



State and Local Governments Face Over \$900 Billion in Combined Shortfalls

Costs could go higher if the coronavirus contagion worsens

The failure to contain the coronavirus and the fateful decision to prematurely abandon social distancing measures have led to what many had predicted would be an explosion of new COVID-19 cases, hospitalizations and deaths.¹ The United States now faces the possibility of a reversal of the nascent economic recovery, unemployment that continues to be higher than the worst of the Great Recession and a deep, prolonged economic downturn.²

State and local governments are bearing much of the financial brunt of the coronavirus crisis. They have been forced to lead the country's public health response to the coronavirus and have struggled to procure tests, personal protective equipment and other critical materials.³ States also are coping with plummeting revenues as a result of massive job losses, struggling or shuttered businesses and a crippled economy. At the same time, they must deal with rapidly rising Medicaid costs. The Kaiser Family Foundation projects that 27 million people will lose access to employer-sponsored insurance. About 13 million of them will be eligible for Medicaid.⁴

The Center on Budget and Policy Priorities estimates that states will face budget shortfalls of \$555 billion over fiscal years 2020-2022, not including the direct cost of responding to the coronavirus.⁵ Already, because most states are required to balance their budgets, they are slashing spending or planning deep cuts. Since February, state and local governments have shed 1.5 million jobs.⁶ The massive state budget shortfalls will increase if the economy weakens.

The National League of Cities estimates that local governments will face revenue shortfalls of \$360 billion over fiscal years 2020-2022.⁷ The Center for American Progress similarly projects face revenue shortfalls of \$310 billion over fiscal years 2020 and 2021.⁸ These estimates are just revenue shortfalls and do not take into account the extraordinary direct costs local governments face in responding to the coronavirus.

Together, the combined state and local government shortfalls are over \$900 billion, not including the high cost of responding to the virus. The state and local shortfall projections are based on economic projections by the CBO and Federal Reserve, which assume gradual containment of the coronavirus and slowly declining unemployment. Those projections may be upended if the coronavirus contagion continues to spread and states are forced to re-impose strict social distancing measures and effectively close large sectors of the economy.

The CARES Act provided \$150 billion in aid to state and local governments. However, with limited exceptions, aid must be used for responding to the coronavirus and not for backstopping revenue shortfalls. State and local governments are likely to need even more support for the direct costs of fighting the virus given that the average number of daily new cases is more than

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five times as large as when Congress passed CARES in March.⁹ Importantly, the above numbers ignore these direct costs so the \$150 billion cannot be deducted from them.

And—contrary to popular talking points—this is not a Blue State problem:

- Georgia, for example, has approved a 10 percent cut for 2021 including almost \$1 billion in cuts for K-12 public schools and programs for Georgians with disabilities.¹⁰
- In Florida, the Governor vetoed \$1 billion in spending approved before the crisis and ordered agencies to look for as much as 6 percent in additional cuts. The vetoes affected funding for community colleges, services related to behavioral health such as opioid treatment, and services to people experiencing homelessness.¹¹
- Texas Governor Greg Abbott has called on agencies to propose 5 percent cuts in their two-year budgets—one proposal has been to cut \$133 million in health services related to women’s health, family violence prevention, and services for individuals with traumatic brain injuries.¹²
- Kentucky has not begun proposing cuts yet, but cuts will be inevitable this coming fiscal year given projections of a budget shortfall of up to \$1.1 billion (17 percent) in the first six months of FY 2021.¹³

The Heroes Act would provide state and local governments with the support they need to fight the coronavirus while avoiding layoffs and cuts to critical services that will worsen the recession. In particular, it would provide \$500 billion in aid to state governments, \$20 billion for governments in territories, and \$20 billion for governments in tribal nations while increasing the federal share of Medicaid by \$81 billion.¹⁴ It would also provide \$375 billion to local governments.

Failing to provide adequate aid to state and local governments would not only hurt their ability to fight the coronavirus outbreak, but would also force them to further slash spending, leading to more job cuts and an additional decline in aggregate demand. This would ignore the tragic history of the Great Recession, in which state and local spending was slashed and took more than 10 years to recover to pre-recession levels, substantially slowing the recovery of the national economy.¹⁵

Key Organizations Calling for Aid to State and Local Governments

Center on Budget and Policy Priorities: *As states revisit their spending plans for the 2021 budget year, which began July 1 in most states, they are making deep budget cuts to offset huge revenue shortfalls triggered by COVID-19 and the worst economic downturn since the Great Depression. The initial state and local cuts enacted in spring and early summer caused sizable harm through layoffs, furloughs, and cuts to vital public services. Unless federal policymakers provide a new round of flexible fiscal aid, the harm will only worsen.*¹⁶

Center for American Progress: *In response to the COVID-19 pandemic engulfing the United States, there is a need for a massive infusion of direct and flexible federal aid to local*

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governments to avoid the need to furlough or lay off the workers most needed to respond to the public health crisis and bring the country out of the economic crisis it now faces. This aid must be in addition to—and separate from—the substantial aid that is required for state governments. Therefore, CAP recommends an immediate commitment of federal aid directly to local governments on the order of at least \$400 billion in addition to state aid—and notes that doing too little is more dangerous than doing too much. This timely funding would get localities through the next fiscal year (FY 2021)—which runs from July 1 through the middle of 2021 for the overwhelming majority of localities—and prevent steep cuts that will otherwise be locked into budgets within the next few weeks.¹⁷

The Brookings Institution: *State governments are incurring large costs to respond to COVID-19. And in the coming months, states will experience large declines in tax revenues and increased enrollment in safety-net programs as disruptions caused by COVID-19 drive incomes and consumption lower. Without assistance from the federal government, states will likely be forced to make deep program cuts, enact substantial tax increases, or both. Either strategy would worsen the economic downturn and its aftermath by compounding household income losses, and program cuts would also deprive state residents of valuable public services.¹⁸*

The Upjohn Institute: *The “Pandemic Recession” could be made worse by state and local spending cuts. The recession will significantly reduce state and local tax revenue. State and local governments are required to balance their budgets, so reduced tax revenue will lead either to tax rate increases or to spending cuts—more likely the latter.*

State and local spending cuts will harm the economy and increase overall unemployment. Budget cuts will lead to layoffs not only of state and local workers but also of workers who work on state and local contracts and grants. As all these workers are laid off, they will reduce their spending on various consumer goods and services, which will reduce employment further in the already hard-hit retail sector.¹⁹

The Brookings-Urban Tax Policy Center: *States and localities across the country are facing an unprecedented fiscal situation from the economic shock of the COVID-19 pandemic. Governors are confronting drastically falling revenues and rising costs. Prior to the onset of the COVID-19 pandemic, most states were generating solid revenue growth. And many built up robust rainy day funds. But the pandemic has largely wiped out earlier revenue gains and most states now anticipate substantial revenue shortfalls for the current fiscal year and for fiscal year 2021.²⁰*

The Economic Policy Institute: *Because a weakening economy undercuts state and local tax revenues, and because states operate under balanced budget constraints, the coming months will see intense downward pressure on state and local spending. Reductions in this spending will in turn significantly slow recovery from the current economic crisis. This is not an abstract concern—the historically slow recovery in state and local spending following the Great Recession by itself delayed a recovery in unemployment to pre-crisis levels by four full years.²¹*

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² U.S. Bureau of Labor Statistics, "The Employment Situation -- June 2020," July 2, 2020, <https://www.bls.gov/news.release/pdf/empst.pdf>; Ben Casselman, "U.S. employment has declined sharply, a new report shows," *The New York Times*, July 22, 2020, <https://www.nytimes.com/live/2020/07/22/business/stock-market-today-coronavirus#us-employment-has-declined-sharply-a-new-report-shows>; David J. Lynch, "After the fastest recession in U.S. history, the economic recovery may be fizzling," *The Washington Post*, July 13, 2020, <https://www.washingtonpost.com/business/2020/07/11/after-fastest-recession-us-history-economic-recovery-may-be-fizzling/>

³ Michael D. Shear, Noah Weiland, Eric Lipton, Maggie Haberman and David E. Sanger, "Inside Trump's Failure: The Rush to Abandon Leadership Role on the Virus," *The New York Times*, July 27, 2020, <https://www.nytimes.com/2020/07/18/us/politics/trump-coronavirus-response-failure-leadership.html>

⁴ Rachel Garfield, Gary Claxton, Anthony Damico and Larry Levitt, "Eligibility for ACA Health Coverage Following Job Loss," Kaiser Family Foundation, May 13, 2020, <https://www.kff.org/coronavirus-covid-19/issue-brief/eligibility-for-aca-health-coverage-following-job-loss/>

⁵ Elizabeth McNichol and Michael Leachman, "States Continue to Face Large Shortfalls Due to COVID-19 Effects," Center on Budget and Policy Priorities, July 7, 2020, <https://www.cbpp.org/research/state-budget-and-tax/states-continue-to-face-large-shortfalls-due-to-covid-19-effects>; This approach to estimating shortfalls was developed by Matthew Fiedler and Wilson Powell III, "States will need more fiscal relief. Policymakers should make that happen automatically," *The Brookings Institution*, April 2, 2020, <https://www.brookings.edu/blog/usc-brookings-schaeffer-on-health-policy/2020/04/02/states-will-need-more-fiscal-relief-policymakers-should-make-that-happen-automatically/>; It has also been used by Timothy J. Bartik, "A proposal for timely, responsive federal aid to state and local governments during the pandemic recession," W.E. Upjohn Institute for Employment Research, April 20, 2020, <https://www.upjohn.org/research-highlights/proposal-timely-responsive-federal-aid-state-and-local-governments-during-pandemic-recession>

⁶ McNichol and Leachman, 2020.

⁷ National League of Cities, "What COVID-19 Means for City Finances, 2020," https://covid19.nlc.org/wp-content/uploads/2020/06/What-Covid-19-Means-For-City-Finances_Report-Final.pdf

⁸ Alan Cohen and Michael Madowitz, "The Need for Direct Assistance to Local Governments in Response to the Coronavirus," Center for American Progress, May 26, 2020, <https://www.americanprogress.org/issues/economy/news/2020/05/26/485396/need-direct-assistance-local-governments-response-coronavirus/>

⁹ U.S. Centers for Disease Control, "Cases in the U.S.," July 27, 2020, <https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html>

¹⁰ Wesley Tharpe, "States, Localities Need More Federal Aid to Avert Deepening Budget Crisis," Center on Budget and Policy Priorities, July 21, 2020, <https://www.cbpp.org/blog/states-localities-need-more-federal-aid-to-avert-deepening-budget-crisis>

¹¹ Ibid.

¹² Ibid.

¹³ Center on Budget and Policy Priorities, "States Grappling With Hit to Tax Collections," June 30, 2020, <https://www.cbpp.org/research/state-budget-and-tax/states-grappling-with-hit-to-tax-collections>

¹⁴ U.S. Congressional Budget Office, "H.R. 6800, Heroes Act" June 1, 2020, <https://www.cbo.gov/publication/56383>

¹⁵ U.S. Congress Joint Economic Committee, "Massive Aid to State and Local Governments Needed to Slow Economic Damage," April 2, 2020, https://www.jec.senate.gov/public/_cache/files/3706c722-9908-410b-b0f0-6f988c6db1dc/state-and-local-fiscal-relief-jec.pdf

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¹⁷ Alan Cohen and Michael Madowitz, "The Need for Direct Assistance to Local Governments in Response to the Coronavirus," Center for American Progress, May 26, 2020, <https://www.americanprogress.org/issues/economy/news/2020/05/26/485396/need-direct-assistance-local-governments-response-coronavirus/>

¹⁸ Matthew Fiedler and Wilson Powell III, "States will need more fiscal relief. Policymakers should make that happen automatically," The Brookings Institution, April 2, 2020, <https://www.brookings.edu/blog/usc-brookings-schaeffer-on-health-policy/2020/04/02/states-will-need-more-fiscal-relief-policymakers-should-make-that-happen-automatically/>

¹⁹ Timothy J. Bartik, "A proposal for timely, responsive federal aid to state and local governments during the pandemic recession," W.E. Upjohn Institute for Employment Research, April 20, 2020, <https://www.upjohn.org/research-highlights/proposal-timely-responsive-federal-aid-state-and-local-governments-during-pandemic-recession>

²⁰ Lucy Dadayan, "COVID-19 And Government Actions Caused State Tax Revenues To Plunge In April," Tax Policy Center, June 1, 2020, <https://www.taxpolicycenter.org/taxvox/covid-19-and-government-actions-caused-state-tax-revenues-plunge-april>

²¹ Josh Bivens and David Cooper, "Without federal aid to state and local governments, 5.3 million workers will likely lose their jobs by the end of 2021," The Economic Policy Institute, June 10, 2020, <https://www.epi.org/blog/without-federal-aid-to-state-and-local-governments-5-3-million-workers-will-likely-lose-their-jobs-by-the-end-of-2021-see-estimated-job-losses-by-state/#:~:text=and%20David%20Cooper,Without%20federal%20aid%20to%20state%20local%20governments%20in%20coming%20months.>