

The State and Local Sector during the Pandemic

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Three Big Questions

Basic story of the pandemic: Revenues did quite well, state and local governments got tons of federal aid, yet employment fell sharply and remains well below pandemic levels today

- Why did revenues hold up so well and why were projections so wrong?
- Given strong revenues and about \$1 trillion in aid, why is employment in the sector so weak?
- What are S&L governments doing with all the aid they have received?

State and Local Revenues

- In spring of 2020, analysts projected S&L revenues losses of up to \$900 billion over two years
- In fact, revenues in 2020 and 2021 combined actually exceeded reasonable pre-pandemic projections

	Revenue Losses Relative to Counterfactual 4% Growth (billions)	
	FY2020	FY2021
<i>Total current tax receipts</i>	-71.0	145.0
<i>Personal Income taxes</i>	-38.0	70.0
<i>Sales taxes</i>	-20.0	6.0
<i>Property taxes</i>	-4.0	44.0
<i>Taxes on corporate income</i>	-9.0	25.0

Source: Census Bureau, Quarterly Summary of State and Local Tax Revenue

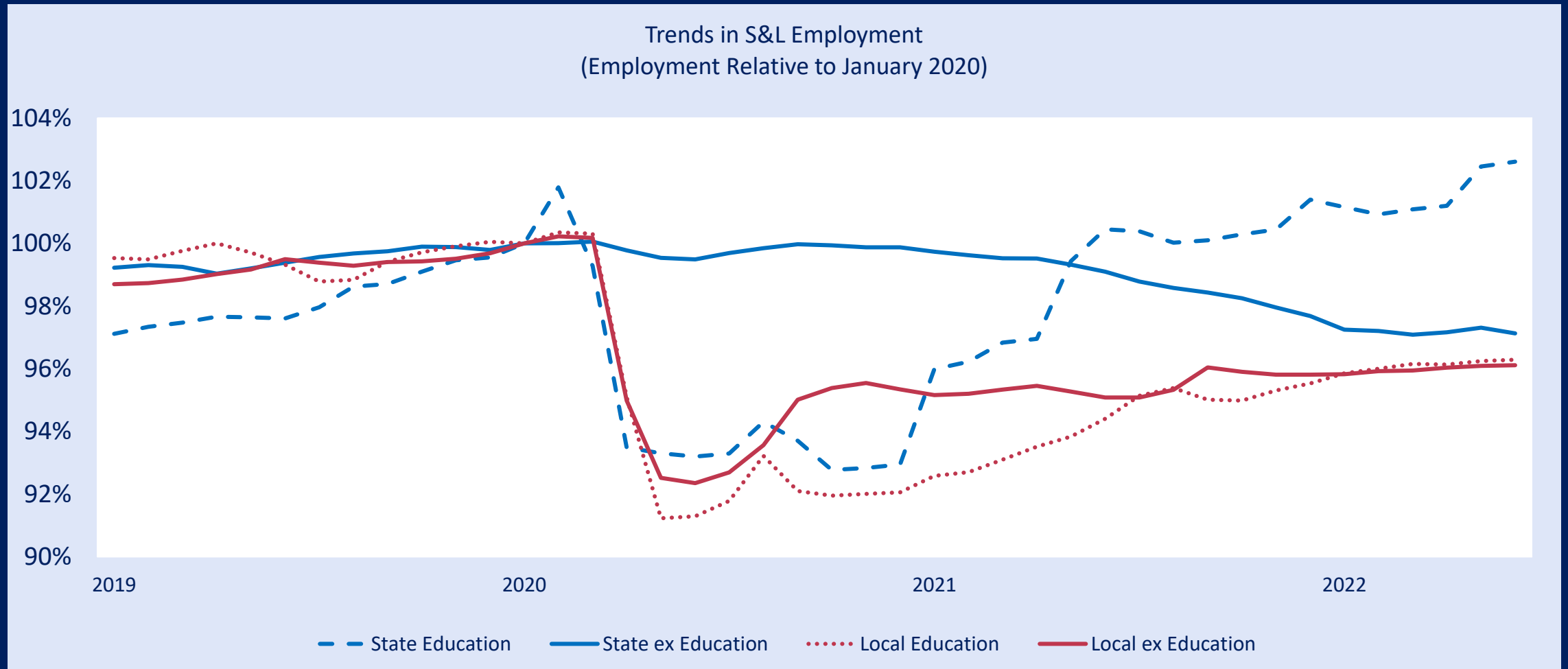
Why Were Revenue Projections so Wrong?

- Economic recovery was much stronger and faster than had been expected, so revenue losses much lower.
 - Using historical rules of thumb and actual economic performance, predicted revenue losses would have been far smaller, although still larger than actual losses
- Unprecedented fiscal response
 - UI and checks bolstered household finances keeping consumption and housing market stronger than would have been expected (sales taxes, property tax)
 - UI actually taxable income in most states (although much ultimately forgiven)
- Stock market usually tumbles in recession—not so in the pandemic (capital gains taxes)
- Unemployment unusually concentrated among low-wage workers. So income loss for any given level of unemployment lower.

Massive Aid to State and Local Governments

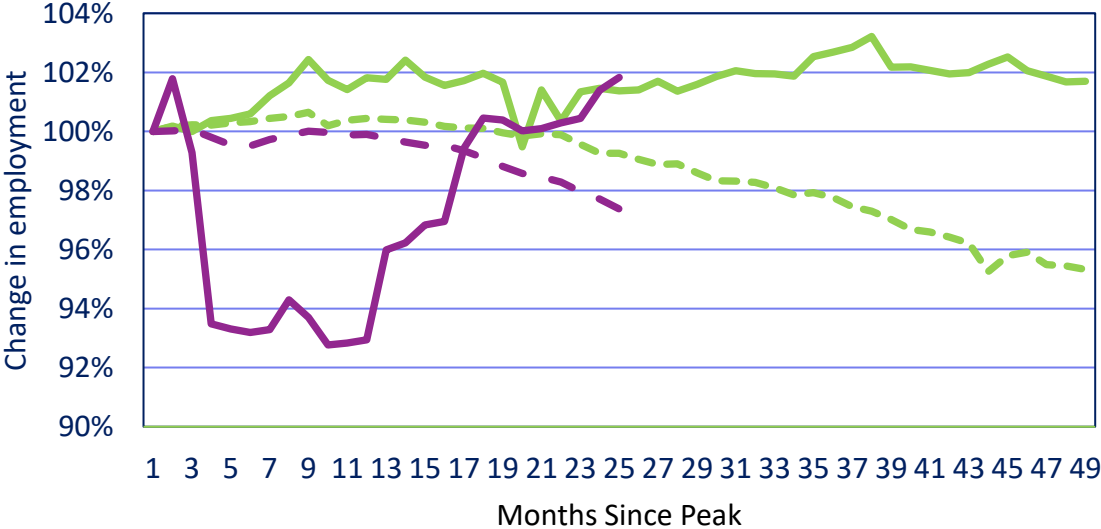
	Families First Coronavirus Response Act (March 18, 2020)	CARES Act (March 27, 2020)	Consolidated Appropriation s Act, 2021 (December 27, 2020)	American Rescue Plan (March 11, 2021)	Total
Total	\$105 b	\$250 b	\$99 b	\$542 b	\$996 b
General Aid	\$100	\$150		\$350	\$600
Coronavirus Relief Fund		\$150			\$150
Coronavirus State and Local Fiscal Recovery Funds				\$350	\$350
Enhanced Medicaid Matching Rate ^a	\$100				\$100
Targeted Aid	\$5	\$100	\$99	\$192	\$396
Aid for Unemployment Insurance					
Administrative Expenses	\$5	\$12			\$16
Aid to K-12		\$17	\$56	\$123	\$195
Aid to Public Institutions of Higher Education ^b		\$12	\$19	\$35	\$66
Aid to Health Providers ^b		\$35	\$1	\$2	\$37
Aid to Transit Agencies and Transportation Infrastructure Grants		\$25	\$24	\$33	\$81

And Yet Employment Well Below Pre-Pandemic Levels except for State Education



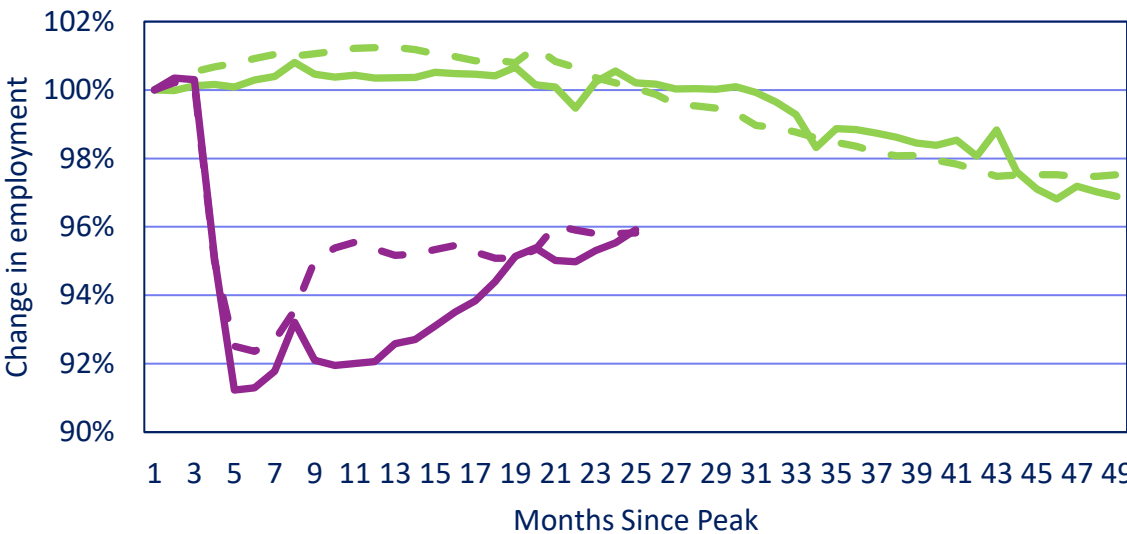
Much Quicker Downturn Compared to Great Recession

A. State Government Employment



— Great Recession Education - - - Great Recession Ex Education
— Pandemic Education - - - Pandemic Ex Education

B. Local Government Employment



— Great Recession Education - - - Great Recession Ex Education
— Pandemic Education - - - Pandemic Ex Education

Why Did Employment Fall So Much?

- Huge declines in employment in spring of 2020 in large part reflected pandemic shutdowns and move to virtual– bus drivers, cafeteria workers, office workers, etc. not needed
- In addition, some evidence from the literature that money mattered at the beginning of the pandemic, but I would say not overwhelmingly strong.
- Some evidence that giving money directly to cities and counties, instead of just to states, helped maintain employment in the spring of 2020.
 - First \$150 billion in aid to states and 17 local governments (population > 500,000).
 - Second round \$350 billion of general aid in the ARP went to thousands of local governments.

Looking at Variation Across the States to Understand Employment Changes

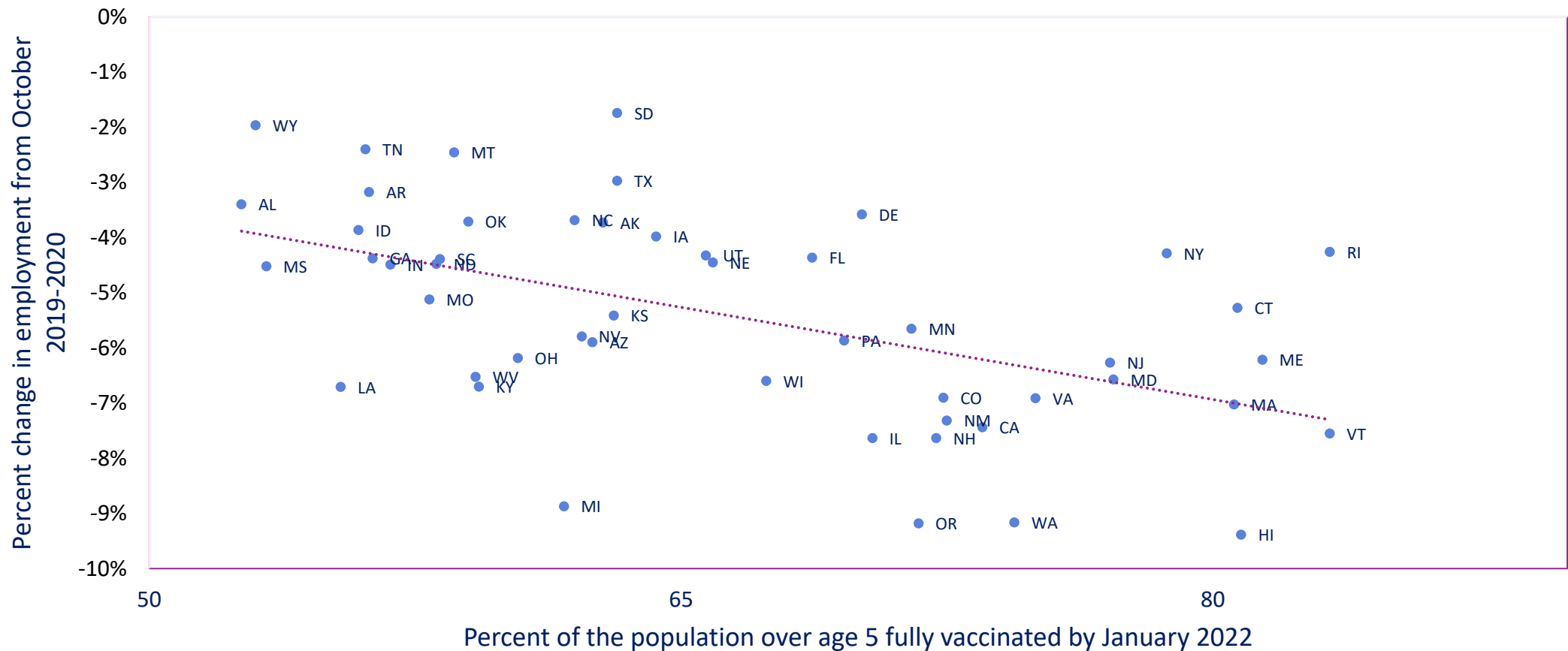
Factors that did not explain variation:

- Expected revenue losses, measure of shutdowns and school closings, COVID case and death rates, employment or revenue losses during the Great Recession.

Factors that did:

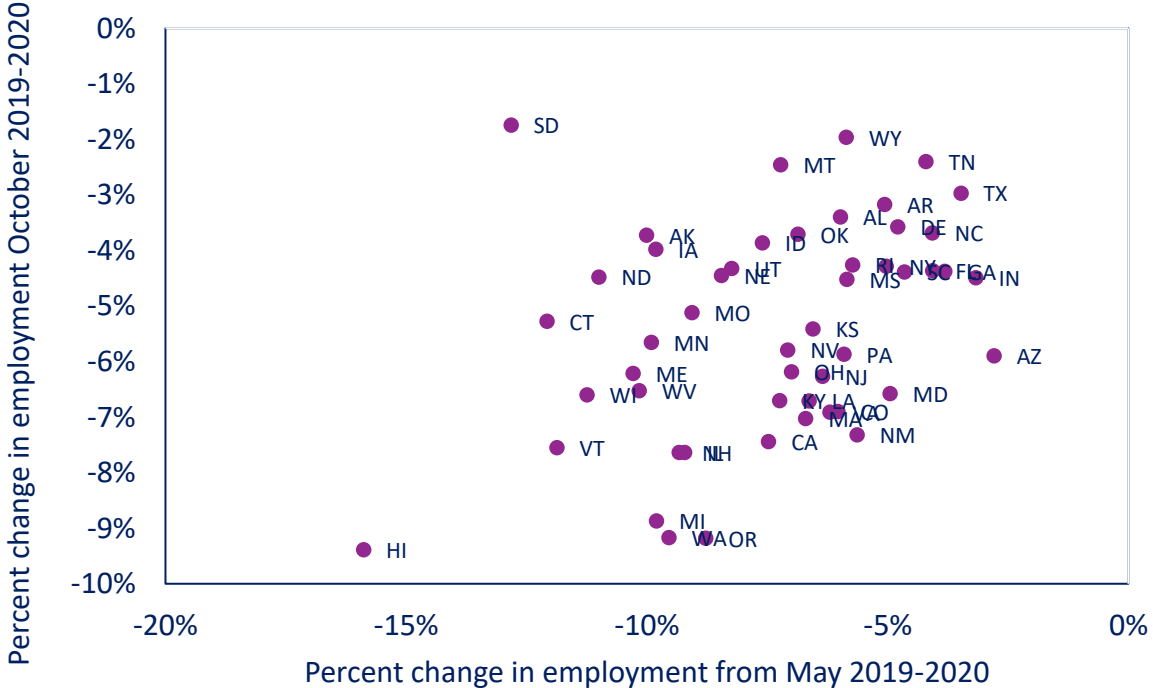
- States that imposed hiring freezes had slower employment growth
- Localities more dependent on states for K-12 financing had bigger education employment losses
- States that were more COVID-averse, as measured by vaccination rates, had slower recovery in employment

States with Higher Vaccination Rates had Larger Employment Losses

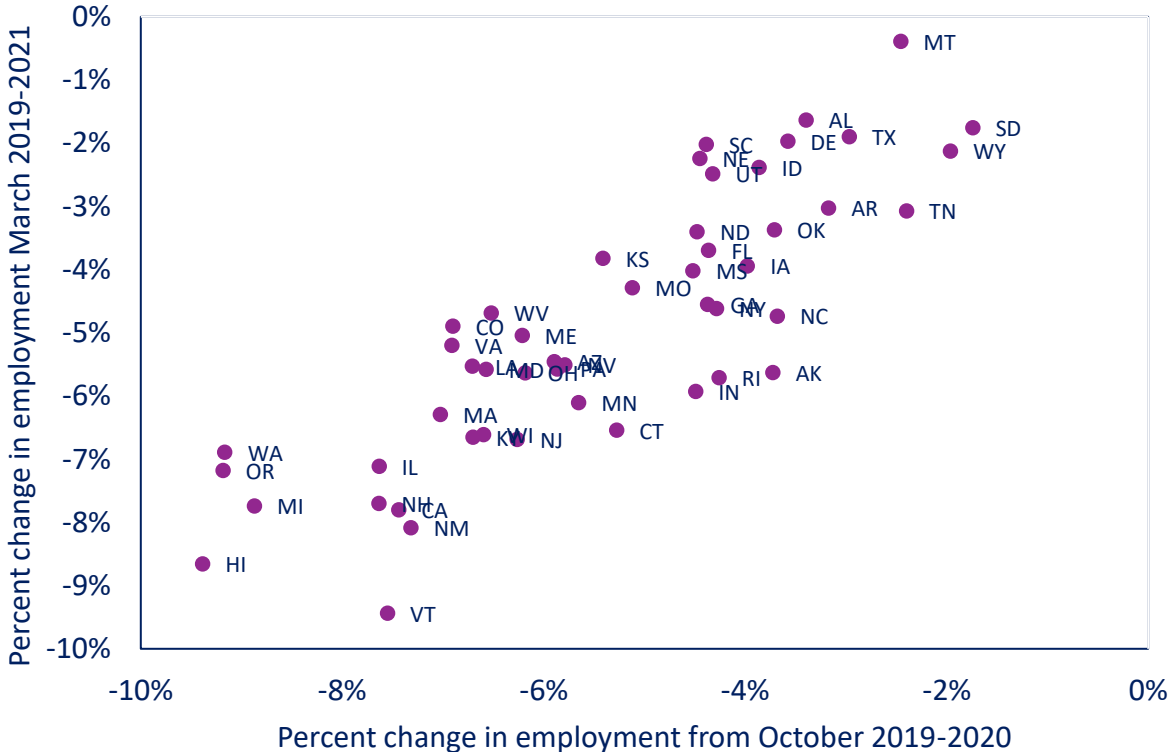


State employment deficits in spring 2020 not that predictive of later deficits—but by fall of 2020, pattern across states pretty constant

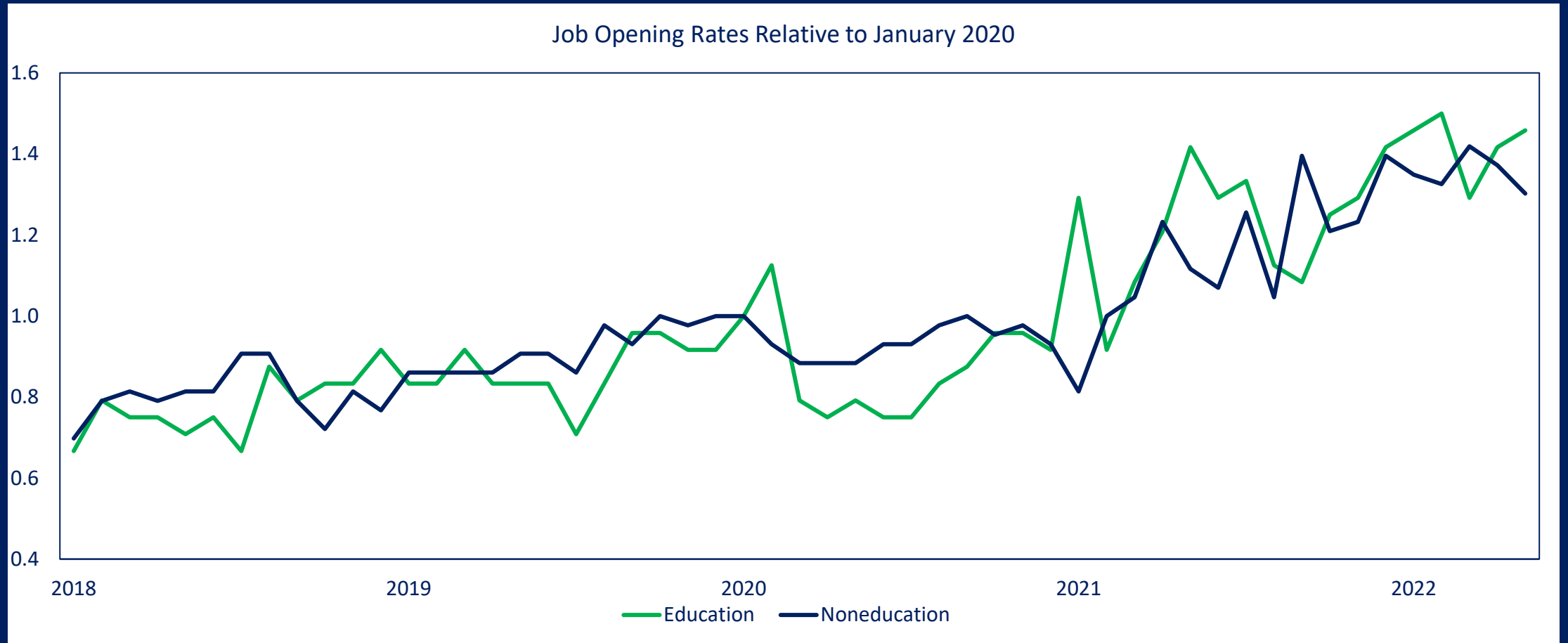
A. Spring 2020 vs. Fall 2020



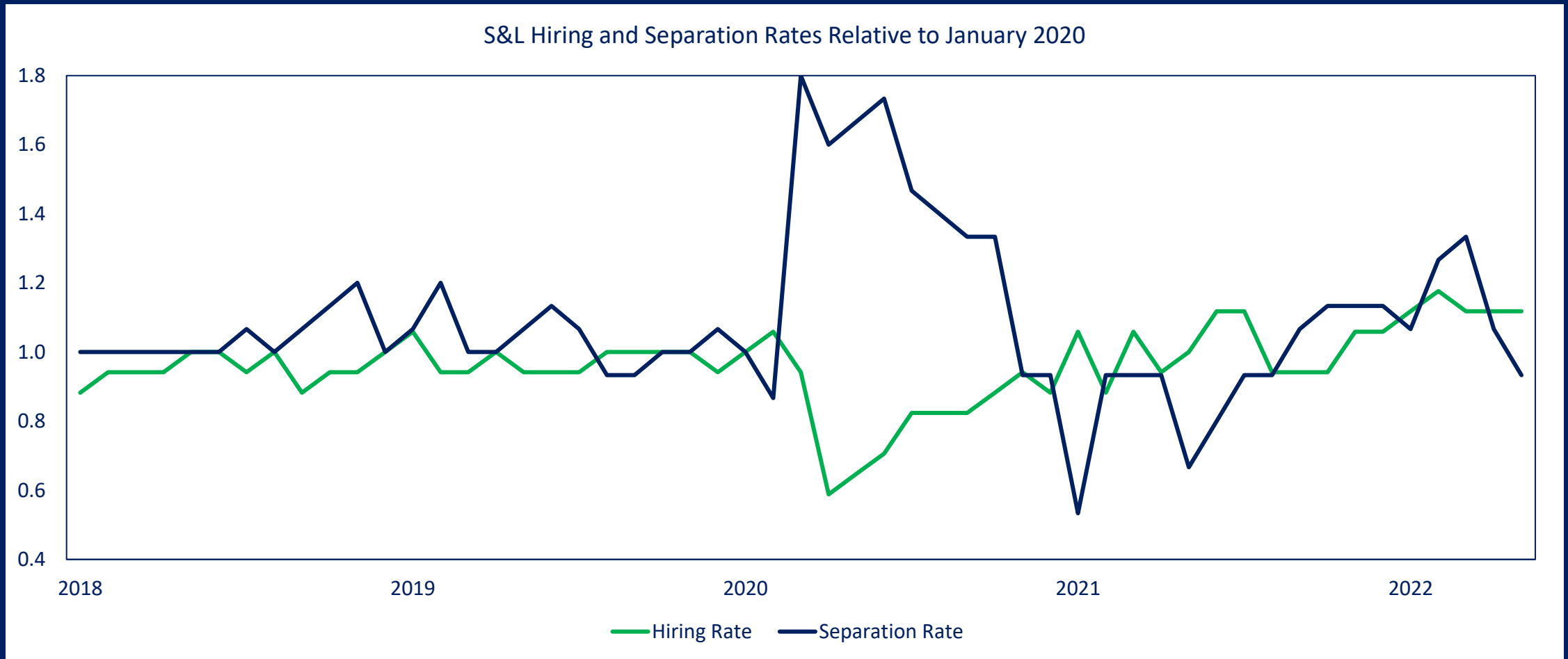
B. Fall 2020 vs. Spring 2021



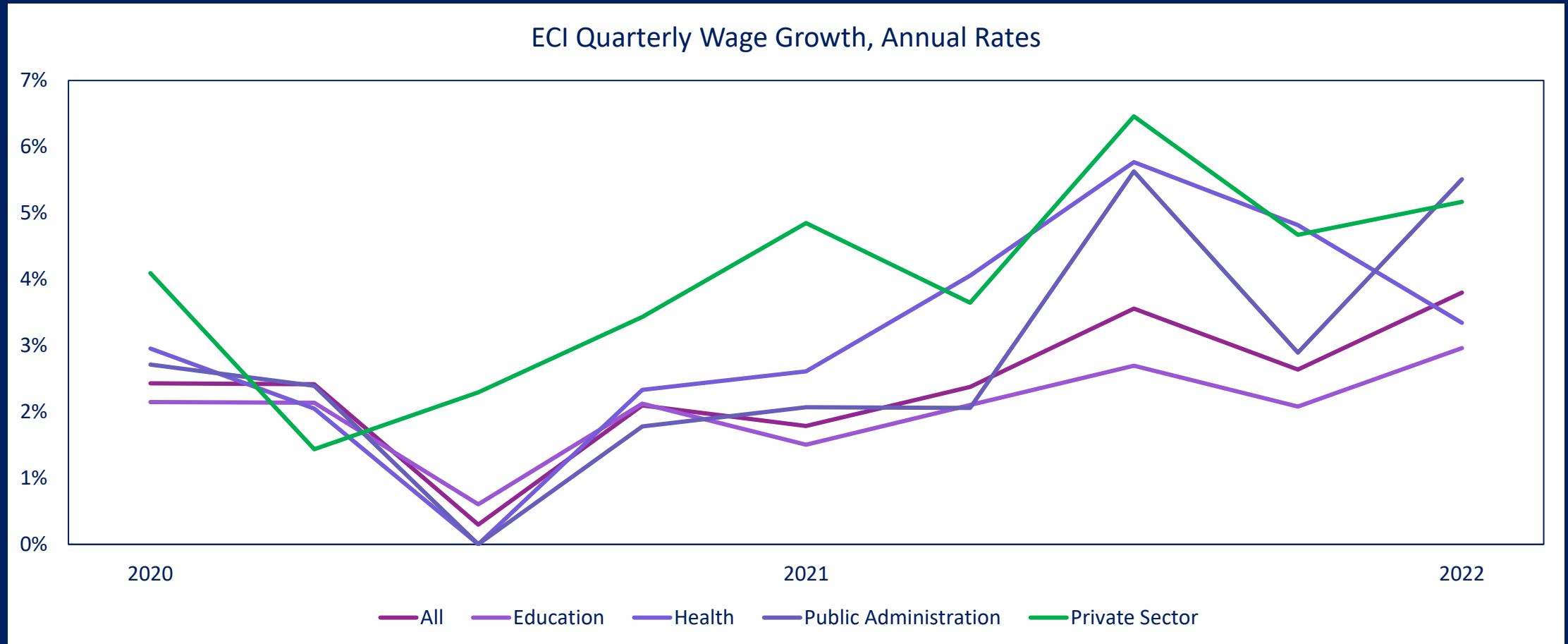
S&L Governments do Want to Hire



Recently, Hiring has Increased but So Have Separations (Driven by Quits)



S&L Pay Rising, but not Keeping Up with Private Sector



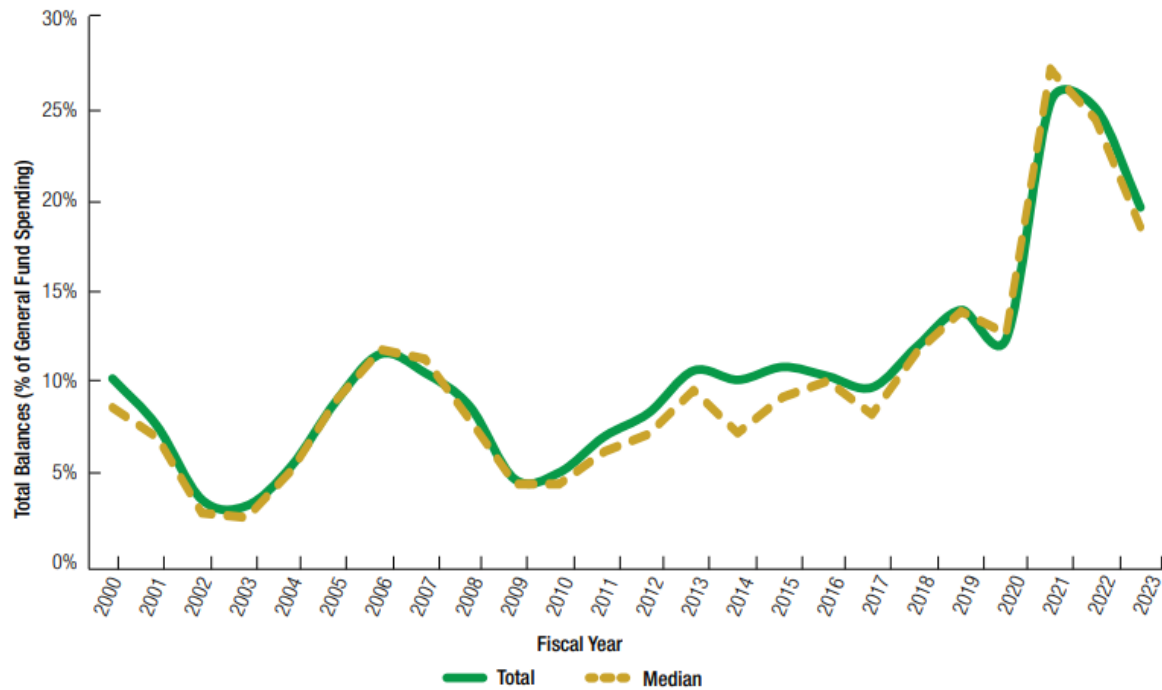
What Are States Doing with the Money?

- No official data yet except for state governments for FY 2020 (ending June 2020 for most states.) Lack of timely data a huge problem for this sector.
- National Association of State Budget Officers surveys states (not local governments) but states vary in how they classify UI spending, making total spending hard to interpret.
- Still, NASBO shows sharp increases for K-12 education and public assistance in 2021.
- Overall spending excluding other (which contains some UI but also some pandemic-specific spending) increased about 5% in FY 2020 and 10% in FY 2021.
 - BEA data on spending looks much softer– will be revised once they have Census data – could mean GDP has been underestimated.
- States are considering tax cuts, but these don't appear to be that large
 - Mid-year state tax cuts in FY2021 amounted to \$1.4 billion.
 - 2023 Proposed tax cuts of \$15 billion, or about 1.3% of general revenue.

States have saved a lot of the money
(And some of it might be sitting in local coffers as well)

FIGURE 5:

Total Balances as a Percentage of Expenditures, Fiscal 2000 to Fiscal 2023



Source: National Association of State Budget Officers, Fiscal Survey of States, Spring 2022