AFSCME Facts

Fiscal Stabilization for State and Local Governments
March 20, 2020

- The rapid and unprecedented economic downturn will destabilize state and local government finances. For example, New York State Comptroller Thomas DiNapoli already projects next fiscal year's projected state revenue to be 4% to 8% below forecasts.

- The American Recovery and Reinvestment Act, signed into law in March 2009, provided $280 billion in assistance to state and local governments. Much of the state fiscal relief funding was for Federal Medical Assistance Percentages (FMAP), a Medicaid grant, but that can have limited impact below the state level. The FMAP funding was accompanied by Title I education funding, which provided direct relief for school districts. The lion's share of ARRA assistance was designed to combat unemployment in the general economy – a typical and appropriate focus in a recession.

- But this downturn is very different; the catalyst is the biggest public health emergency in a century. It may not be possible to address unemployment in the transportation, hospitality and retail sectors when people can't leave their homes. Workers need economic support, but it will be impossible to restore their jobs until the health crisis wanes. Hospitality and retail account for about 8% of the economy. Services generally are two-thirds of the economy – we'll see steep declines throughout those sectors and in transportation. The effects of social distancing will ripple throughout the supply chain to American firms that manufacture consumer goods, including durable goods like autos and appliances, with further impact on their suppliers. We are facing unprecedented circumstances. Even if people have money in their pockets, they can't spend it in time for it to have its desired effect; yet they will need this support to pay food, rent and other essential living expenses.

- **We've got to go beyond FMAP to create a robust general assistance grant program to states and municipalities.** We support the proposed assistance to workers and businesses affected by the pandemic. However, there must also be a focus on direct assistance to states and cities so they can maintain services. During the Great Recession, state and local government own source revenues declined by over $150 billion. This revenue loss occurred at the same time as demand for services spiked. Although an enhanced FMAP is helpful, it is an insufficient response and does little to help local governments. In addition to the proposed increase in FMAP, we recommend that the federal government provide each state with a grant equal to 7% of combined state and local government own source revenue collected in the fiscal year ending in 2019. Each state's allocation would then be shared on a proportionate basis with local governments. <u>We estimate that $175 billion will be necessary to provide this assistance.</u>

- **We also need the Federal Reserve to step up.** Congress should authorize and require the Federal Reserve to buy non-federal municipal notes to target interest rates at the Federal Funds rate (currently zero). Problems in the municipal bond market, where interest rates are rapidly rising and some issuers have cancelled sales, are an under-reported challenge associated with the pandemic. The Federal Reserve has stepped in to support federally issued Treasury Bonds, but there is no such support for state and local bonds. There is some congressional interest to address this by requiring the Fed to support the muni market in much the same way it is supporting federal bond issues.