
FISCAL UPDATE Article

Fiscal Services Division

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NCSL COVID-19 WEBINAR — FISCAL AND ECONOMIC ISSUES

Webinar Series. On March 27, 2020, the National Conference of State Legislatures (NCSL) held a webinar related to fiscal and economic issues surrounding the COVID-19 outbreak in the United States. The information in this article is current as of the date of the webinar. The webinar is posted on the NCSL's [website](#).

Coronavirus Aid, Relief, and Economic Security (CARES) Act. The federal CARES Act provides over \$2.0 trillion in stimulus funding. The categories of funding are summarized below. It should be noted that many of the details of the provisions in the Act are forthcoming.

- \$532.0 billion for big businesses, local government loans, and financial assistance. This includes \$61.0 billion in assistance specifically to the airline industry.
- \$377.0 billion for small business loans and grants.
- \$290.0 billion for direct payments to families.
- \$290.0 billion for tax reductions.
- \$260.0 billion for the expansion of unemployment benefits.
- \$150.0 billion for allocation to states, territories, and local and tribal governments.
- \$126.0 billion for hospital restitution, veterans, and other health care.
- \$45.0 billion for the Federal Emergency Management Agency (FEMA).
- \$31.0 billion for education stabilization.
- \$27.0 billion for vaccines and stockpiles.
- \$25.0 billion for infrastructure.

The primary focus of the webinar, with regard to the federal legislation, relates to the \$150.000 billion allocation to states, territories, and local and tribal governments. The Act directs these funds to cover expenditures incurred due to the public health emergency relating to COVID-19 in the face of anticipated revenue declines. The funds are allocated to the state based on population, with no state receiving less than \$1.250 billion. Additionally, of the funds allocated to states, 45.0% are set aside for local governments with populations of at least 500,000.

The funds can be used for the following:

- To cover expenditures incurred due to COVID-19.
- For costs not accounted for in approved budgets prior to the outbreak.
- To cover costs incurred for the period of March 1, 2020, to December 31, 2020.

On March 30, 2020, the NCSL learned from the United States Department of the Treasury that for states that do not have local governments with populations of at least 500,000, such as Iowa, the 45.0% local allocation will revert back to the respective state to be used at the state's discretion. Furthermore, it is anticipated the federal stimulus funds will be transferred directly to states' general funds.

In addition to the \$150.0 billion discussed above, states are expected to receive assistance through other programs in the Act. These include:

- \$45.0 billion for the Disaster Relief Fund for the immediate needs of state, local, tribal, and territorial governments to protect citizens and help them recover from the effects of COVID-19.

- \$30.0 billion for an Education Stabilization Fund for states, school districts, and institutions of higher education for costs related to COVID-19.
- \$4.3 billion for the Centers for Disease Control and Prevention to support federal, state, and local public health agencies to prevent, prepare for, and respond to COVID-19.

State Fiscal Implications. As of March 27, 2020:

- Nine states have enacted supplemental appropriations.
- Nineteen states have legislation with supplemental appropriations pending
- Five states have authorized transferring funds from budget stabilization accounts, while four are awaiting governor approval.
- Other states have created special funds or have drawn on other emergency and reserve funds.

Many states are scheduled to revise their official estimates in April or May and expect a significant reduction to FY 2020 and FY 2021 budgets. States that rely on oil and tourism are especially vulnerable to the economic crisis. Tax deadline changes recently implemented in many states will delay revenue collections for FY 2020. The economic impact on some of the specific states mentioned by the NCSL include:

- Vermont is expecting a 15.0% to 17.0% revenue reduction for FY 2020.
- California is anticipating a large tax revenue reduction due to reduced capital gains.
- Colorado is expecting a \$900.0 million budget shortfall.
- Hawaii expects a \$340.0 million budget shortfall.

The COVID-19 Economy — Moody's Analytics. Dan White, an economist with Moody's Analytics, presented information on the economic impact of the COVID-19 pandemic. Mr. White stated that the abrupt economic downturn due the COVID-19 epidemic has never been experienced and has come after the longest economic expansion in history. Because of this, economists are having a difficult time evaluating the economic impact. Prior to the COVID-19 pandemic, Moody's did not anticipate a recession in the immediate future. Below is a summary of the highlights that were presented by Mr. White on the economic impact of COVID-19:

- All states will be negatively impacted by the COVID-19 crisis. Large metropolitan areas will be affected more severely than less densely populated areas.
- Almost every country around the world will go into a recession sometime in 2020 or 2021. This will not be a typical recession, in which there is more supply than demand. This recession will result because people's demand for goods and services cannot take place or in many cases cannot legally take place.
- The industries impacted the most will be those involved in trade, commodities, tourism and hospitality, and energy.
- Unemployment claims rose to over 3.0 million during the week of March 21, 2020, which is unprecedented. This will put significant stress on many states' unemployment trust funds.
- Most states were well prepared to weather a moderate recession based on Moody's fall 2019 stress testing.
- On average, most states will experience a 10.0% loss in General Fund revenue and increased expenses of another 2.0% to 5.0% for programs such as Medicaid.
- The impact to state budgets could be a reduction of 15.0% to 25.0%.
- Epidemiological assumptions for when COVID-19 cases peak will largely determine how soon the economy begins to improve. Using Moody's moderate baseline forecast, in which COVID-19 cases peak in mid-May, economic activity could start to improve in June. However, there is a lot of uncertainty with these forecasts.

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