State Fiscal Policy in a Time of COVID-19

Key challenges and considerations for state and local policymakers

Webinar | January 21, 2021
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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Deputy Director for State Policy Research

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National Institute on Retirement Security
Research Manager
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

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

Show by: All U.S.
Closed due to CORONAVIRUS
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

- Orange: Pandemic Unemployment Assistance
- Blue: Regular State UI
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

<table>
<thead>
<tr>
<th>Low-wage</th>
<th>Medium-wage</th>
<th>High-wage</th>
<th>All industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>-11%</td>
<td>-5%</td>
<td>-3%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

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

- All adults: 38%
- Black, not Latino: 55%
- Latino (any race): 51%
- Other/multiracial, not Latino: 48%
- Asian, not Latino: 32%
- White, not Latino: 31%

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

<table>
<thead>
<tr>
<th>Group</th>
<th>February 2020</th>
<th>August 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>3.5%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Black</td>
<td>5.8%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>4.4%</td>
<td>10.5%</td>
</tr>
<tr>
<td>White</td>
<td>3.1%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Adults</td>
<td>14%</td>
</tr>
<tr>
<td>Black, not Latino</td>
<td>24%</td>
</tr>
<tr>
<td>Latino (any race)</td>
<td>21%</td>
</tr>
<tr>
<td>Other/multiracial, not Latino</td>
<td>20%</td>
</tr>
<tr>
<td>White, not Latino</td>
<td>10%</td>
</tr>
<tr>
<td>Asian, not Latino</td>
<td>7%</td>
</tr>
</tbody>
</table>

Note: Other/Multiracial not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages are based on reporting distributions and do not include the populations that did not respond to the question.

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

- Spending cuts: 45%
- Emergency federal aid: 24%
- Taxes and fees: 16%
- Rainy day funds and reserves: 9%
- Other: 7%

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

<table>
<thead>
<tr>
<th>2001 Recession</th>
<th>Great Recession</th>
<th>COVID-19*</th>
</tr>
</thead>
<tbody>
<tr>
<td>'02 '03 '04 '05</td>
<td>'09 '10 '11 '12 '13</td>
<td>'20 '21 '22</td>
</tr>
</tbody>
</table>
Service Industries Hardest Hit By COVID-19 Outbreak

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

-90% Casino gambling
-90% Package tours
-90% Sports & entertainment
-90% School dorms/lunches
-75% Public transportation
-75% Hotels, food service & car rentals
-65% Household maintenance
-65% Personal care
-30% Social services
-15% Education services
-15% Nonprofit services

Hospitals/outpatient care 15%

Source: Goldman Sachs
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

Other state and local: (353,200)
Public education: (1,031,800)
State and Local (combined): (1,385,000)
Pandemic’s Impact on State Revenues Less Than Earlier Expected But Still Severe

OCTOBER 30, 2020  |  BY MICHAEL LEACHMAN AND ELIZABETH MCNICHOL

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

Texas
- 2019
- 2020

Florida
- 2019
- 2020

Nevada
- 2019
- 2020

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

- Flexible fiscal aid: $200
- Remaining shortfalls: $225
- State rainy day funds: $75
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

- K-12 Education: 26%
- Medicaid and Children’s Health Insurance Program: 17%
- Higher Education: 15%
- All Other: 32%
- Transportation: 6%
- Public Assistance: 1%
- Corrections: 5%

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

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

<table>
<thead>
<tr>
<th>State</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maine</td>
<td>13.7%</td>
</tr>
<tr>
<td>Kansas</td>
<td>11.4%</td>
</tr>
<tr>
<td>Ohio</td>
<td>10.4%</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>8.9%</td>
</tr>
<tr>
<td>North Carolina</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

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 Economics Analysis, February 2018
2013 Tax Cuts Worsened Racial Wealth Inequities in North Carolina

- **White, not Hispanic**: 66% Share of taxpayers, 81% Share of tax reduction received
- **Black**: 22% Share of taxpayers, 10% Share of tax reduction received
- **Asian**: 2% Share of taxpayers, 5% Share of tax reduction received
- **Hispanic**: 7% Share of taxpayers, 3% Share of tax reduction received

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.
Questions