

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.)

A large, solid maroon arrow pointing upwards, containing the text "Increased Demand for Public Expenditures" in white.

Increased
Demand for
Public
Expenditures

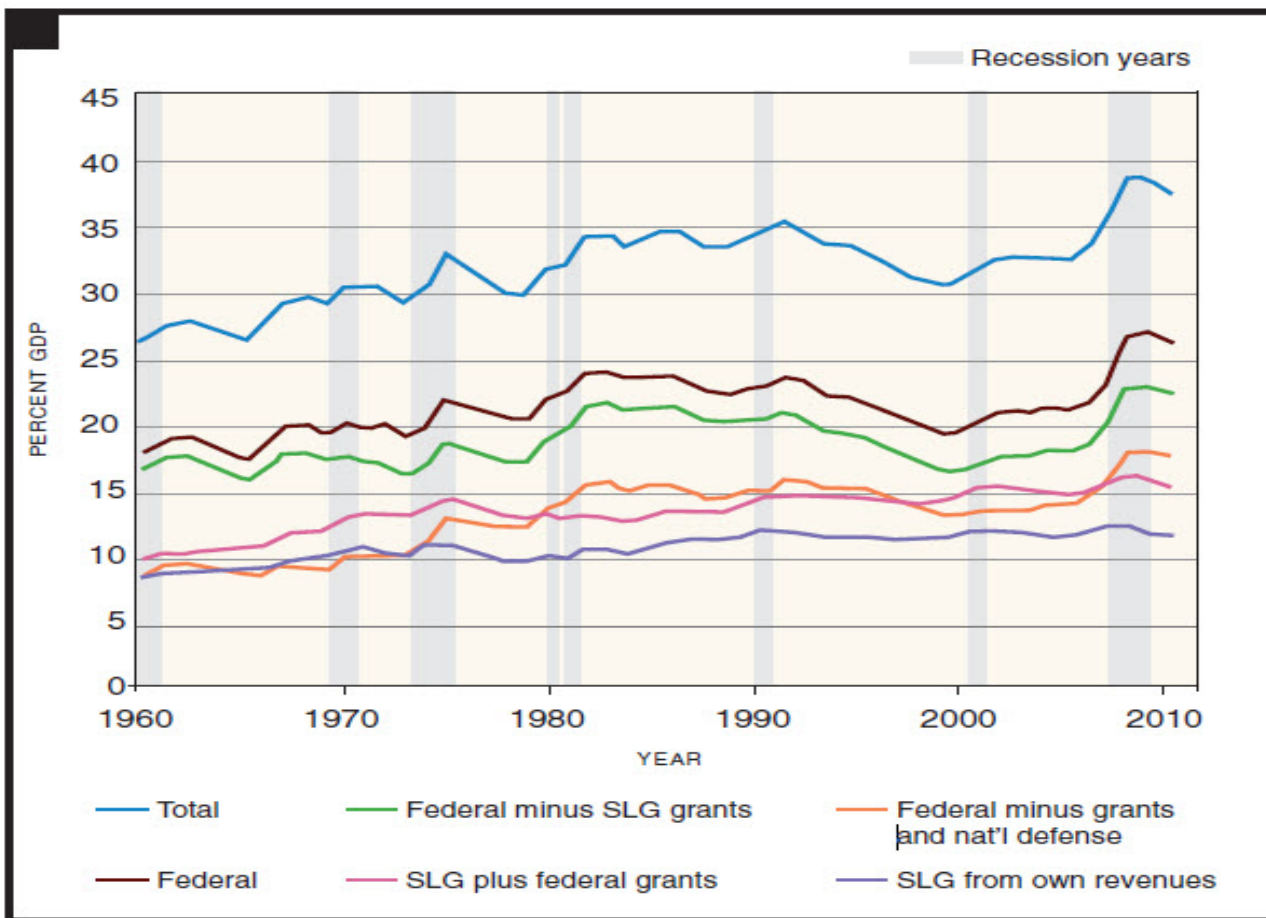
A large, solid maroon arrow pointing downwards, containing the text "Decreased Tax Revenue Generation" in white.

Decreased
Tax Revenue
Generation

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

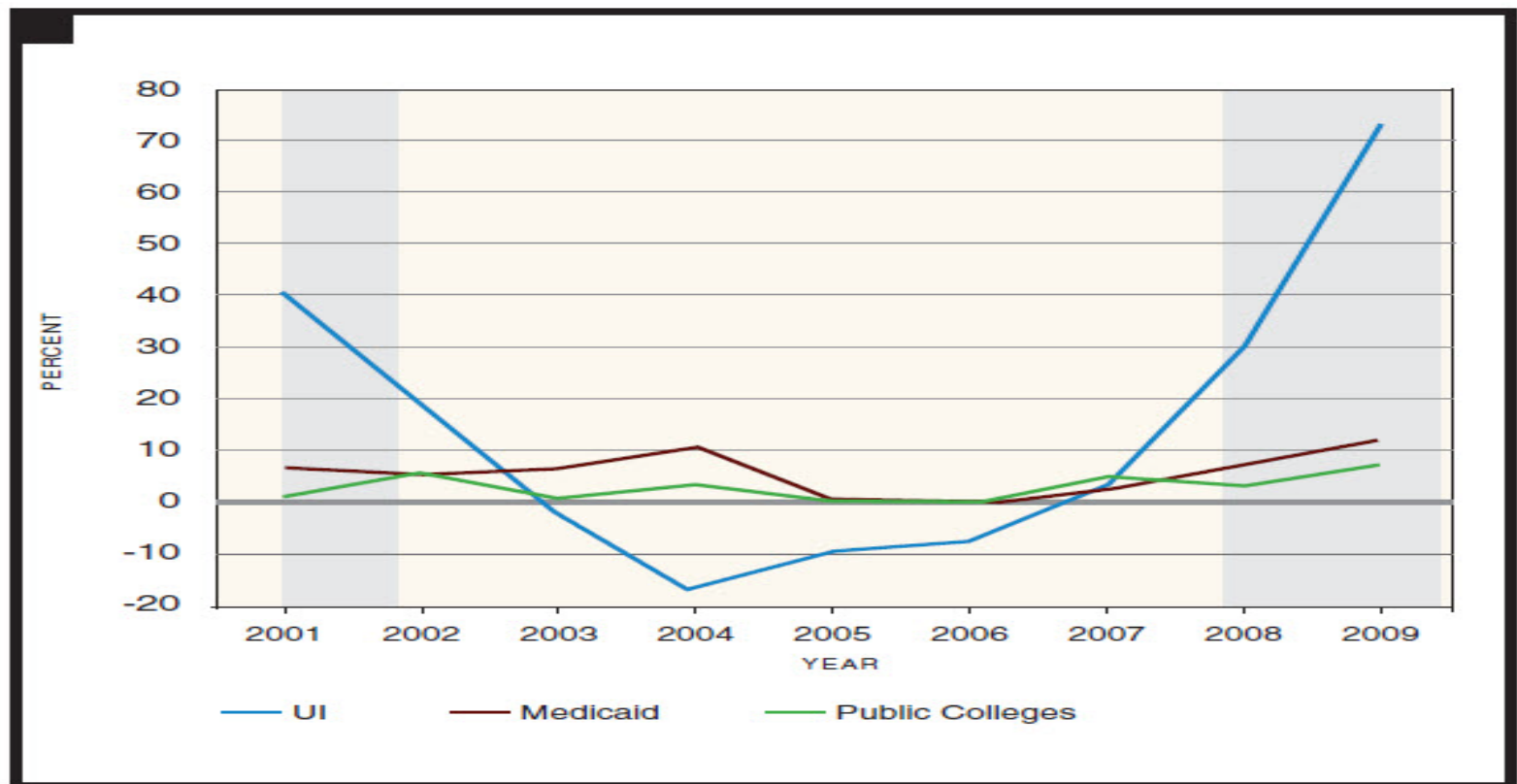
Source: National Income and Product Accounts, 2011.

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. Census Bureau, Current Population Survey.

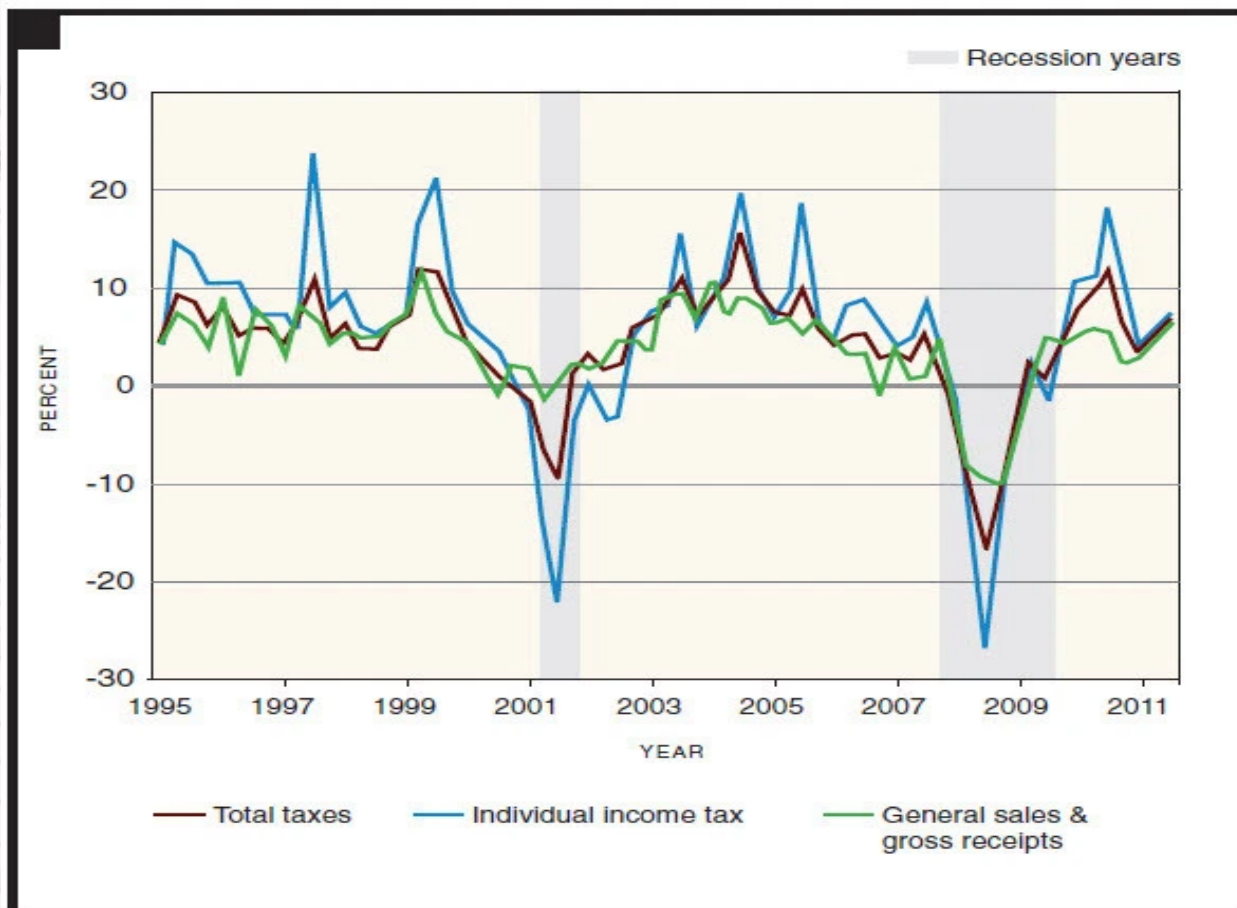
Source: "State and Local Budgets and the Great Recession" (Brookings, 2012)

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Recession Impact on State Revenues



Percentage Change in State Taxes Year-over-Year



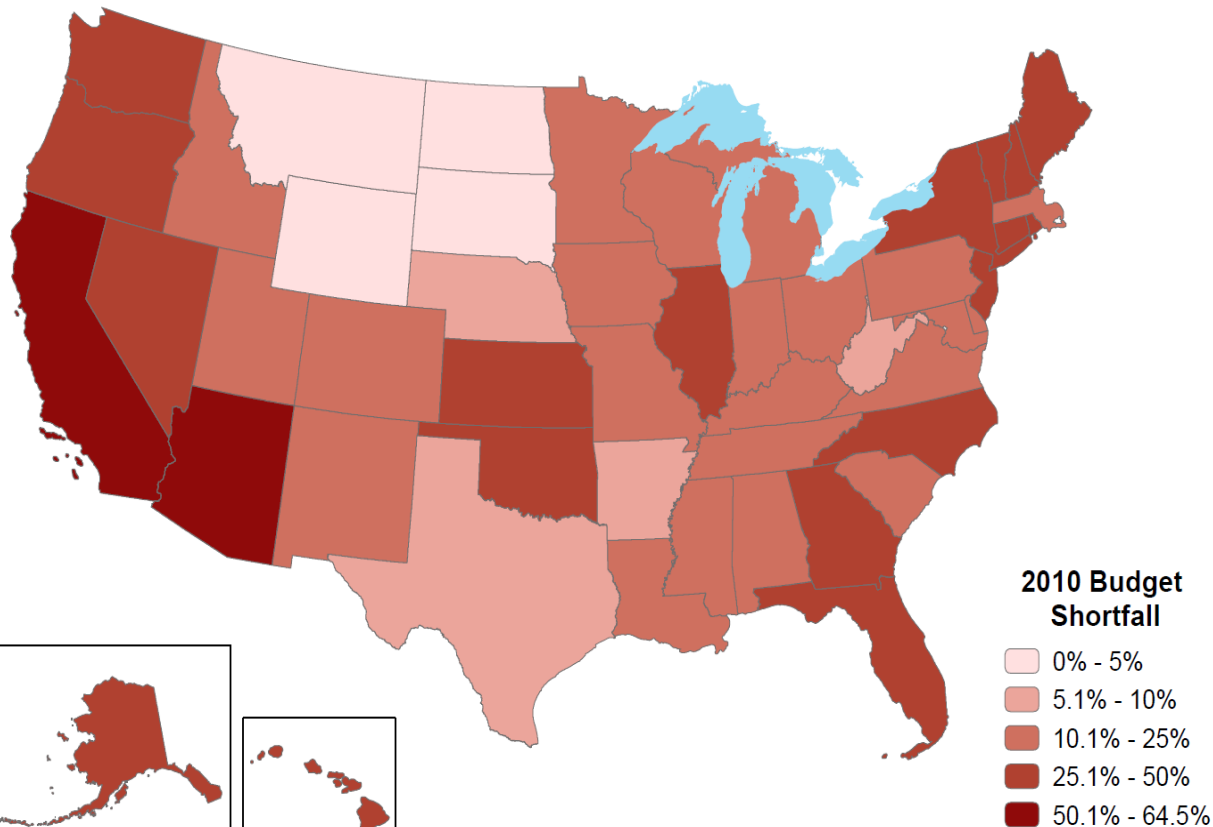
Q2 2009 Trough:

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

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

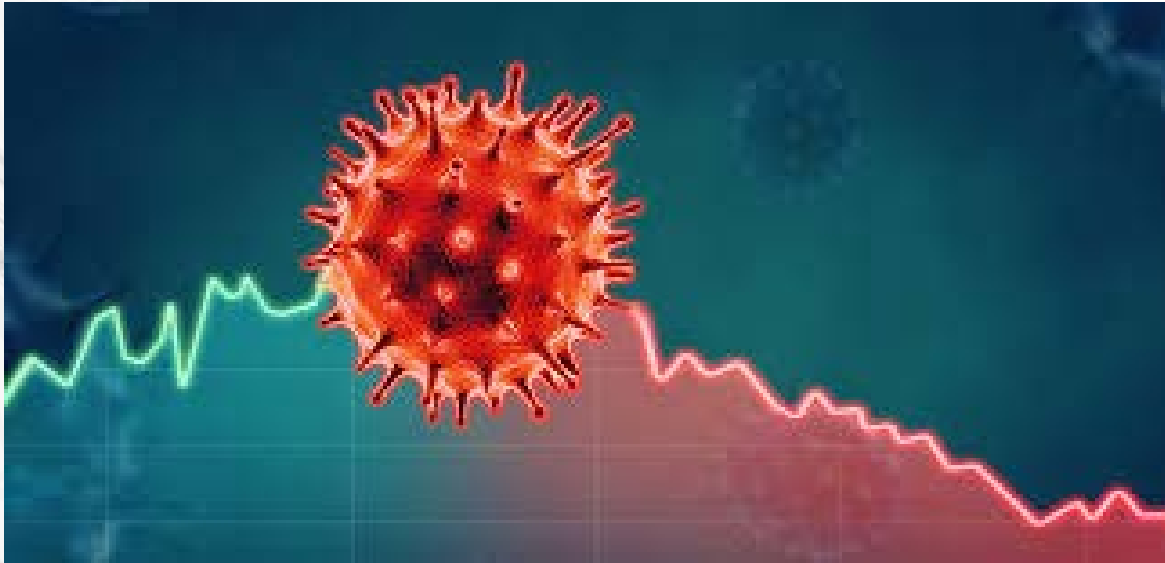


Source: Center on Budget Policy Priorities

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?



what does **REMI** say? sm

State Revenue Impacts



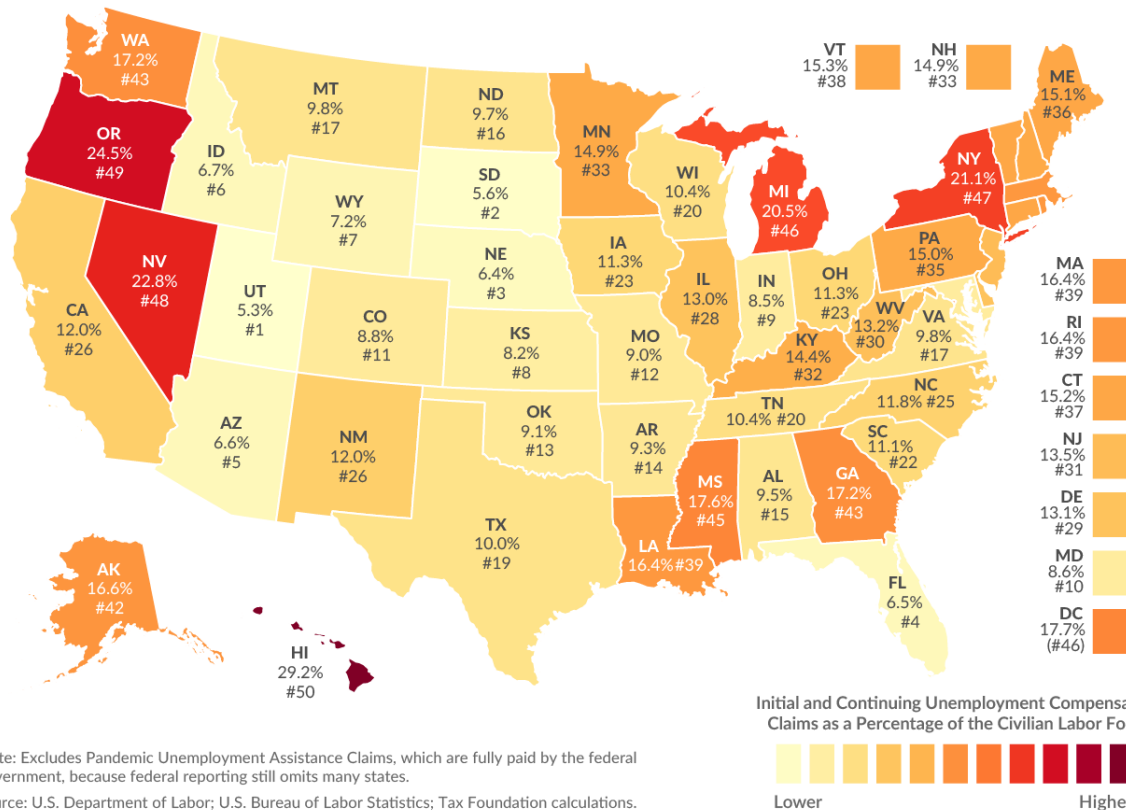
1. State Sales Tax
2. State Individual Income Taxes
3. Tax Filing Extensions
 - All states that tax individual income have extended their tax filing/payment deadline, following the federal action
 - 42 states have extended deadlines beyond July 1, which is the start of many states' FY2021 budgets
4. Transportation-driven Revenue Sources
 - State Gas Taxes- state losses could total over a billion dollars
 - Tolls/Turnpike Revenue- over \$100M lost in two months
5. State Capital Gains Taxes

Individual Income Tax Base Declines – May 23



Unemployment Compensation Claims as a Percentage of the Civilian Workforce

Initial and Continuing Regular Unemployment Claims as a Percentage of the Civilian Labor Force, May 23, 2020



Note: Excludes Pandemic Unemployment Assistance Claims, which are fully paid by the federal government, because federal reporting still omits many states.

Source: U.S. Department of Labor; U.S. Bureau of Labor Statistics; Tax Foundation calculations.

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

Gas Taxes: VMT Impacts

March 1 – April 24



Every metro area
down at least 53%
since March

Coastal California
down least 75%
since March

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
- Federal Reserve Municipal Bond buying program

2. Funds in Reserve (Rainy Day Funds)

3. Fiscal Policy Changes

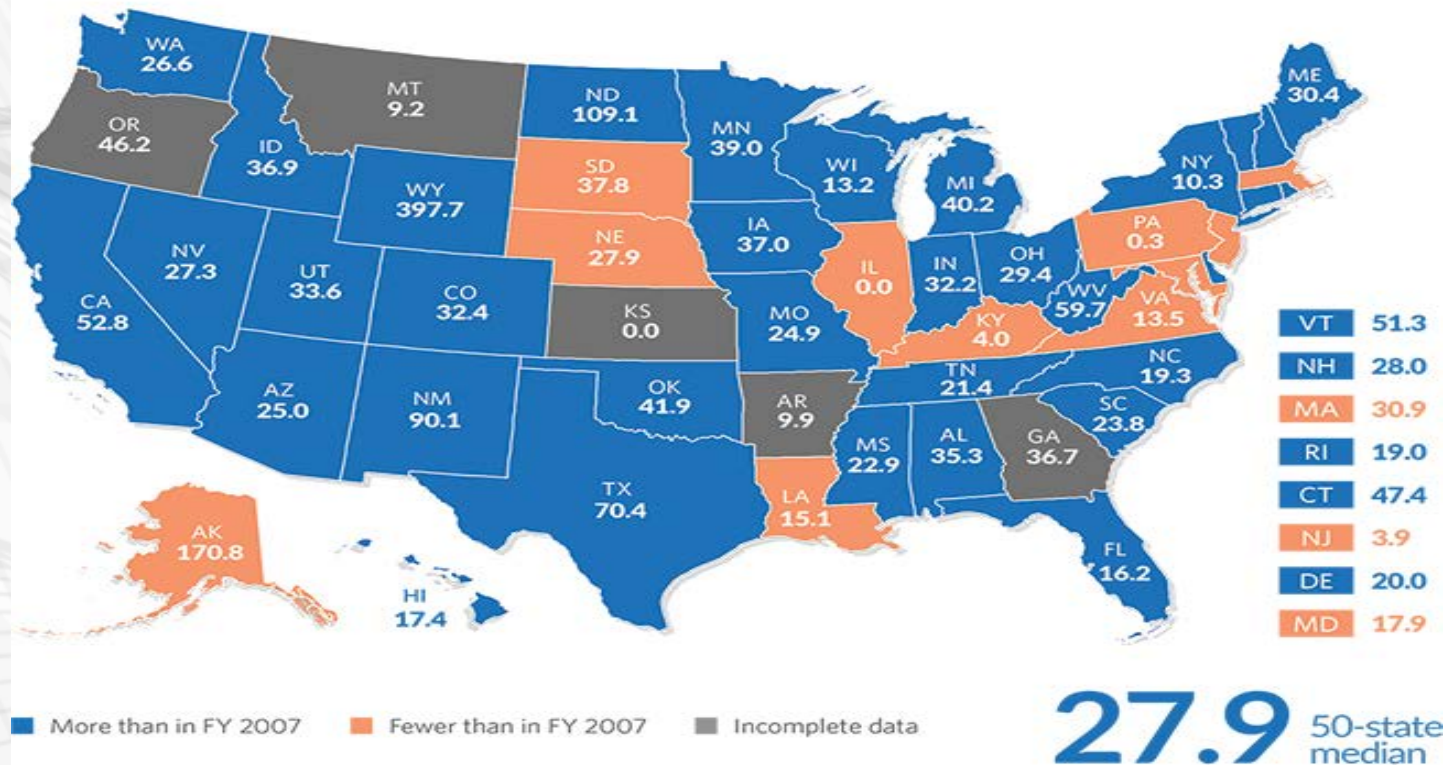
- Tax increases to raise revenues
- Budget cuts to decrease expenditures

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

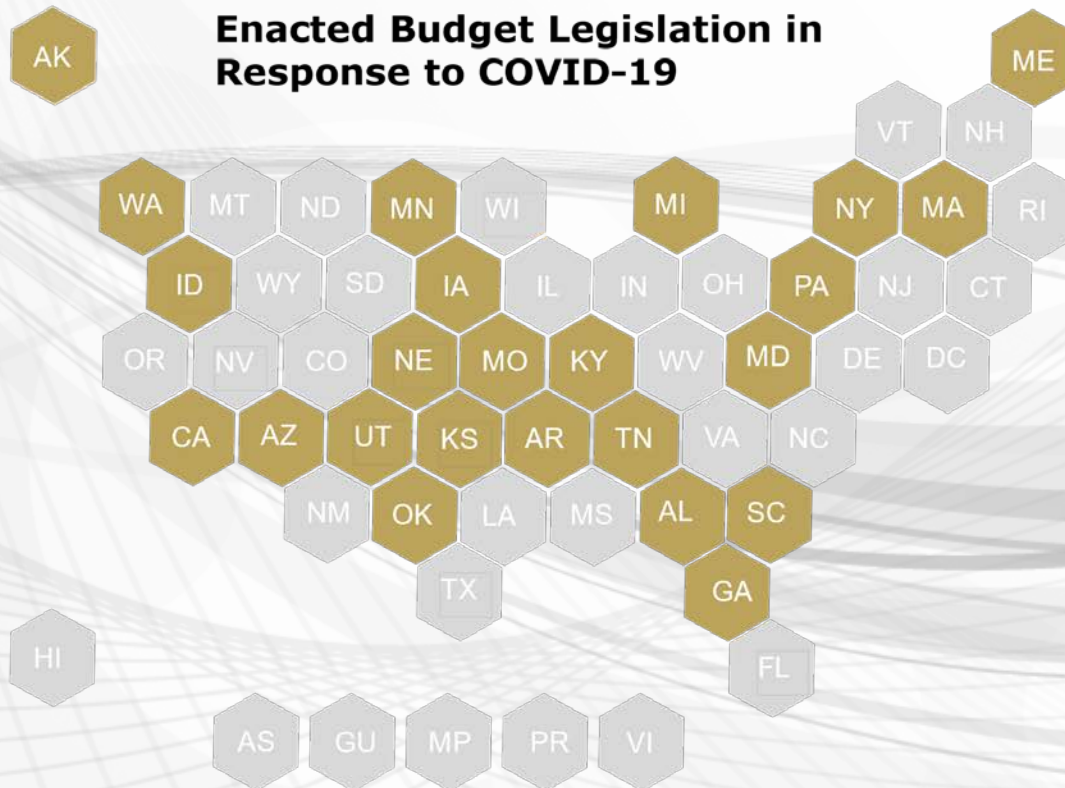


Source: Pew analysis of data from the National Association of State Budget Officers

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State Budget Legislations



26 states
appropriated money
from general fund

12 states transferred
money from rainy
day and reserve
funds

Source: NCSL

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About REMI



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

Input-Output

Regionalized inter-industry relationships

General Equilibrium

Understanding how supply and demand affects markets over time

Econometrics

Behavioral responses to a changing economy

Economic Geography

Effects of geographic concentration of labor and industry

Integrated REMI economic modeling approach



State of Connecticut
Department of Economic and
Community Development



Bank of North Dakota



Iowa Department of
REVENUE



Wyoming Department of
Administration & Information

LOUISIANA
DEPARTMENT of REVENUE



Division of
the Budget



DEPARTMENT
OF REVENUE

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



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

Example Fiscal Responses in Tax-PI



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
- Optional ability- marginal demand for expenditures

Model Demonstration