US state and local budget crisis looms

By Jessica Goldstein
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US local and state governments are reopening the economy as the pandemic continues to spread, although mass testing for COVID-19 and contact tracing programs are absent. At the same time, new state and local budget projections for the coming fiscal year paint an even grimmer picture than what was expected at the beginning of the month.

The Center on Budget Policy and Priorities (CBPP) has reported a 25 percent decline in revenues for some states in April alone. The CBPP now predicts that US state budget shortfalls will reach $765 billion over the next three years due to the economic impact of the COVID-19 pandemic. The report points out the strong relationship between unemployment rates and shortfalls in state budgets, which are critical for providing health care, housing, education, infrastructure and social welfare programs.

According to CBPP, several states have already predicted major reductions in revenue for 2020, including Massachusetts ($4.5 billion, or 15 percent of the state budget); Michigan ($3.2 billion, or 13 percent); and Utah ($1.4 billion, or 18 percent). For the next two years, some states are projecting even steeper drops, such as California ($32 billion in 2021, or 21 percent of its state budget); New York state ($12 billion in 2021 and $16 billion in 2022, or 14 and 17 percent of its annual budget); and Colorado ($3.2 billion in 2021 and $4 billion in 2022, 24 and 17 percent of its annual budgets, respectively).

Hawaii, whose economy will be devastated by the impact of the pandemic on the tourism industry, is expected to see revenues drop by up to $2 billion, or 25 percent, in 2021. New Mexico, with the second highest poverty rate in the US at 19.7 percent, is projected to see revenues drop by $2.4 billion, or 30 percent in 2021, and up to $2.5 billion, or 31 percent, in 2022. Its economy relies heavily on energy extraction and mining, two industries particularly hard hit worldwide by the current economic crisis.

According to the report, the Congressional Budget Office predicts that unemployment in the US will peak at 15.8 percent in the third quarter of this year and remain 8.6 percent through the end of 2021. Goldman Sachs predicts a peak of 25 percent unemployment in the third quarter of 2020, a level unseen since the depths of the Great Depression in the 1930s, with a drop to 8.2 percent at the end of 2021.

The cuts themselves will inevitably lead to more layoffs as state and local governments shed vital positions, including teachers, firefighters, health care workers, municipal utility and other workers. It is estimated that state and local governments employ one out of every eight workers in the US.

State and local governments barely recovered the jobs shed in the aftermath of the recession of 2007-2009, in which the Federal Reserve implemented the policy of quantitative easing to prop up the big banks and corporations responsible for the Wall Street crash, offloading the consequences of their crimes onto the working class in the US and worldwide.

Federal Reserve Chairman Jerome Powell expressed fears that cuts made at the state and local level today would take years to recoup, if ever, after the pandemic subsides. “We have the evidence of the global financial crisis and the years afterward where state and local government layoffs and lack of hiring did weigh on economic growth,” he told the Senate Banking Committee last week.

High unemployment rates mean that income taxes are falling fast and will continue to do so. Income and property tax collection has been delayed across many parts of the US as well. Funds from charges and fees like highway tolls, business licenses and court, recreation facility and library fees are also falling as incomes drop and travel is restricted.

The Center for American Progress (CAP), a

Washington, DC-based public policy think tank, outlined the need for immediate federal assistance to local governments across the US in order to avoid mass furloughs and layoffs of workers, many of whom will be needed to fight the pandemic. It revealed that anywhere from 300,000 to 900,000 local government workers could face pay cuts or be furloughed or laid off in the coming year if federal aid continues to be withheld.

According to the report, 88 percent of US cities can expect revenue shortfalls this year, with that number increasing to 98 percent for cities with populations between 50,000 and 500,000. The impact on local governments is especially severe because they receive around 35 to 40 percent of revenue through intergovernmental transfers, meaning they rely heavily on funding from the state budgets, which are also seeking to make major cuts with vast budget shortfalls of their own.

Counties with populations over 500,000 could lose more than $70 billion combined in the 2020-2021 year, while counties with populations between 50,000 and 500,000 will lose more than $30 billion, and those with populations under 50,000 could lose around $10 billion while staring down an additional $10 billion in increased expenditures due to the pandemic.

Unlike the federal government, state governments are required to balance their budgets. Not a single prominent Democratic governor or mayor has so much as suggested increased taxes on corporations and the rich. Instead, state administrations run by both parties will impose massive cuts.

State and local governments will find themselves in a downward spiral, becoming even more cash-strapped, in the likely event that the pandemic enters a second wave in the coming weeks and months, after millions of people become exposed and contract the virus after having been forced back to work to produce more profits for the corporations and banks.

The CAP report also points to a disparity in the effects of budget shortfalls in higher-income versus lower-income, predominantly working class, areas, where property tax revenues make up a much lower portion of budget revenues. It predicts that state governments will attempt to make up revenue losses with increased fines, taxes and fees on residents who are already struggling to make ends meet after losing jobs, income and benefits in the course of the pandemic.

State education budgets are expected to suffer even more drastic cuts than in the decade after the 2008 financial crisis. Public schools in the US rely on state funding for nearly half of their budgets. With a 15 percent cut to state budgets for schools and education in the next year, the amount expected by the Learning Policy Institute, public schools across the US may see layoffs of 300,000 K-12 teachers, or 10 percent of the workforce. This number is more than double the 2008-2010 education jobs massacre.

The $2.2 trillion CARES Act passed by a bipartisan vote in Congress in March, to the great benefit of large corporations and banks, provided just $150 billion to state and local governments. Only $29 billion went to local governments, which was just 2 to 3 percent of their 2017 revenues.

Deepening the crisis, the CARES Act made this paltry sum available only to localities with populations over 500,000, meaning that cities and towns with smaller populations, where over 100 million US residents live and work, received no federal aid whatsoever.

This includes cities like Midland, Michigan, which furloughed or cut hours for 28 percent of city workers in the past month and is now experiencing the aftermath of a massive flood resulting from the collapse of two privately-owned dams. The flood forced 10,000 residents to evacuate in the midst of the pandemic.