



HOUSE COMMITTEE ON THE BUDGET

Chairman John Yarmuth

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State and Local Governments Are in Dire Need of Federal Relief

Millions of firefighters, health care workers, teachers, bus drivers, and other essential workers risk their lives every day to save lives and keep the economy running during the COVID-19 pandemic. Many of these heroic frontline workers are employed by state and local governments that are currently facing a severe budget crisis. As states and localities grapple with [\\$900 billion](#) in budget shortfalls due primarily to lost revenue, the jobs of these vital workers — along with crucial services that millions of Americans rely on — are on the line. Already, state and local governments shed nearly [1.2 million jobs](#) between March and July, and their spending fell at a [5.6 percent](#) annual rate in the second quarter of 2020. In the absence of additional federal support, Americans can expect more painful job losses and debilitating cuts to services.

After the Great Recession, the slow recovery of state and local government spending delayed the return to pre-crisis levels of unemployment by [four years](#). We cannot make the same mistake again. House Democrats are committed to supporting state, local, and tribal governments so they can avoid devastating service cuts and continue to employ the vital workers who keep us healthy and safe.

State and local tax revenues are plummeting — Taxes make up [roughly half](#) of the money that state governments use to pay their employees and provide services to residents, and COVID-19 has caused a decline in general fund tax revenue in [every state](#). While each state relies on a slightly [different mix](#) of tax sources, so the downturn affects each of their budgets differently, some states, such as Massachusetts and Nevada, may see their tax revenues drop by more than a quarter next year.

Forty-one states and the District of Columbia collect **personal income taxes**, which represent [38 percent](#) of overall state tax revenue. As the nation's unemployment rate reached [levels](#) not seen since the Great Depression, many states saw personal income tax withholding collapse. As of June, year-to-date state income tax revenue is down nearly [\\$41 billion](#) (more than 10 percent) compared to a year earlier due to the economic downturn and a delay in income tax filing deadlines. The unemployment rate is not [expected](#) to fall below 6 percent until the second half of 2024, suggesting that income tax revenues will continue to be depressed for years to come.

Sales taxes are the next largest category, representing [31 percent](#) of overall state tax revenue. In most states without a personal income tax, like Florida or Texas, sales taxes represent more

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than half of the state's total tax revenue. Sales taxes tend to be [more stable](#) than other types of taxes, as spending on everyday items like food and clothing is relatively consistent. In fact, sales taxes had actually been [increasing](#) prior to the downturn as states began collecting taxes from certain online purchases following a recent Supreme Court [ruling](#). Of course, COVID-19 upended those trends. Widespread unemployment has forced families to stretch every dollar just to put food on the table and keep up with rent. This economic hardship, combined with stay-at-home orders, business closures, and voluntary individual actions to avoid exposure to the virus, led to a record drop in consumer spending – a [10 percent fall](#) (equivalent to a 34.6 percent annual rate of decline) in the second quarter of 2020 – and sales taxes tumbled as a result.

States rely on **gasoline taxes** to fund transportation and infrastructure projects. Telecommuting and distance learning reduced the number of people on the road driving to work or school, and travel restrictions and mandatory quarantines discouraged leisure travel. The resulting decline in demand for gasoline will lead to a projected [30 percent](#) loss in state transportation revenues over the next 18 months, according to the American Association of State Highway and Transportation Officials. Another trade organization estimated that [more than \\$8.5 billion](#) of road work in 14 states and 19 localities has already been canceled or delayed due to the pandemic. Similarly, state revenue from **severance taxes** – or taxes applied to materials “severed” from the ground, such as natural gas and oil – is [extremely volatile](#) and likely fell during the first few months of the pandemic due to the drop in oil prices.

While the COVID-19 recession has affected nearly every industry, the **tourism sector** may be among the hardest hit. Hotels generate about \$40 billion per year in revenue for state and local governments, but a recent [report](#) suggests that will fall significantly, by \$16.8 billion, in 2020 due to the recent drop in hotel occupancy. The casino and gaming industry paid about [\\$10 billion](#) in state and local taxes in 2019, but commercial gaming revenue fell by [79 percent](#) year-over-year in the second quarter of 2020 and tax revenue is likely to fall substantially as well. The state of Nevada alone *lost about* [\\$2 million per day](#) in gaming-related tax revenue while casinos were shut down.

State and local governments are facing new expenses related to COVID-19 — As tax revenues fall, states and localities also face new pandemic-related costs that will exacerbate budget shortfalls, such as those related to **reopening school buildings safely**. School districts that hold in-person classes may need to purchase additional cleaning supplies, develop new disinfecting protocols, reconfigure classrooms and shared spaces to facilitate social distancing, hire staff to monitor the health of students, and/or provide personal protective equipment for students and staff. The School Superintendents Association and Association of School Business Officials International estimate these expenses at about [\\$1.8 million](#) for the 2020-2021 school year in an average-sized school district, but costs could greatly exceed that amount in larger districts.

Even school districts that **offer classes online** may incur additional costs. School districts may need to invest in enhanced IT to facilitate online learning, or they may need to hire additional teachers to reach out to the [millions of children](#) who did not regularly participate in online learning in the spring. They may also need to provide support for the nearly [17 million](#) children who do not have high-speed internet at home and 7.3 million children who do not have access to a laptop, desktop, or tablet. Black and Latino households represent 35 percent of families with children, but nearly half (48 percent) of households without high-speed home internet. One study suggests that providing a computer and high-speed internet to every child would cost [\\$6.8 billion](#), but acknowledged that additional resources would be necessary to expand broadband infrastructure in rural areas where it does not currently exist.

These additional education costs come on top of **increasing demands for other services** that states and localities provide to their residents. Unemployment remains at historic highs, which means millions of Americans are likely to lose – or have already lost – their employer-sponsored health insurance. [Many of the newly unemployed may enroll in Medicaid](#), which is [already](#) most states' biggest expense after K-12 education. [Local governments](#) may also need to build capacity at county-supported hospitals to care for COVID-19 patients; provide temporary housing for individuals who need to be quarantined; serve meals to children and seniors when schools and senior centers are closed; enhance IT systems to support telework for employees; and increase other services as their communities respond to the twin public health and economic crises caused by COVID-19.

State and local governments need more federal aid now — The confluence of plunging tax revenues and increasing demand for services is creating budget gaps for state, local, and tribal governments that may exceed the [largest on record](#). Even the most prudent planning by states and localities is insufficient for a downturn of this magnitude; state rainy-day funds were at [record-high levels](#) after fiscal year 2019, but those reserve balances will not be enough. States received \$150 billion of direct assistance in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but about [three-quarters](#) of that funding has already been allocated.

The consequences of inaction – additional layoffs and slashed public services – will result in a deeper and more painful downturn. Experts from Moody's Analytics suggested that without additional aid, state and local budget shortfalls would create a [drag on the nation's recovery](#); GDP would be reduced by more than three percentage points and more than four million jobs would be lost. Another study from the [Economic Policy Institute](#) found that without additional aid, 5.3 million Americans would likely lose their jobs by the end of 2021.

That is why the House passed **the Heroes Act**: urgently needed legislation to protect the lives and livelihoods of the American people. The Heroes Act provides nearly \$1 trillion in new [State and Local Coronavirus Relief Funds](#) to help first responders, frontline health workers, transit employees, teachers, and other workers providing vital services. States, localities, and tribes can use these funds for COVID-related expenses or to fill critical budget needs. In contrast,

Senate Republicans' latest bill contains *no* new aid for state and local governments. House Democrats will continue to fight for comprehensive legislation to meet this moment, heal our economies, and keep our state and local communities moving forward.