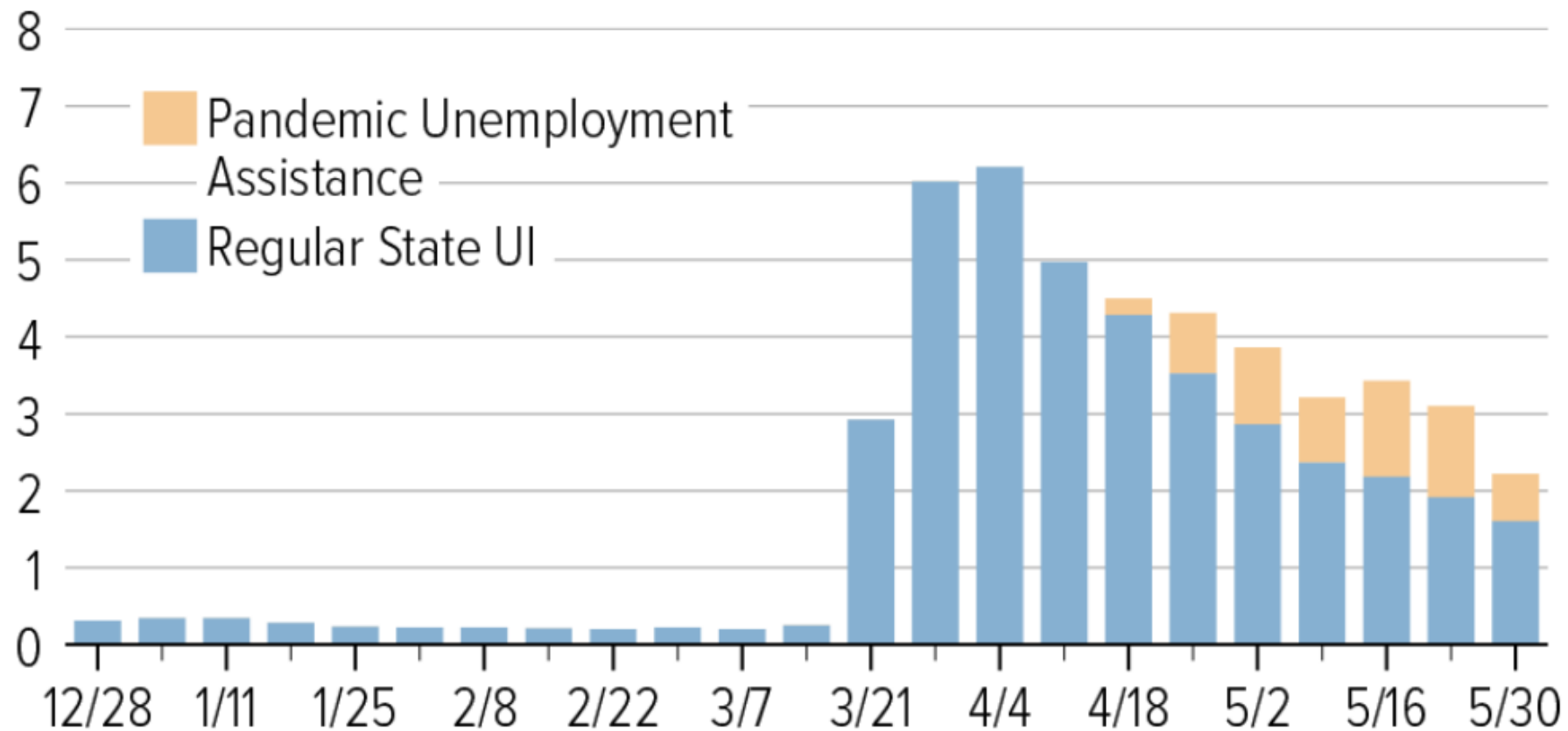
No one alive has experienced an economic plunge this sudden.

MARCH 20, 2020

Unemployment Insurance Claims Skyrocketed Due to COVID-19

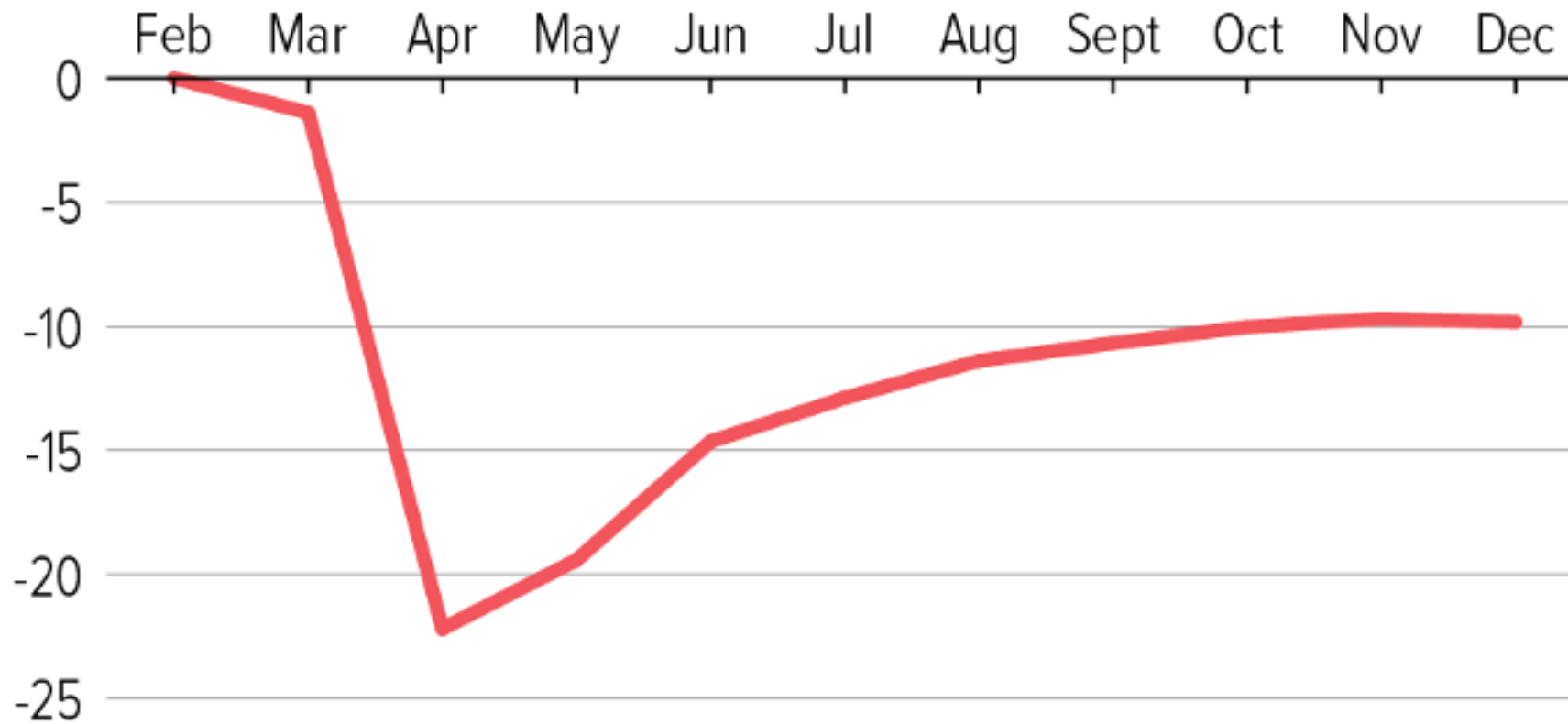
Initial claims spiked in March

Millions of initial claims per week, through 5/30



Jobs Recovery Stalls in December

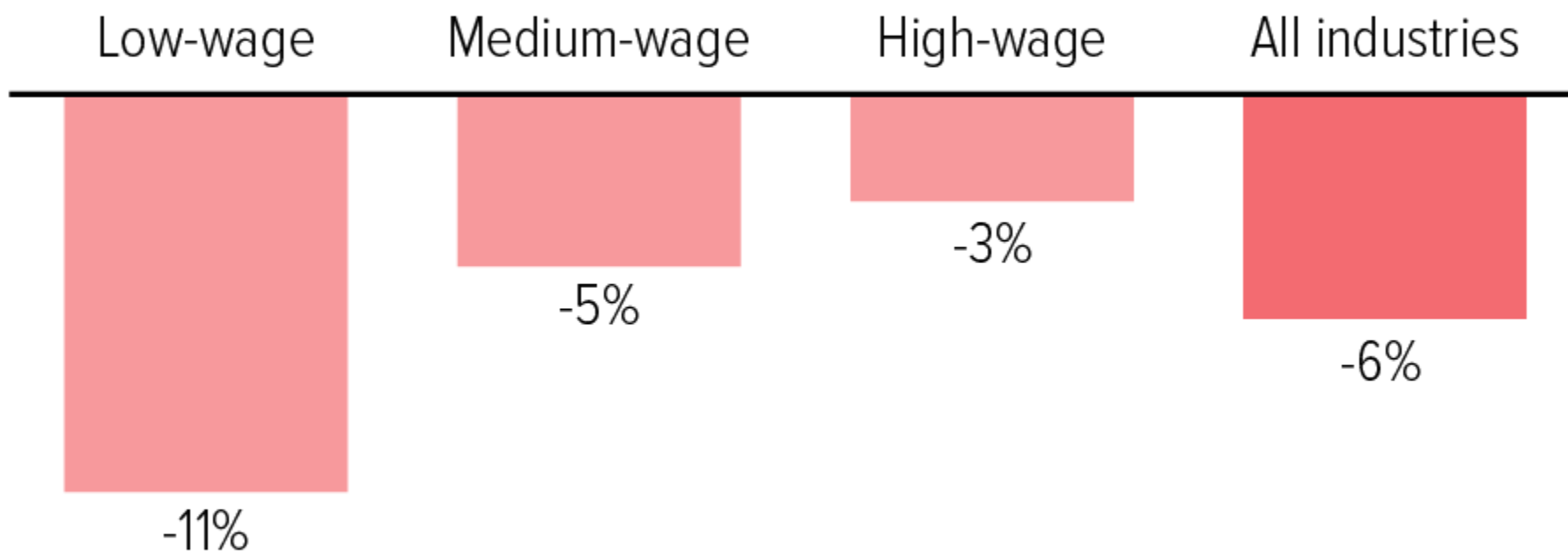
Change in nonfarm payroll employment since February 2020, in millions



Source: Bureau of Labor Statistics

Job Losses Largest in Low-Wage Industries

Percent change in number of jobs, February to December 2020

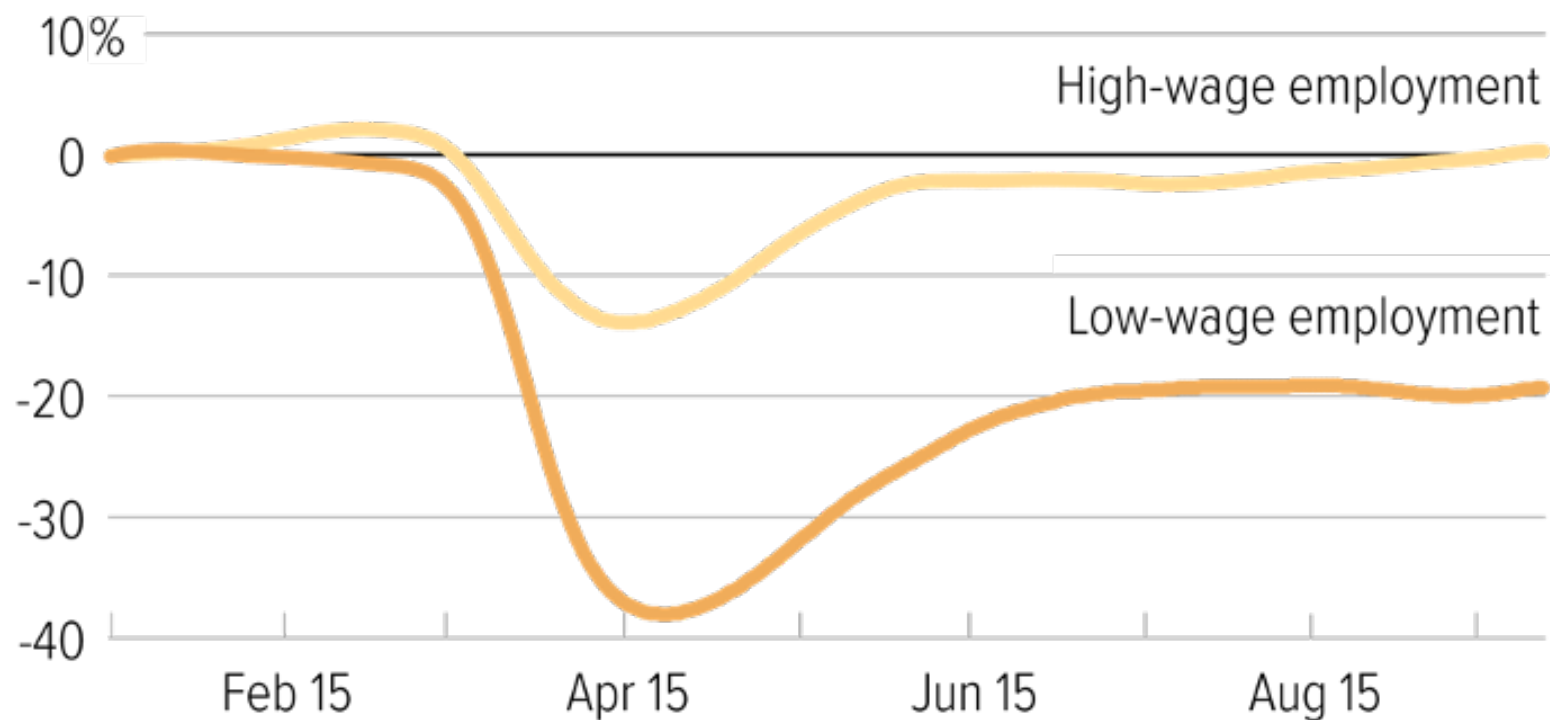


Note: Industries were ranked by average wages in February and divided into three groups containing roughly the same number of jobs.

Source: CBPP calculations of Bureau of Labor Statistics data

High-Wage Workers Have Recovered Most Lost Jobs, But Low-Wage Job Losses Persist

Change in employment rates, January 15 to September 24

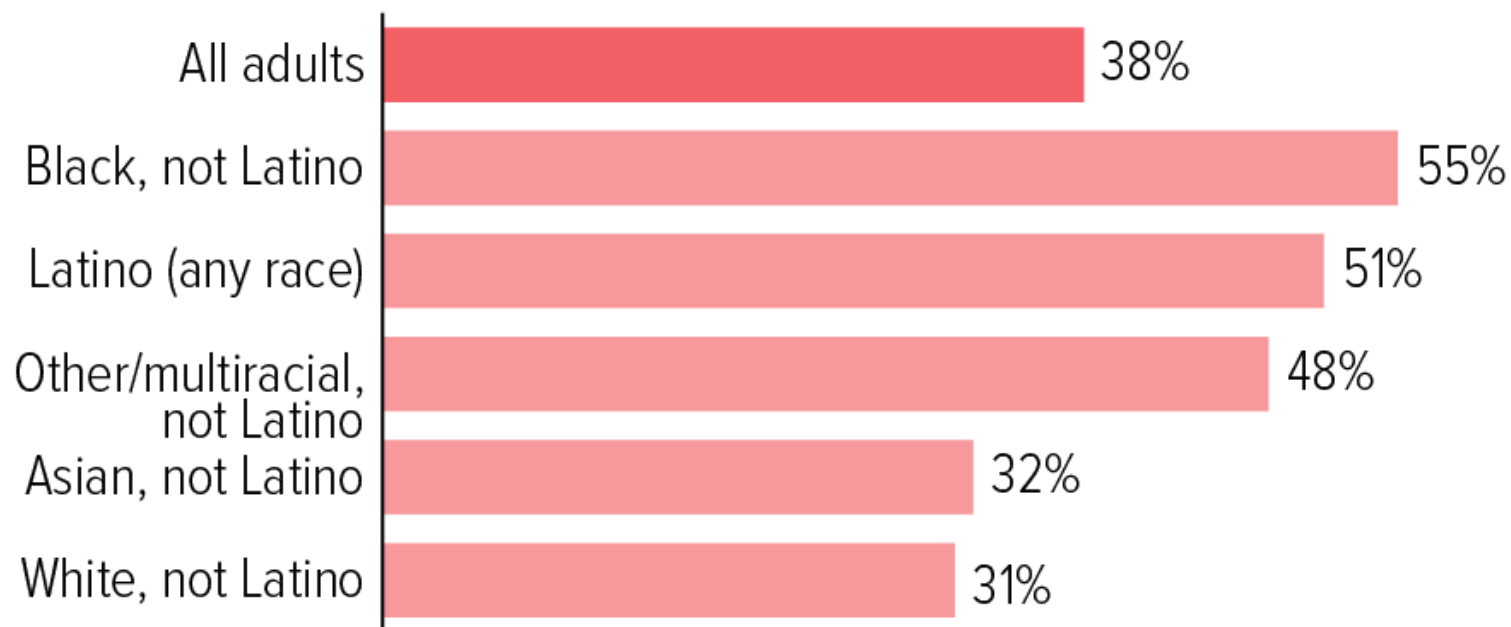


Note: Low-wage employment defined as an annual salary of less than \$27,000. High-wage employment defined as an annual salary of greater than \$60,000 per year.

Source: Opportunity Insights

More Than 1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses

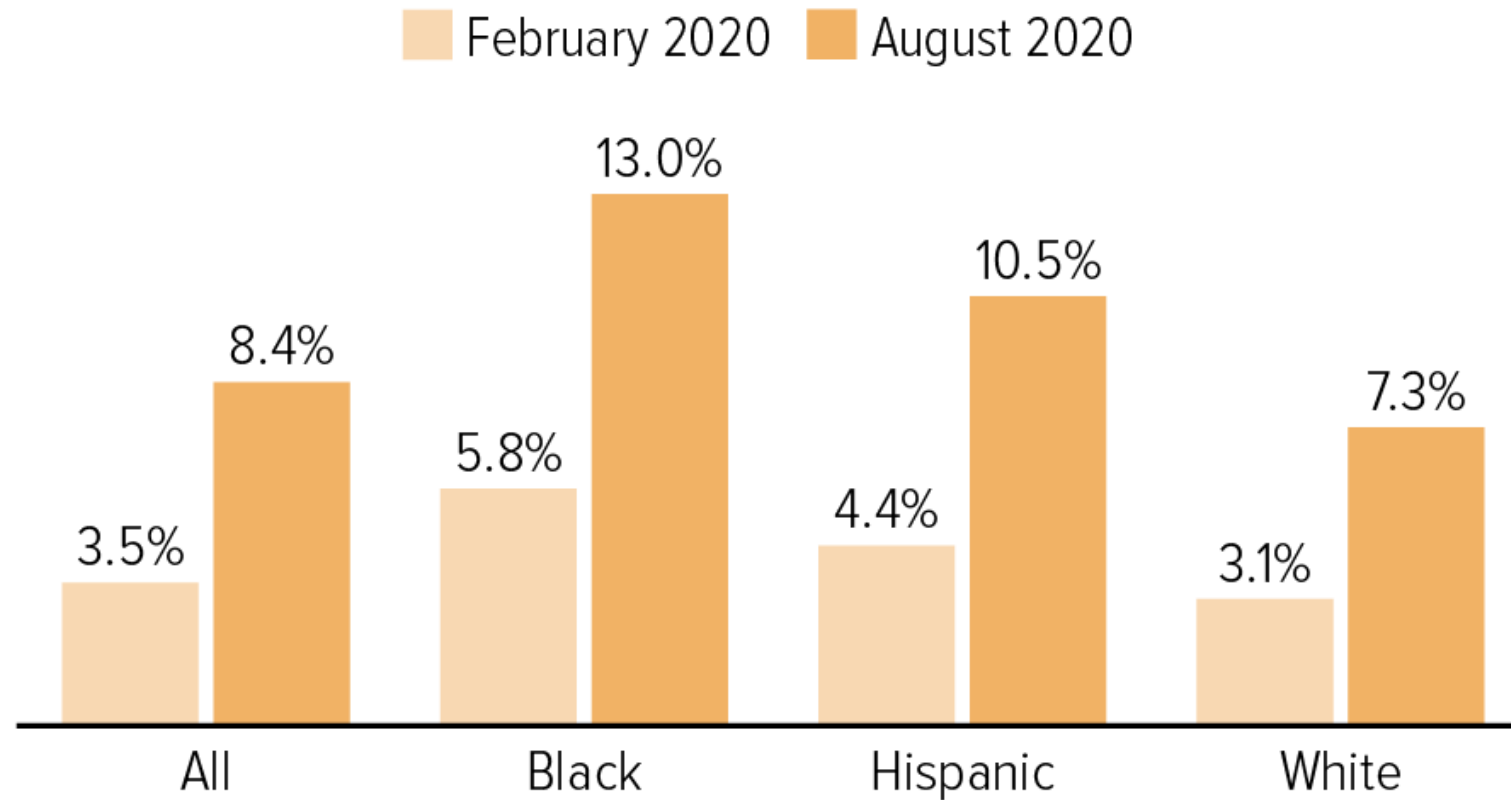


Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for December 9-21, 2020

Pandemic Widened Racial and Ethnic Unemployment Disparities

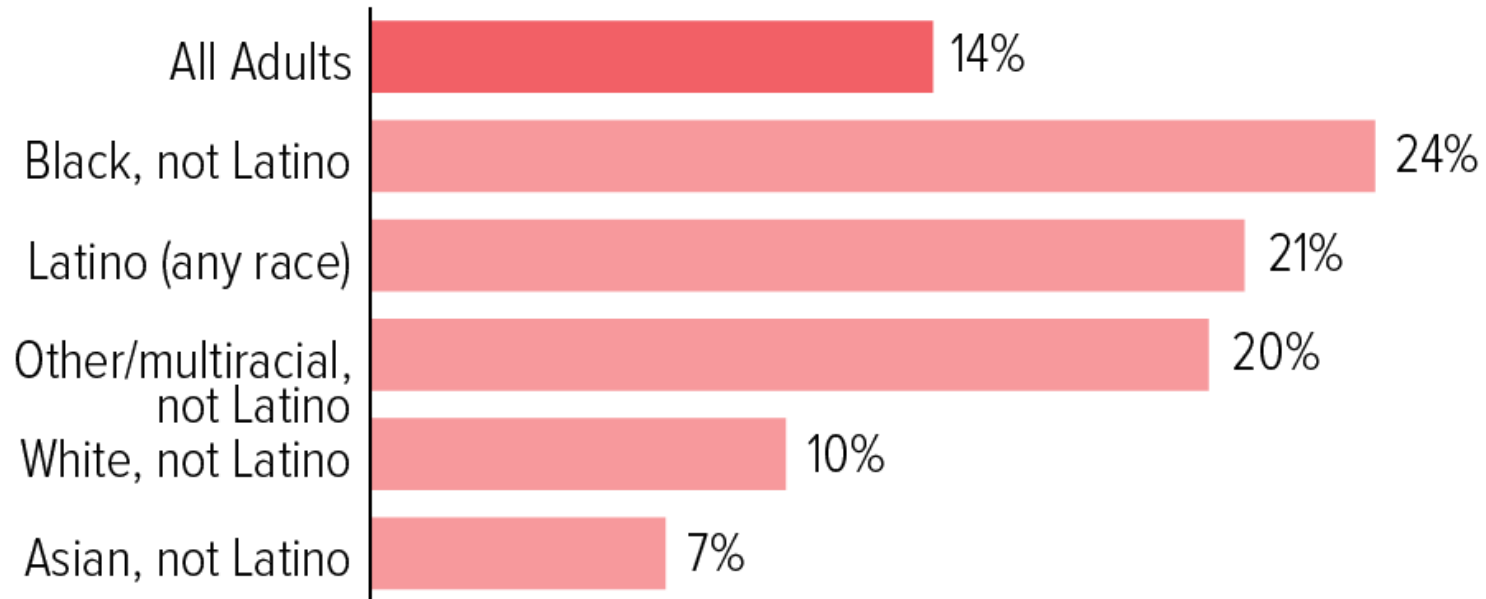
Unemployment rate



Source: Bureau of Labor Statistics

Black and Latino Households Likelier to Experience Food Insufficiency During Pandemic

Share of adults saying that their household sometimes or often did not have enough to eat in the last 7 days



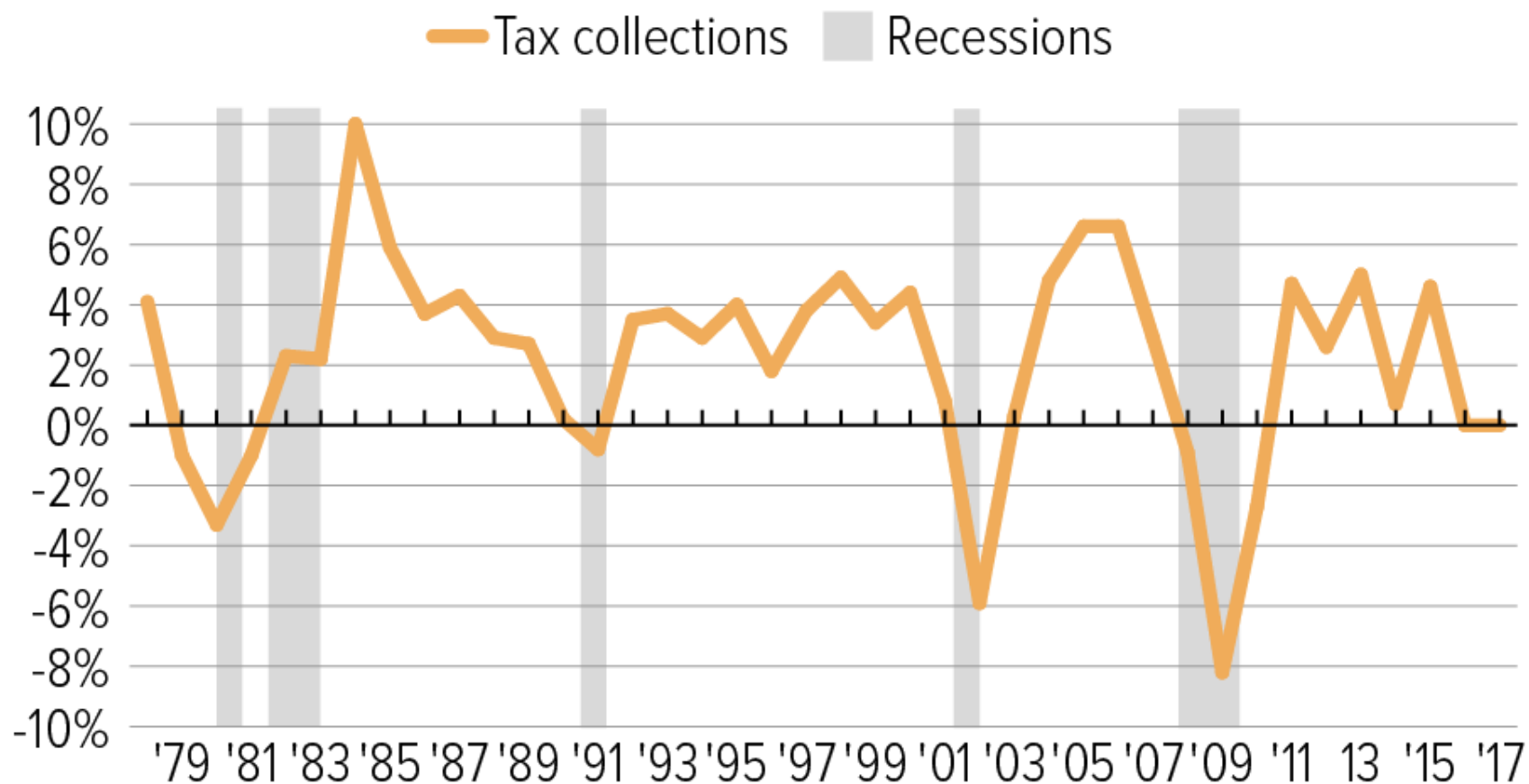
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Source: CBPP analysis of Census Bureau Household Pulse Survey tables for December 9-21, 2020



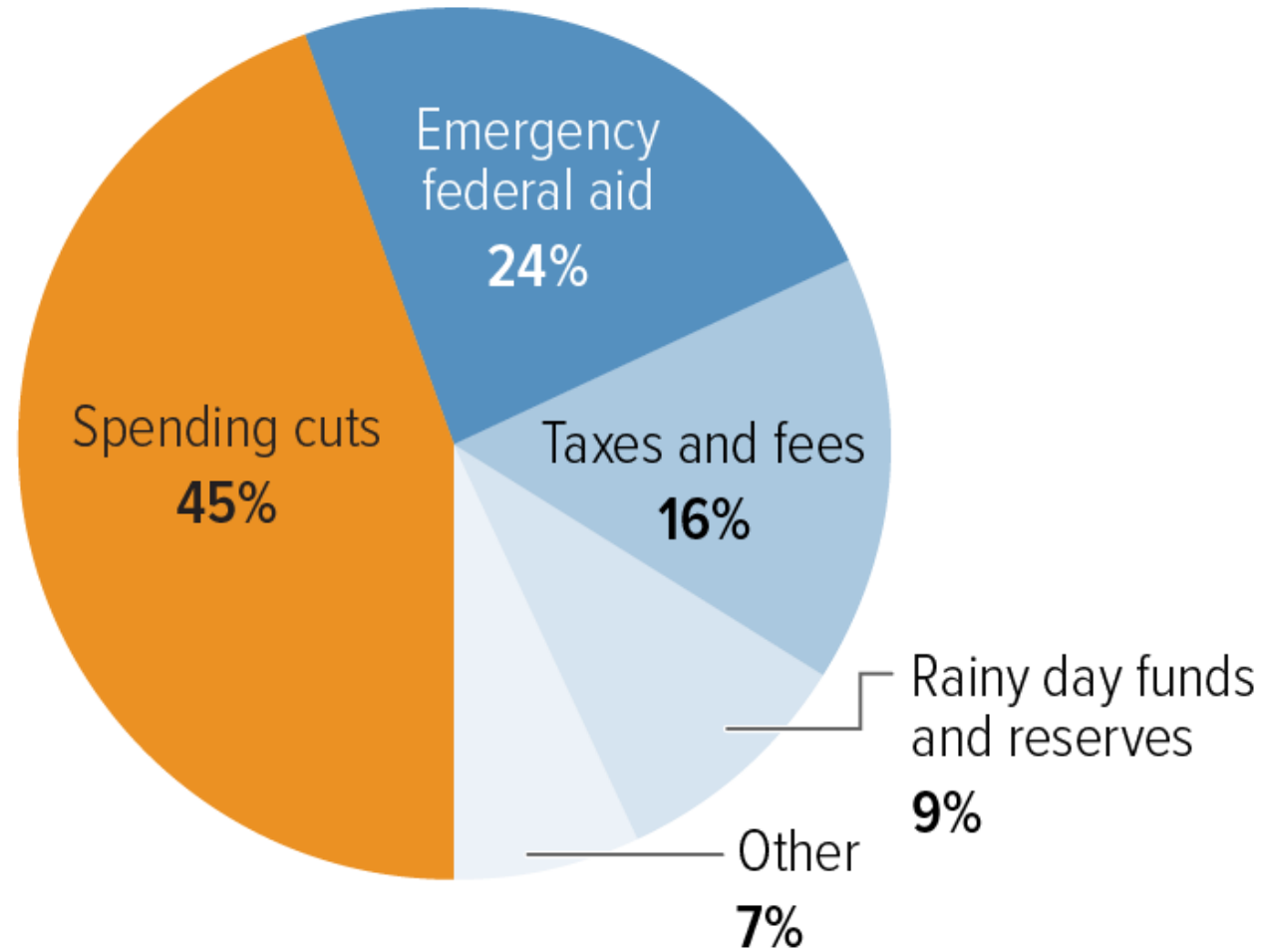
State Tax Collections Drop During Recessions

Percent change in annual tax collections, fiscal years 1976-2017



Source: CBPP calculations of census data

States Relied Most on Spending Cuts to Balance Their Budgets During the Great Recession



Source: CBPP calculations. Figure covers state fiscal years 2008-12.

Early Signs Pointed to Unprecedented Harm

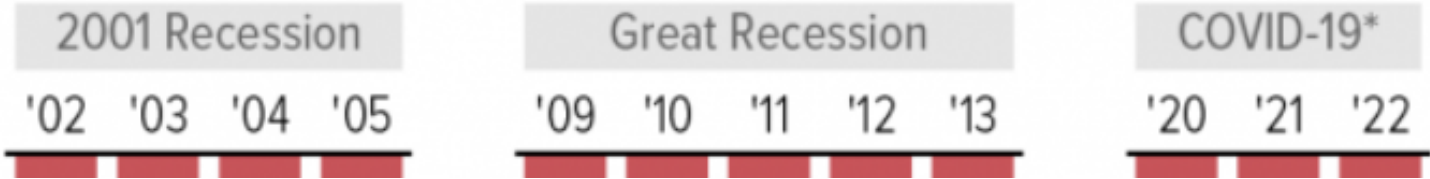
- Projections in spring, summer foretold unprecedented shortfalls
- State tax collections historically tightly tied to unemployment

FIGURE 1



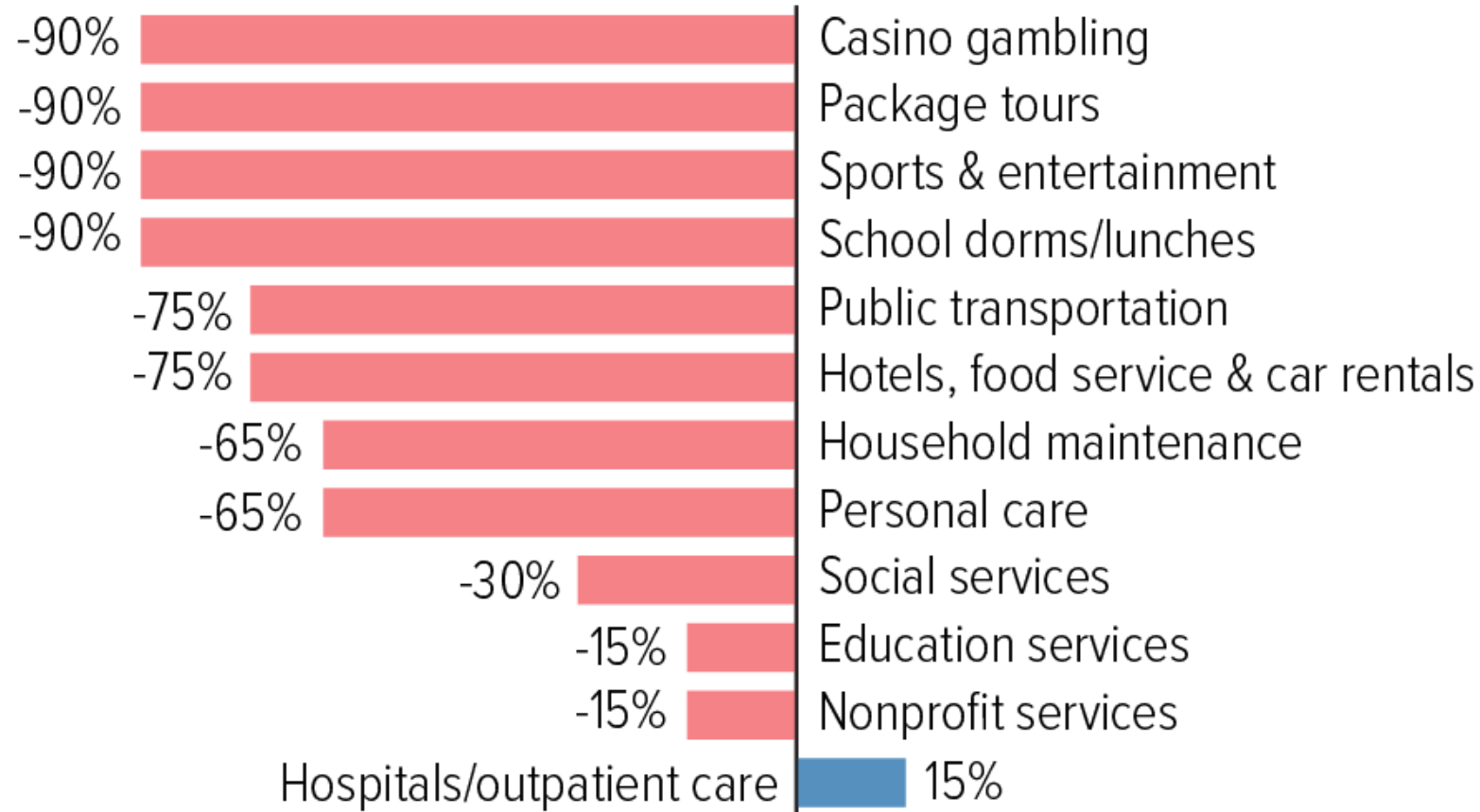
COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars



Service Industries Hardest Hit By COVID-19 Outbreak

Projected change in spending in late March and April compared to pre-COVID-19 estimates



Source: Goldman Sachs



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Budget Cuts Could Mean Fewer Teachers, Food Inspectors And Less Money To Clean Up Toxic Waste

By STEPHEN FOWLER • MAY 27, 2020

Cuomo warns of \$8.2 billion in cuts to localities

New York would slash health care and education – unless the federal government comes through.

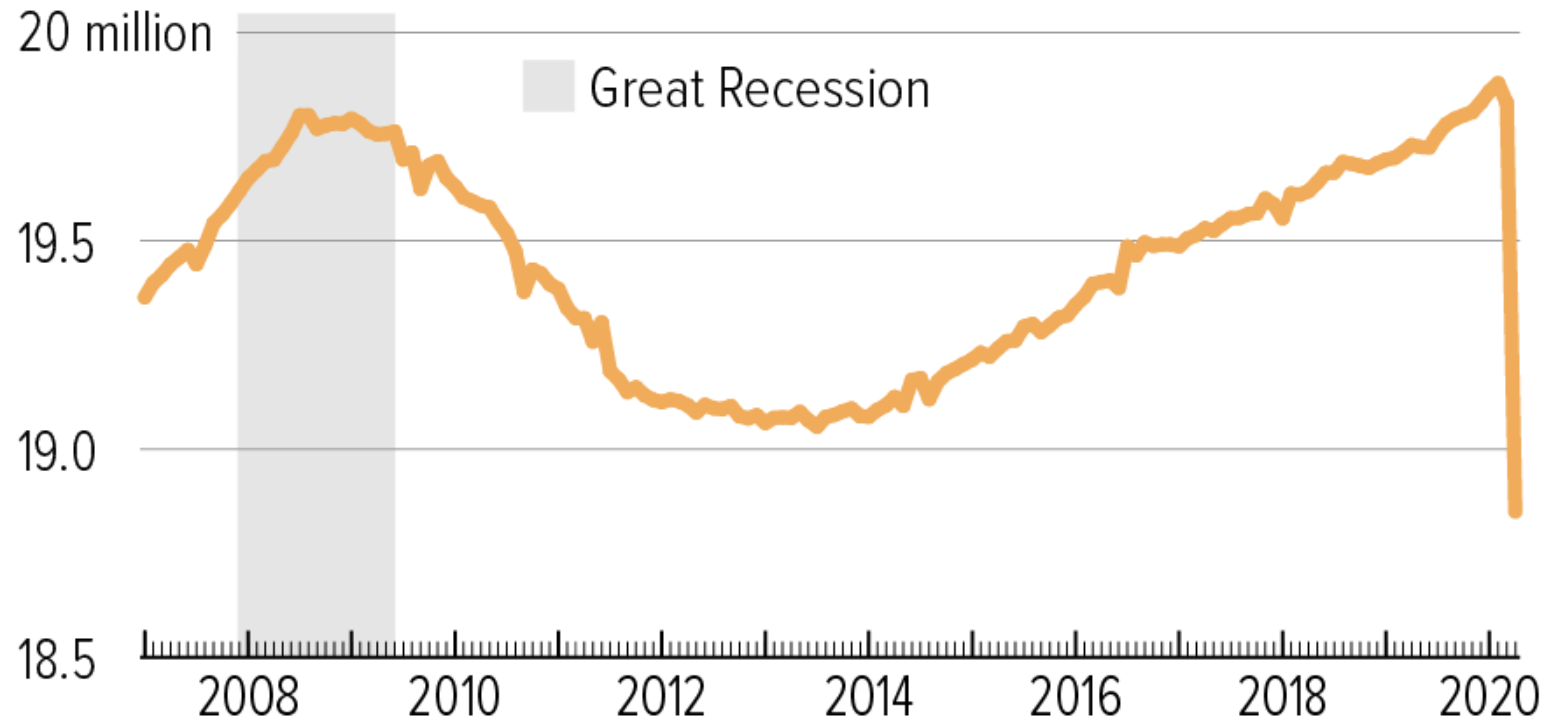
By ZACH WILLIAMS | APRIL 26, 2020

The Coronavirus Pandemic Is Tearing A \$3 Billion Hole In Colorado's Budget

 By Andrew Kenney | May 12, 2020

Coronavirus in Ohio: \$775 million in budget cuts due to pandemic include \$300 million reduction to schools

April's 1 Million Furloughs, Layoffs Put Total State and Local Employment Lower Than After Great Recession



Note: Figures include Bureau of Labor Statistics' seasonal adjustment. Jobs decline in April 2020 with no seasonal adjustment is 945,000.

Source: Bureau of Labor Statistics

Up to 3,000 city of Houston employees could face furloughs to help balance budget

Kuna School District placing 145 employees on furlough

Furloughed employees include classroom aides, paraprofessionals, and those working in safety, food service and busing.

IAFC: Fire Department Layoffs and Furloughs Near 1,000; 30,000 Projected

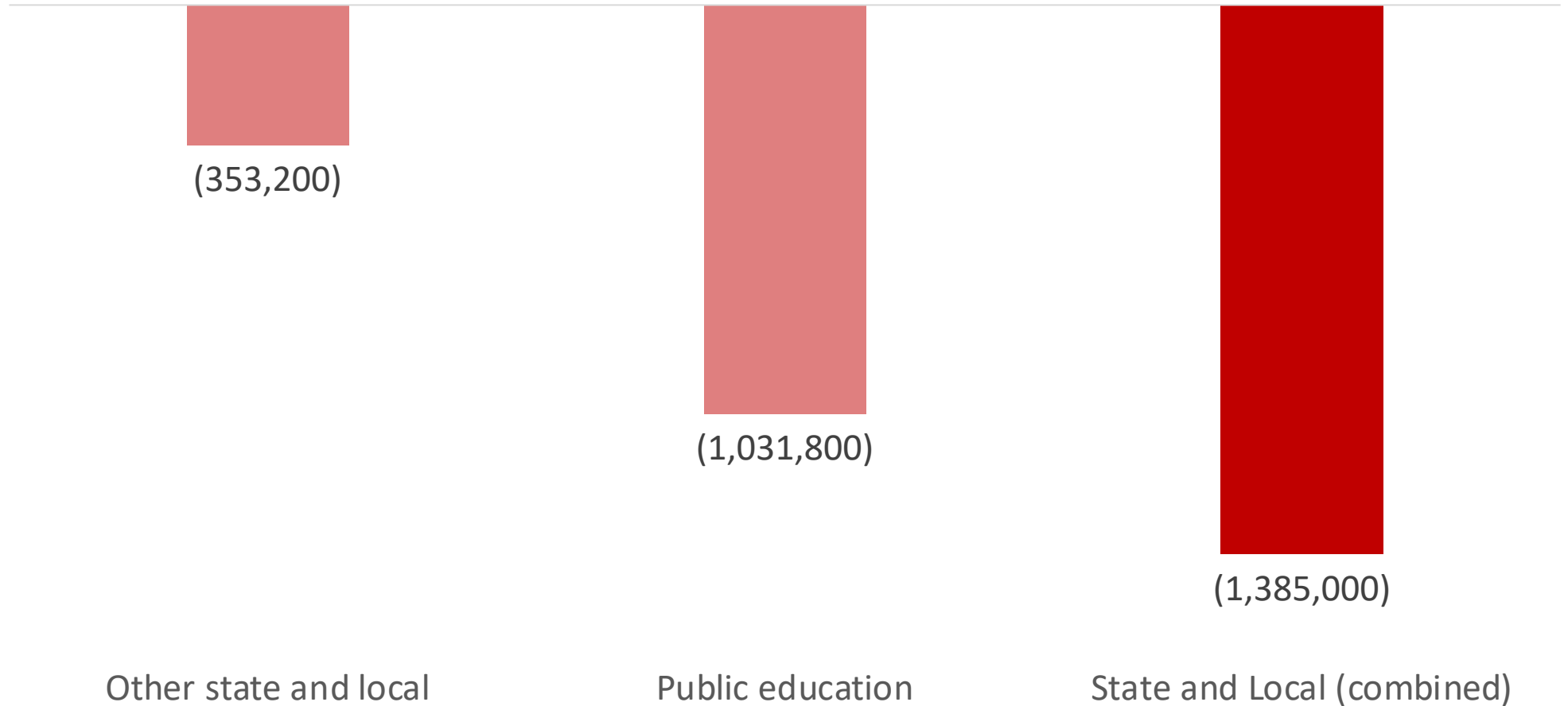
Largest cuts to fire service in modern times

May 11, 2020

Thousands of NYC school bus workers furloughed after city declines to renew bus company contracts because of coronavirus shutdown

State and Local Jobs Way Down, Especially in Education

Change in number of jobs, February-December 2020



Pandemic's Impact on State Revenues Less Than Earlier Expected But Still Severe

OCTOBER 30, 2020 | BY [MICHAEL LEACHMAN](#) AND [ELIZABETH MCNICHOL](#)

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The pandemic's impact on state revenues this spring was smaller than the historical record predicted. Nevertheless, states, localities, tribal nations, and U.S. territories like Puerto Rico still face large shortfalls for this fiscal year and the next in funding schools, health care, and other basic public services. They desperately need more federal aid to

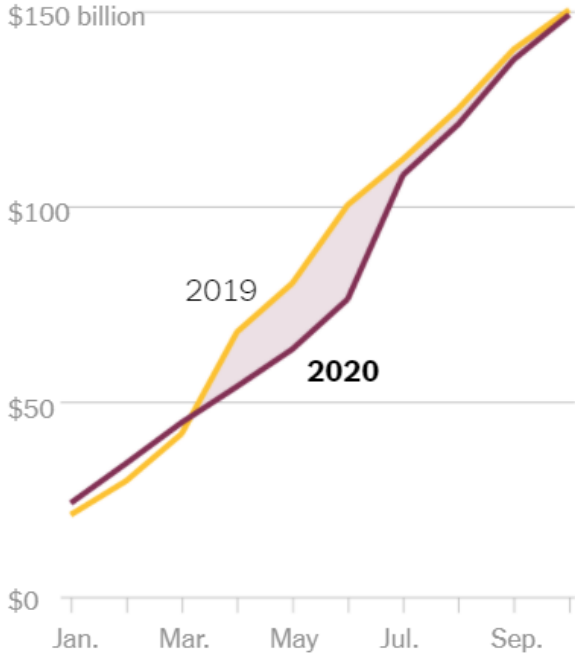
Some key revenue considerations

- **Shortfalls still deep and widespread**
 - CBPP: \$300b through FY2022 (*net of flexible federal aid to date*)
 - Rule of thumb: Local shortfalls about half of states'
- **Significant variation across states**
- **Costs way up due to pandemic's effects**
- **Many states still operating under unrealistic spending plans – harmful cuts still likely most places**

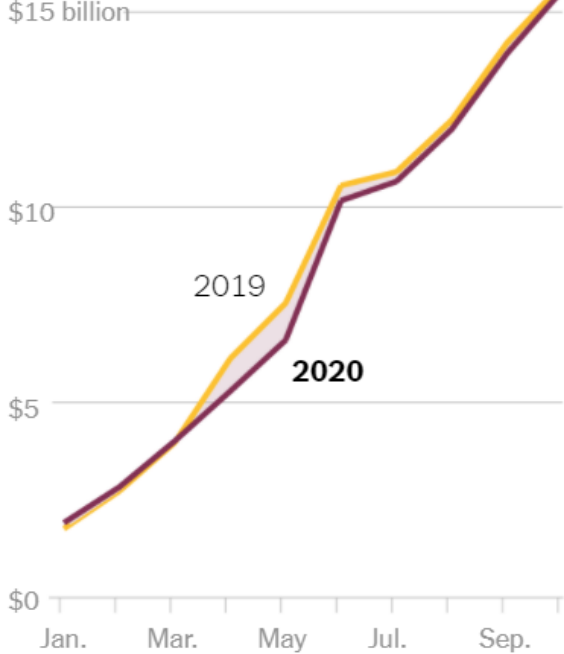
Some of the States That Have Regained Lost Tax Revenue

Cumulative tax revenue from January to October

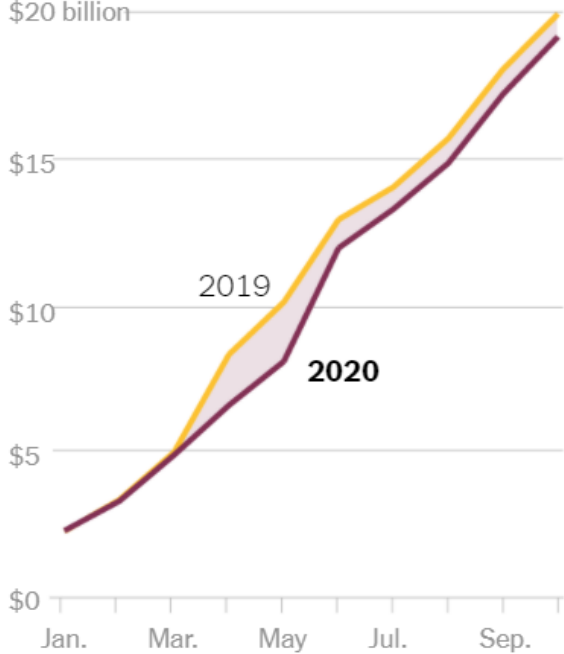
California



Wisconsin



Minnesota



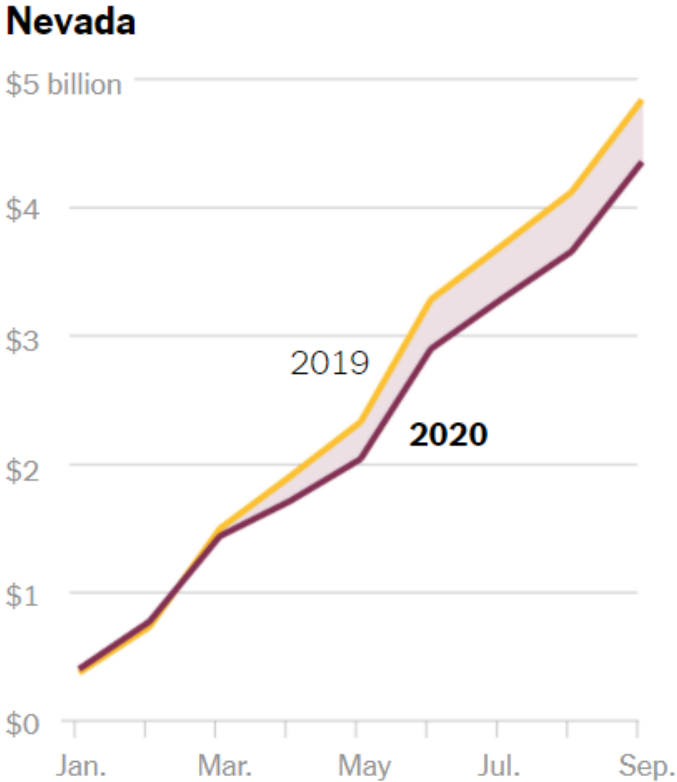
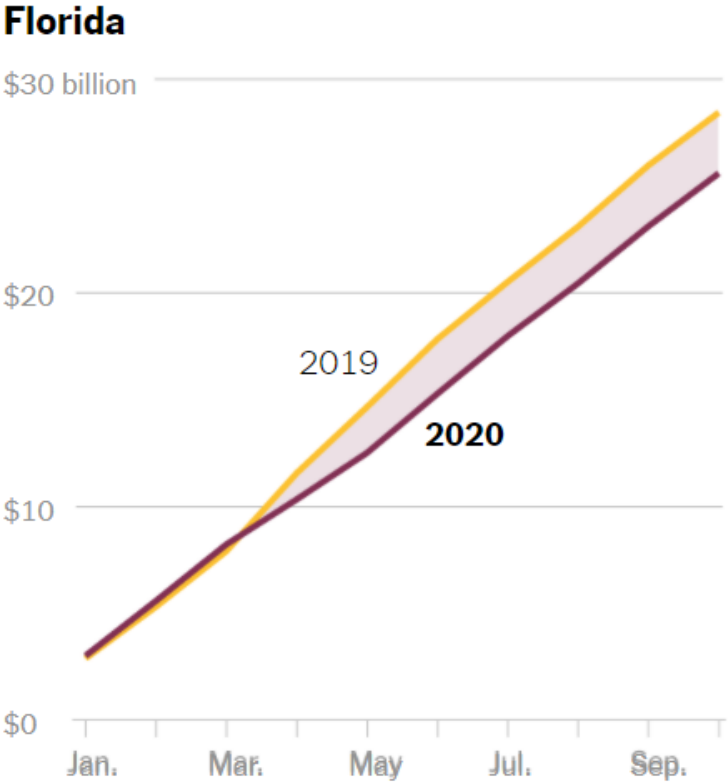
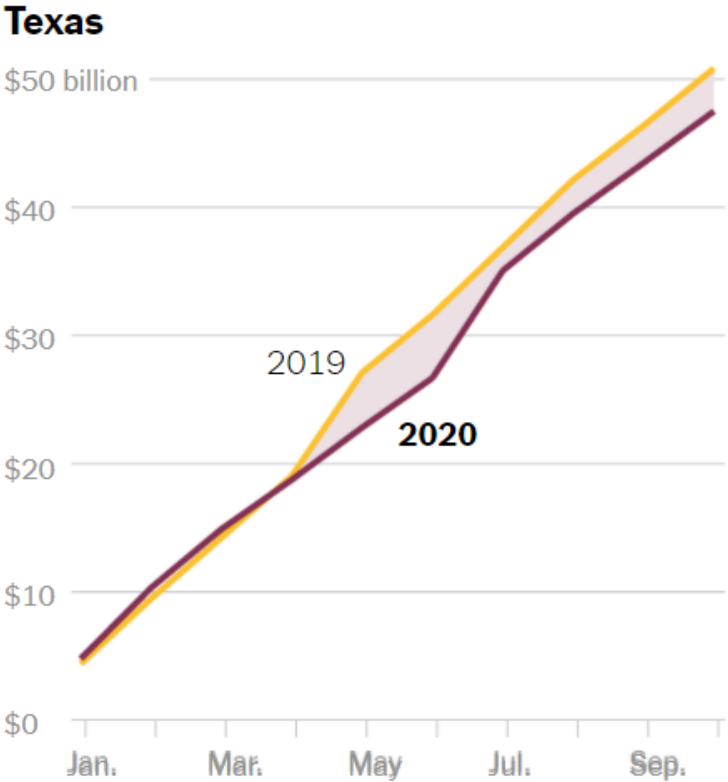
Maryland



Source: State Tax and Economic Review Project, State and Local Finance Initiative at Urban Institute

Some of the States That Lost Significant Tax Revenue

Cumulative tax revenue from January to October



Source: State Tax and Economic Review Project, State and Local Finance Initiative at Urban Institute

States still face 2021 budget challenges

- Large, ongoing costs due to health and economic crisis
- Almost half of states adopted 2021 budgets before pandemic
- Even states that approved budgets likely operating under unrealistic spending plans they'll have to revisit
- “For those of you who haven’t heard the news flash, *next year is going to be worse.*” – Colorado budget office chair

HOW'S IT
GOING
TO END?



Federal Fiscal Aid – Round 1 (Feb-Mar)

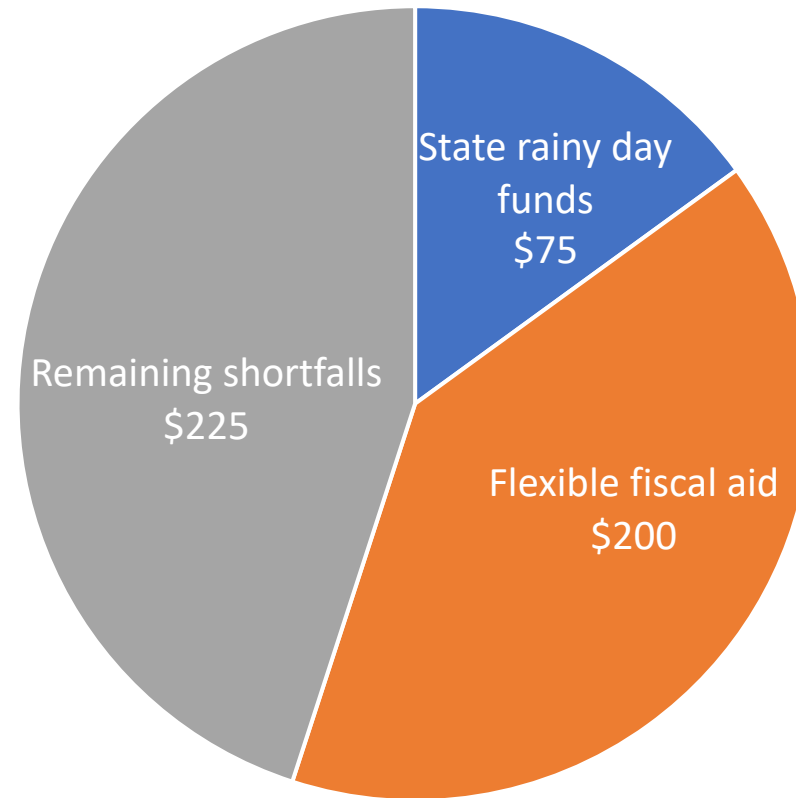
- **\$150 billion in state-local grants in CARES Act (CRF)**
 - Mostly can be used only for direct virus-response costs, not revenue shortfalls
- **\$35 billion increase in federal share of Medicaid (FMAP)**
- **\$30 billion Education Stabilization Fund, mostly based on Title I, Pell**
- **Small pots for transit, childcare, elections**

Federal Fiscal Aid – Round 2 (May-Dec)

- **HEROES Act (passed by House; never considered in Senate)**
 - About \$1 trillion in additional aid for states, localities
- **August executive actions**
 - Included no state and local fiscal aid
- **December aid package (bipartisan deal; in law) – included:**
 - \$82 billion in education aid – acts as flexible aid
 - Some economic stimulus, housing and food assistance, etc.

Federal Aid to Date and State Rainy Day Funds Won't Close Large Shortfalls

CBPP calculations, in billions



State-Local Fiscal Aid – Round 3?

- **President Biden’s initial proposal includes:**
 - **\$350 billion in aid to states, localities, and territorial governments**
 - **\$170 billion in education aid (\$135b of that for K-12)**
 - **\$20 billion in aid to tribal governments.**
 - **Funding to hire 200,000 local public health workers.**
 - **\$20 billion for public transit**
- **Tight congressional margins mean some negotiations, revisions to exact amounts are likely**

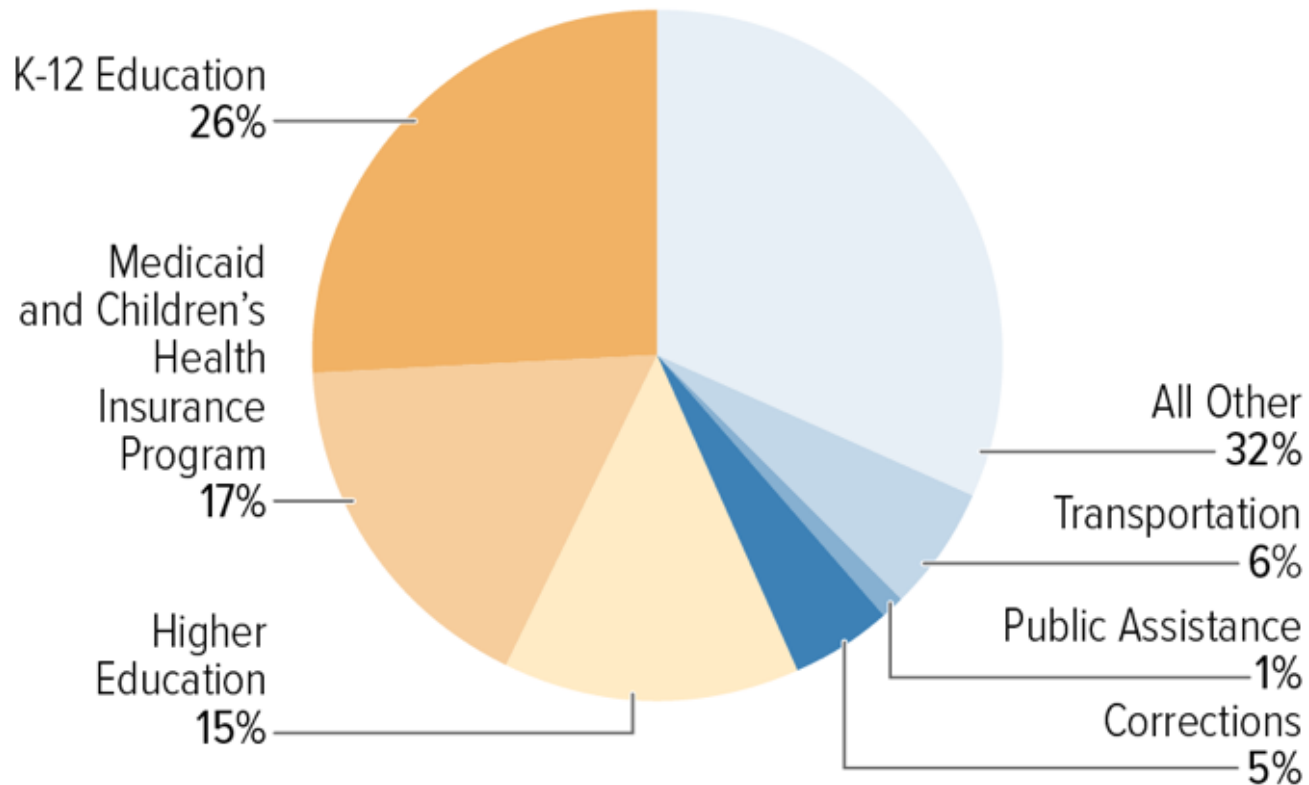


Some Early Takeaways

- States weighing new budget cuts or whether to backfill prior ones
- Localities hoping to stem tide of layoffs, furloughs
- More states than expected considering harmful tax *cuts*
 - AR, AZ, ID, IA, KS, LA, MS, MT, NE, SC, WV
- A few states so far looking at revenue-raisers
 - CA, FL, IL, NY, WA

More Than Half of State Tax Revenues Fund Education and Health Care

Percentage of state spending



Note: "All Other" includes care for residents with disabilities, pensions, and health benefits for public employees, economic development, environmental projects, state police, parks and recreation, and general aid to local governments. Numbers might not sum to 100 due to rounding.

Source: National Association of State Budget Officers State Expenditure Report, Fiscal Year 2016

Cutting State Income Taxes Counterproductive to Prosperity, Racial Justice

JANUARY 14, 2021 | BY [WESLEY THARPE](#) AND [MICHAEL LEACHMAN](#)

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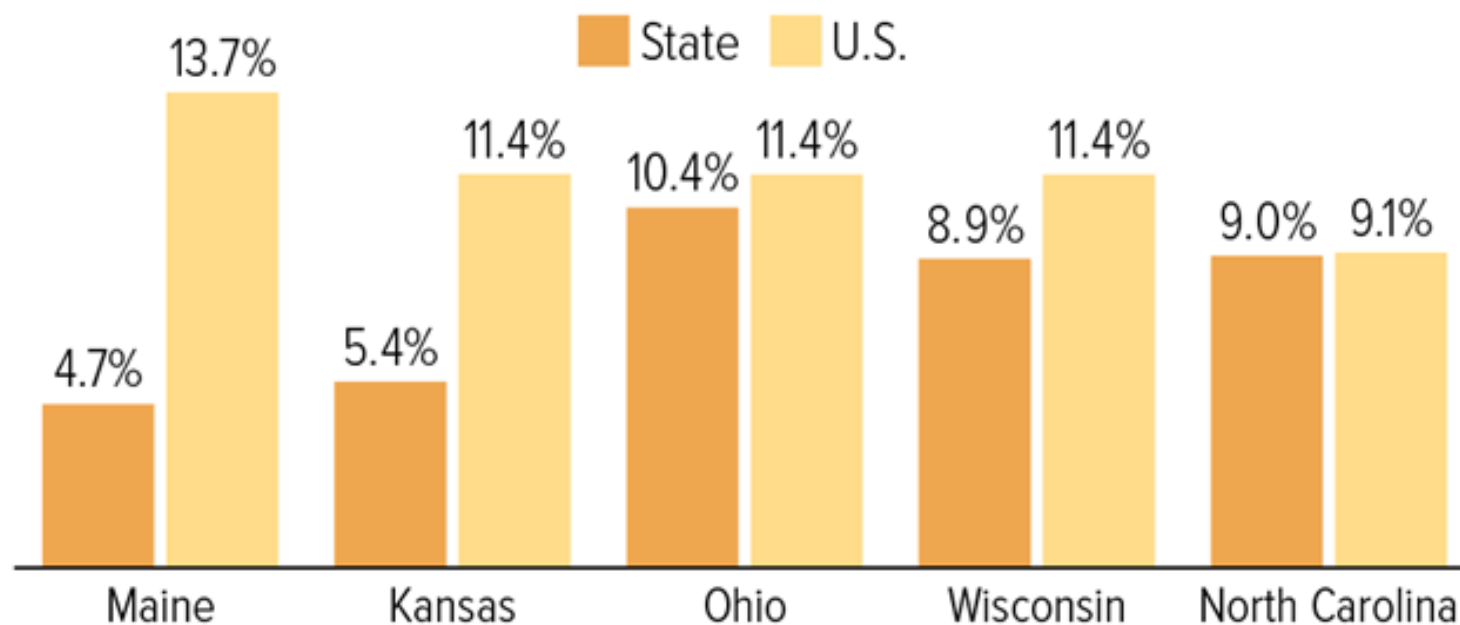
[PDF of this report \(5 pp.\)](#)

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As states enter their 2021 legislative sessions, lawmakers in several states including Arkansas, Mississippi, Montana, and West Virginia are calling for cutting personal income taxes. This would sap revenues needed for an effective response to the COVID-19 pandemic and threaten states' recovery from the recession. And, by weakening state finances, it would undermine efforts to advance racial justice — just when growing understanding of the nation's shameful history of racism, as well as white supremacist opposition to American democracy itself, demand the opposite approach.

Biggest Tax-Cutting States Didn't See Economies Take Off

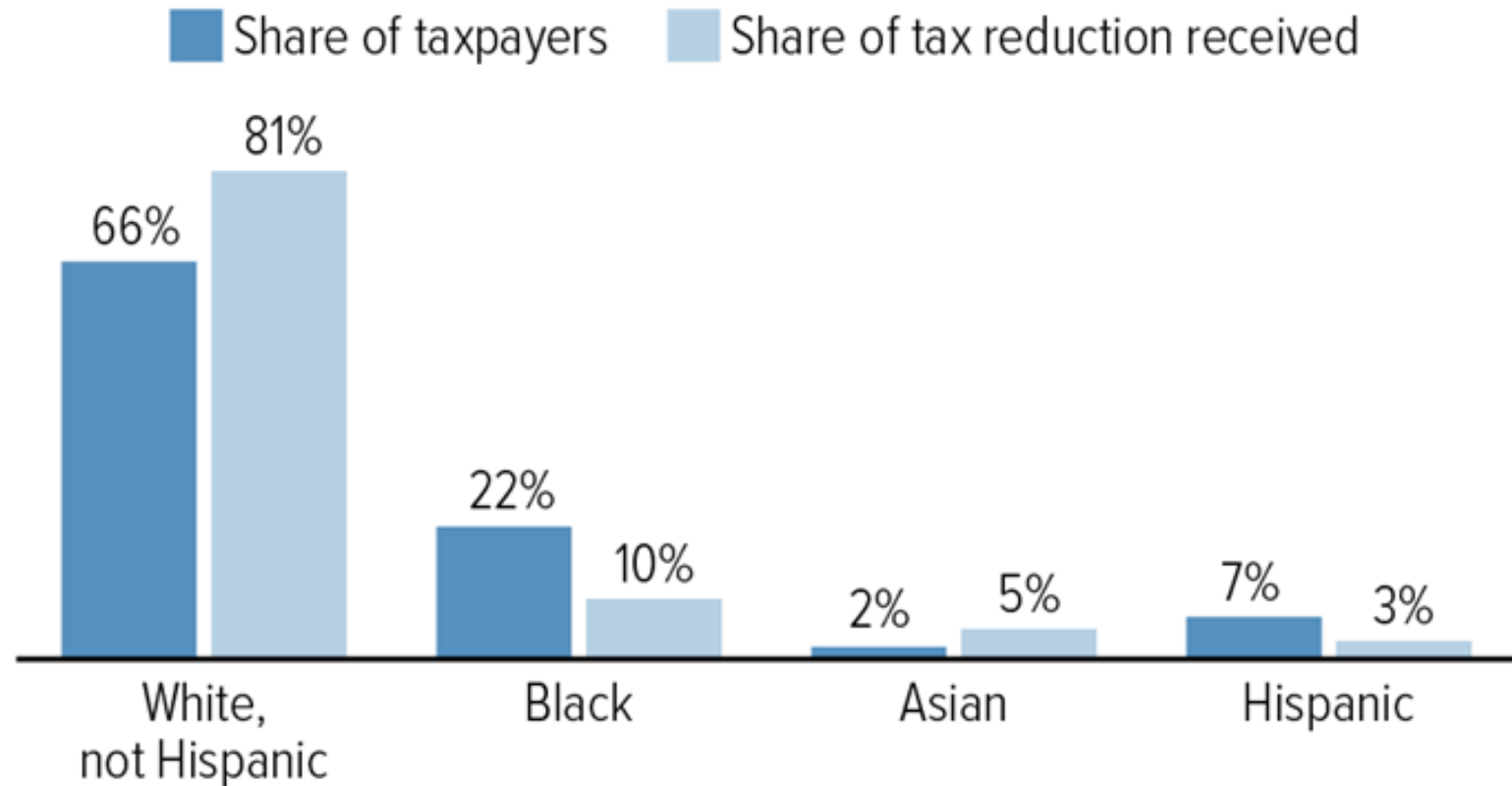
Growth in private state and national gross domestic product during period the tax cuts have been in effect



Note: Effective dates for tax cuts are Jan. 2012 for Maine, Jan. 2013 for Kansas, June 2013 for Ohio and Wisconsin (retroactive to Jan. 2013), and Jan. 2014 for North Carolina. In June 2017, Kansas restored some but not all of its tax cuts; the figures above for Kansas reflect the period between enactment and repeal of the majority of the January 2013 tax cuts.

Source: Chained, quarterly private GDP from Bureau of Economic Analysis, February 2018

2013 Tax Cuts Worsened Racial Wealth Inequities in North Carolina



Source: Institute on Taxation and Economic Policy, 2013-2016

States should protect, strengthen finances

- Draw fully on rainy day funds and other reserves
- Raise revenue, especially from those doing very well
- Roll back tax breaks for profitable corporations and subsidies ostensibly for economic development
- Reform or repeal restrictions on local revenue-raising



Three principles should guide state policymakers in these equity efforts:

- 1** Target aid to those most in need due to the COVID-19 and consequent economic crises.
- 2** Advance anti-racist and equitable policies – both short- and long-term – to dismantle persistent racial, gender, and economic inequities and other barriers non-dominant groups face.
- 3** Protect state finances to preserve the foundations of long-term economic growth and opportunity.

States can also make a broader commitment through steps such as an executive order, special commission, or task force to review their COVID-19 responses with equity in mind.

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Questions

