

Providing Fiscal Relief to States In Response to COVID-19

The spread of COVID-19 has unleashed a health and economic crisis of unprecedented scope. As millions of workers lose their jobs, states revenues from income and sales taxes will also decline. At the same time, states are spending more to provide essential services and administer support to struggling families during the pandemic. This means that states will be facing tremendous budget shortfalls for the remainder of this fiscal year, and the next several.

While the federal government provided some funds to states in its initial response to COVID-19, it must do more to mitigate the economic devastation from COVID-19 and ensure an equitable recovery.

States Provide Essential Services, Administer Programs and Benefits that Women and their Families Rely On, and Employ Millions

States provide funding for and administer many critical programs and services that women and families rely on, including Medicaid, unemployment insurance, public education, and child care assistance, just to name a few. In addition, states employ nearly 7 million workers, including law enforcement, first responders and other public safety workers, agency employees and administrators, and teachers and other school staff. Women are 60 percent of state government employees overall (and almost 22 percent of state employees are women of color).¹

States Are Facing Significant Revenue Losses Coupled with Cost Increases

States are experiencing significant revenue losses, and [anticipate more](#). Increased unemployment has caused state revenues from income taxes to decline, and unemployment rates are expected to [remain high through 2021](#). Similarly, state sales tax revenues have plummeted, with many families' incomes reduced, businesses shuttered, and stay-at-home orders in place. [Current projections estimate](#) that the COVID-19 pandemic will cause many states to lose hundreds of millions, and in some cases billions, of projected revenue.

At the same time, states are confronting cost increases as they respond to the public health crisis and economic downturn caused by the novel coronavirus. States are [facing increased costs](#) – for example, to pay doctors, nurses, and health staff working longer hours, to provide protective personal equipment, and to ensure heightened cleaning protocols. In addition, states face increased costs for responding to the economic crisis unleashed by COVID-19. Just as one example, states contribute to unemployment insurance funds and administer benefits, and the spike in unemployment has augmented those costs.

States are also responsible for other services and programs that economically distressed residents rely on.

Decreased revenues combined with increased costs means that states will have significant budget shortfalls. Analysts estimate [a total state budget shortfall of nearly \\$650 billion](#) for the rest of fiscal year (FY) 2020 through FY 2022. Some states have already tapped into [rainy day funds](#) or supplemental budget funding.

Since most states are [required to balance their budgets](#), even during a recession, they will be forced to cut important public programs, lay off their own workforce, or reduce essential services when they are needed the most, without federal relief.

State Fiscal Relief Is a Proven Antirecessionary Tool

During the Great Recession, state tax revenues [declined by more than \\$120 billion](#) between 2008 and 2009. The American Recovery and Reinvestment Act of 2009 (ARRA) provided states with about \$140 billion in relief, which helped [close between 30 and 40 percent](#) of state budget shortfalls. These funds prevented devastating cuts to programs and services – and helped reduce the impact of the recession.

The ARRA funding allowed states to [avoid cuts to vital health and education services](#). For example, in Virginia, ARRA funds prevented the loss of approximately 13,000 non-teaching school personnel jobs and provided crucial support to Virginia's public colleges and universities, reducing the need for tuition increases. In New York, ARRA funds prevented \$1 billion in cuts to health care spending and allowed the state to roll back a proposed \$1.1 billion cut to funding for K-12 education.

In addition, research demonstrated that the portion of ARRA relief funds that increased the federal government's share of Medicaid costs [had a positive effect on employment](#), mitigating job losses triggered by the recession.

State Fiscal Relief Is a Proven Antirecessionary Tool

The Coronavirus Aid, Relief, and Economic Security (CARES) Act recently passed by Congress provides some funds to states. For example:

- **Coronavirus Relief Fund:** Congress allocated \$150 billion to the [Coronavirus Relief Fund](#) (CRF) which will be directed to states, local governments, and tribes. These funds can be used for unanticipated

but necessary expenditures incurred between March 1 and December 30, 2020 due to the coronavirus public health emergency. CRF funds may only be used for costs directly related to the coronavirus response, such as emergency housing expenditures due to COVID-19, but they cannot be used for increased spending for unemployment insurance or Medicaid (for example).

- **Education Stabilization Fund:** The CARES Act allocated \$30.75 billion to states in the [Education Stabilization Fund](#) to support K-12 and higher education systems, but this funding is not nearly enough [to ensure states are able to continue to provide educational services](#) to students.
- **Modest Increase in Child Care Funding:** The CARES Act increased funding for the Child Care and Development Block Grant (CCDBG), a federal funding source that is administered by states, by \$3.5 billion. However, [estimates show](#) that investments of at least \$9.6 billion *per month* are required to stabilize the child care system and ensure it survives the pandemic.
- **Modest Additional Housing Funding:** The CARES Act provided an additional [\\$5 billion in Community Development Block Grants](#) to state, local, tribal, and territorial governments that can fund housing assistance payments, emergency public housing maintenance, and acquiring hotels and motels for COVID-19 patient treatment and isolation. It also provided \$4 billion in Emergency Services Grants for homeless assistance including street outreach, shelter operations and administration, and rapid re-housing. While these provide important down payments, estimates show that at least [\\$11.5 billion more in ESG](#) funding is needed for people experiencing homelessness and at least [\\$100 billion in emergency rental assistance](#) to prevent mass evictions and an increase in homelessness.

Additional Investments Are Needed to Address the Public Health Crisis and Mitigate a Recession.

Congress should take the following measures to stabilize state governments and ensure they can provide [health coverage](#), continue essential services, and prevent layoffs:

- **Increase FMAP** an additional 15 percentage points to ensure states' capacity to provide widespread testing and treatment for COVID-19, cover all other COVID-19 expenses and increase

Medicaid enrollment. This FMAP increase should begin immediately and remain in place throughout the economic recession.

- **Increase the Medicaid expansion match** to 100% throughout the public health emergency.
- Require the federally-run exchanges to **open a special enrollment period**. States should ensure that insurers waive cost sharing for covid-19 treatment and provide free cost vaccine when available.
- **Provide at least \$50 billion in total funding dedicated to child care** to provide relief for providers, educators, and families. [This funding must be](#) flexible enough to allow states to address new and emerging needs in the child care sector, and to rebuild a better child care system.
- Provide [additional educational investments](#) including at least \$75 billion for K-12 schools, \$50 billion for universities and colleges and a \$2 billion investment in the Federal Communication Commission's E-rate program to provide internet access to schoolchildren in families struggling to make ends meet and facilitate e-learning.
- Provide additional **housing assistance**, including at least \$11.5 billion in Emergency Solutions Grants to help people experiencing homelessness and \$100 billion in emergency rental assistance.
- The Treasury Department should interpret the language of the CARES Act to allow **maximum flexibility** to states in spending the Coronavirus Relief Fund. The scope of this funding should include *both* needs directly related to the public health emergency and the subsequent economic downturn.
- Offer significant **state fiscal relief** of at least \$700 billion. Congress should provide funds to states in the form of grants to allow state governments to meet the needs of their citizens as they face increases in costs related to the coronavirus and the subsequent economic recession, and simultaneous decreases in state revenue streams.
 - o States should have flexibility in using these funds to address both needs directly related to the coronavirus pandemic *and* the evolving economic crisis, as well as any other responses deemed necessary to

forestall layoffs of public sector employees. States should also be able to use the funds to fill budget shortfalls that might otherwise precipitate program and service cuts.

- o States should be directed to utilize this funding to provide aid to low-income families and historically-marginalized populations, including female-headed households, LGBTQ people, people of color, seniors, people with disabilities, immigrants, survivors of domestic violence or sexual assault, and people experiencing homelessness or housing instability.
- Congress should also allocate additional **funds to local governments**, who face similar revenue losses to states. Particularly, this funding should be targeted at local transit systems and other local public services that are experiencing drastic revenue decreases.

Conclusion

Without timely, substantial and flexible federal fiscal relief, states will be forced to make draconian budget cuts at a time when the need for essential programs and services is most acute. It is imperative for policymakers to ensure that future coronavirus response legislation includes robust funding for states that permits them to meet increased costs and offset lost revenues, to best serve their residents and mitigate the economic downturn.

¹ NWLC calculations based on U.S. Census Bureau, 2019 Current Population Survey, available at <https://www.census.gov/programs-surveys/cps.html>.