

THE FISCAL IMPACTS OF COVID-19 ON STATE AND LOCAL BUDGETS

Agenda



- □ State/Local Budgets during Recessions
 - Great Recession Fiscal Impacts
 - COVID-19 State/Local Fiscal Impacts
- □ State/Local Responses to Budget Impacts
 - Federal Aid
 - State Rainy Day Funds
 - Revenue/Expenditure Changes
- □ REMI Tax-PI and Modeling Methodology for COVID-19
- Model Demonstration in REMI Tax-PI

Recession Impacts on Both Sides of the Fiscal Balance Sheet



- Decreasing revenue from slowdown in economic activity and shrinking of the tax base
- Increasing government spending demands for public welfare (Medicaid, Unemployment Insurance, etc.)

Increased
Demand for
Public
Expenditures

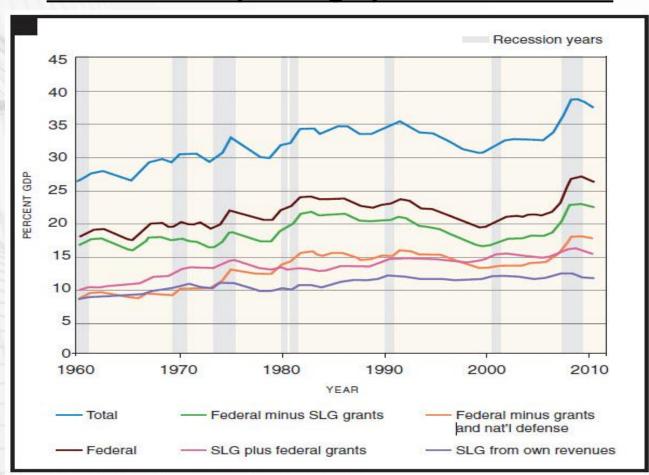
Decreased
Tax Revenue
Generation

what does REMI say? sm

State and Local Government Expenditures in Recessions



Government Spending by Level and Source



- Fed. government allocated 17% of its budget to SLG grants
- SLG Spending Increased largely from Federal Grants

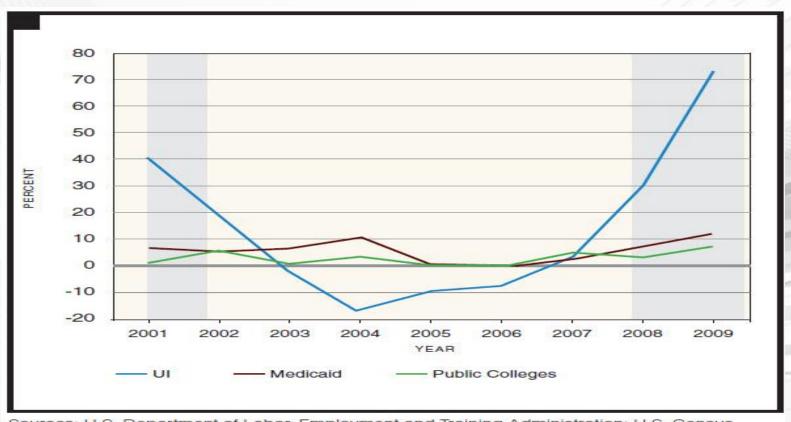
Source: National Income and Product Accounts, 2011.

Source: "State and Local Budgets and the Great Recession" (Brookings, 2012)

Increased Demand for Government Programs



Year-over-Year Percentage Change in Caseloads for Selected State Programs



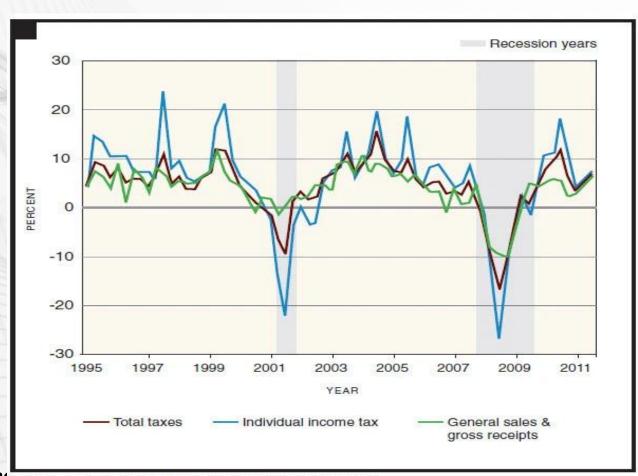
Sources: U.S. Department of Labor, Employment and Training Administration; U.S. Census Bureau Current Population Reports, Health Insurance Coverage in the United States; U.S. what does Census Bureau, Current Population Survey.

Source: "State and Local Budgets and the Great Recession" (Brookings, 2012)

Recession Impact on State Revenues



Percentage Change in State Taxes Year-over-Year



Q2 2009 Trough:

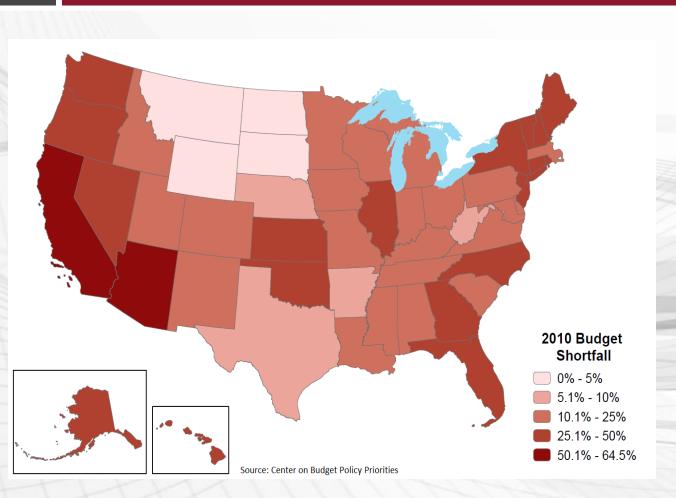
- Total State Taxes: 17% Lower
- Personal Income Taxes: 27% lower

who Source: U.S. Census Bureau, Quarterly Tax Survey, 2011.

Source: "State and Local Budgets and the Great Recession" (Brookings, 2012)

2010 State Budget Shortfalls State





Largest State Shortfalls

1. California: 64.5%

2. Arizona: 57.9%

3. Nevada: 47.6%

4. Illinois: 40.9%

5. New Jersey: 38.4%

How is this Recession different?





State Revenue Impacts



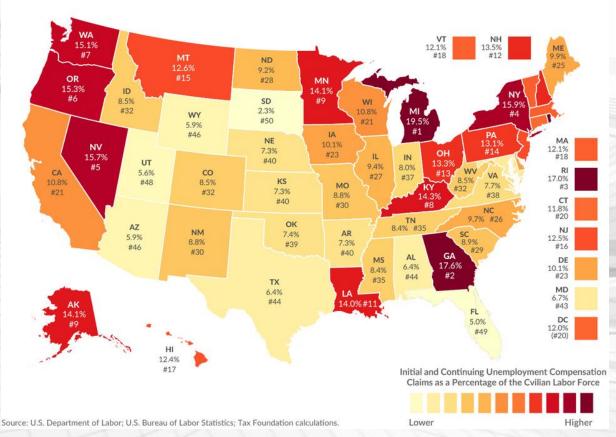
- 1. State Sales Tax
- 2. State Individual Income Taxes
- 3. Tax Filing Extensions
 - All states that tax individual income have extended their tax filing/payment deadline, following the federal action
 - 43 states have extended deadlines beyond July 1, which is the start of many states' FY2021 budgets
- 4. Transportation-driven Revenue Sources
 - State Gas Taxes
 - Tolls/Turnpike Revenue
- 5. State Capital Gains Taxes

Individual Income Tax Base Declines



Unemployment Compensation Claims as a Percentage of the Civilian Workforce

Initial and Continuing Unemployment Compensation Claims as a Percentage of the Civilian Labor Force, April 11, 2020

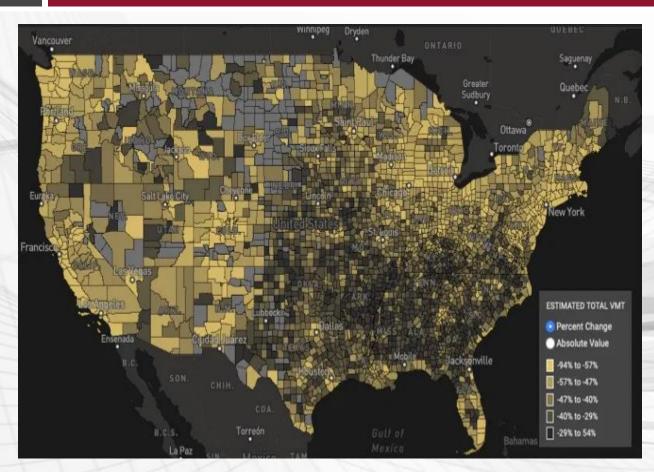


Over 12% of US civilian labor force applied/receiving unemployment compensation benefits

Source: "A Visual Guide to Unemployment Benefit Claims" (Tax Foundation, 2020) what does REMI say? sm

Gas Taxes: VMT Impacts March 2 – March 27





Source: StreetLight Data and Cuebiq

San Francisco, CA 83% decrease

New York City, NY 67% decrease

Chicago, IL 67% decrease

Jacksonville, FL 46% Decrease

Montgomery, AL 32% decrease

City and Local Revenue Impacts REMI



- City budget breakdown:
 - 5% from Federal Aid
 - 20-25% from State Aid
 - 70-75% City Revenues

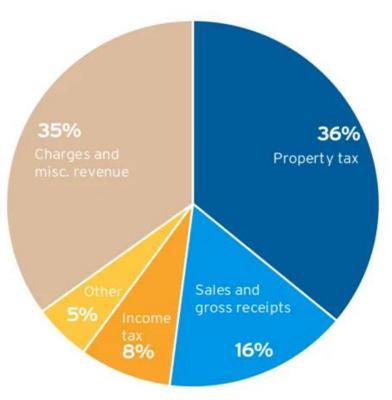


- □ Timing of impact will depend on design of city's tax structure within limits imposed by their states
 - Property Tax and Service Fees/Charges Mid/long term **Impact**
 - Income and Sales Taxes Immediate Impact

Local Revenue Source Composition







71% of Revenues are from Property Taxes and Misc. Fees/Charges

Source: Authors' calculations of Census of Governments 2017 data.

B Metropolitan Policy Program

Local Revenue Impacts by Category



- □ Property Taxes (inelastic)
 - Property tax bills typically reflect values of the property 18-24 months prior to collection
 - Rising unemployment eventually dampens real-estate demand and property tax revenues
- □ Fees and Charges for Services (mixed)
 - □ Transportation fees (transit, parking, etc.) decreases in short term
 - Trash collection, sewer, water service more stable
- Individual Income Taxes (elastic)
 - Approximately 1 in 10 cities rely most on income taxes
- □ Sales Taxes (elastic)
 - Food Services and Drinking Places, Retail Stores

Fiscal Response Tools



- 1. Federal Aid
 - Coronavirus Relief Fund
 - Unemployment and Medicaid Relief
 - Transportation, Education, Children & Family
- 2. Funds in Reserve (Rainy Day Funds)
- 3. Fiscal Policy Changes
 - Tax increases to raise revenues
 - Budget cuts to decrease expenditures

Coronavirus Relief Fund



- State and local governments will receive \$150 billion in federal aid under the Coronavirus Aid, Relief and Economic Security (CARES) Act
 - Allocation is by population
 - Each state is guaranteed at least \$1.25 billion even if its population share indicates a lesser amount
- Local (County/City) governments with populations of 500,000+ are eligible for aid
 - Localities are permitted to claim 45% of the amount allocated for their population, and their state retains the other 55%
 - The state retains 100% of the amount allocated to populations not within a locality of 500,000+

Additional Federal Aid



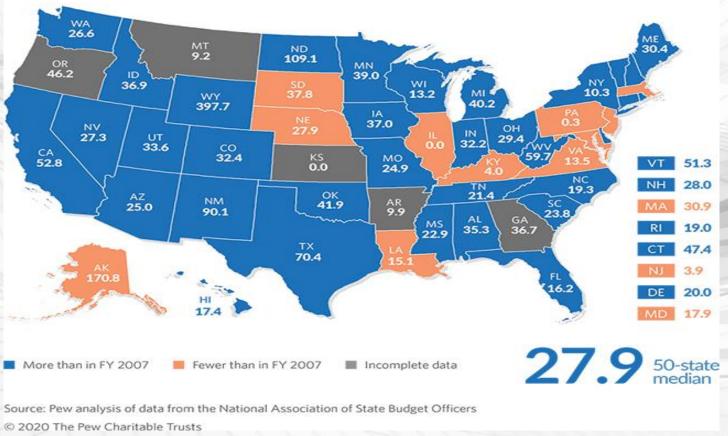
- Unemployment Insurance Relief
 - Federal reimbursement for half of states' 2020 UI payments
- Medicaid Relief
 - 10% increase in Federal Medicaid Match
- Transportation Infrastructure
 - \$25 billion to the FTA for Transit Infrastructure Grants
- Children and Families
 - \$6.3 billion to relief through Administration for Children and Families (Child Care, Community Services, etc.)
- □ Education
 - \$30 billion to the Department of Education to provide relief to states, school districts, and higher education institutions

Rainy Day Funds by State: 2007 vs. 2019



34 States' Rainy Day Funds Surpass Pre-Recession Levels

Days each state could run on rainy day funds, FY 2019



what does REMI say? sm

State Level Responses: 2009-2011



Revenue 2009 – 2011

- 40 Increased
- 8 Decreased
- 2 Remained Constant

Expenditures 2009 – 2011

- 34 Cut K-12
- 43 Cut Colleges and Universities
- 31 Cut Healthcare
- 29 Cut Social Services (elderly and disabled)
- 44 Cut Employee
 Compensation

About REMI



REMI's 40-year history of rigorous academic research and software development has led to the development of the industry standard in macroeconomic research methodology:

Input-Output

Regionalized interindustry relationships

Econometrics

Behavioral responses to a changing economy

General Equilibrium

Understanding how supply and demand affects markets over time

Economic Geography

Effects of geographic concentration of labor and industry

Integrated REMI economic modeling approach



DEPARTMENT of REVENUE
Iowa Department of



Community Development















What is Tax-PI?



Answers to "what-if...?" questions about the economic and fiscal effects of policies

- □ Outputs include:
 - Economic: Employment by Occupation, Output, Personal Income, GRP, etc. at 70- or 160- industry sectors
 - **Demographic:** Population, Migration by 808 cohorts
 - **Fiscal:** Revenues such as income tax, sales tax, corporate profits tax; expenditure needs such as education, health care, public safety, public services

Fiscal-Economic Link in Tax-PI



User Calibration

- Expenditures
- Revenues

Build Simulation

- Economic development
- Tax policy

Dynamic Results

- Demographic
- Economic
- Fiscal

Methodology: Overview



- Modify Baseline National Forecast to Reflect National COVID-19 Slowdown/Recession Scenario
- 2. Use COVID-19 National Forecast to Drive State/Regional Forecast
- Additional Modifications/What-Ifs for State/ Region
- 4. Fiscal Policy Responses to Budget Shortfalls

COVID-19 Impacts



- Loss of Productivity,
 Absenteeism, Shutdowns
- 2. Consumer spending
- 3. Supply chain disruption
- 4. Decline in global demand
- 5. Increase mortality rate

World Trade set to plunge

Growth rate for global trade and WTO scenarios



Example Fiscal Responses in Tax-PI REMI



Revenue Side Responses

- □ Sales tax increase
 - Policy Variable Affected → Consumer Price Increase
- □ Individual income tax increase
 - Policy Variable Affected → Disposable Personal Income Decrease
- □ Federal Aid Increase

Expenditure Side Responses

- □ K-12 Education Spending Decrease
- **Higher Education Spending Decrease**
- Corrections Spending Decrease



Model Demonstration