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.)
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: “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

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

Source: “State and Local Budgets and the Great Recession” (Brookings, 2012)
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?
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

*what does REMI say?*
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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what does REMI say? sm
Enacted Budget Legislation in Response to COVID-19

26 states appropriated money from general fund

12 states transferred money from rainy day and reserve funds

Source: NCSL

what does REMI say?
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 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
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
what does REMI say? sm

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