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Fiscal Impacts of COVID-19 Mitigation Policies: Why the American Rescue Plan Act is a Major Relief for U.S. Local Governments

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The COVID-19 mitigation measures put in place by state and local governments resulted in severe revenue shortfalls for many county and municipal governments, forcing them to take measures aimed at operational efficiency and cost savings. This stems from the fact that COVID-19 caused the steepest decline in economic output and unemployment in the United States since World War II. In March 2021, President Biden signed into law the $1.9 trillion American Rescue Plan Act that includes $350 billion in aid for state and local governments, many of whom have been stretched to their limits by the pandemic. Of this amount, $120 billion was earmarked for county and city governments – a much welcomed relief due to the financial impacts of COVID-19.

The policy responses to the pandemic also made clearer the political divide in America and how such a divide manifested in policy actions initiated by various local jurisdictions across the United States. In a nation-wide survey conducted by this researcher in Fall 2020—and reported in March 2021—49 percent of the respondents said their local governments mandated face masks, while 49 percent said their local governments only recommended it. This finding is reminiscent of the political debate in the U.S. that has characterized the use of face masks since the onset of the pandemic. The survey results also show that while local jurisdictions were evenly split on face mask mandates and recommendations, 65 percent of them recommended citizens stay at home unless it was necessary to go out, and the same percentage recommended self-isolation after exposure. Additionally, 68 percent of jurisdictions recommended citizens avoid crowded places, while 65 percent of them recommended self-isolation after exposure to COVID-19, compared to the 34 percent of jurisdictions that mandated self-isolation.

The COVID-19 mitigation policies implemented by local governments—such as lockdowns and sheltering in place, closure of nonessential businesses, school districts, colleges, and universities, and restrictions on public gatherings—were of varying durations across jurisdictions. While 22 percent of jurisdictions closed nonessential businesses for 16 to 30 days—between March 1, 2020 through June 30, 2020—31 percent of them had the policy in place for 31 to 45 days, and 23 percent closed those businesses for 46 to 60 days. Twenty five percent allowed restaurants to remain open for delivery only for 16 to 30 days, while 29 percent and 25 percent implemented that policy for 31 to 45 days and 46 to 60 days, respectively.

The link to the online survey was sent to a stratified random sample of 1,000 local government officials in the U.S. and 245 of them completed the survey, representing a 25 percent response rate. Forty-eight of the respondents are in the Northeast region of the U.S., 51 are in the Southeast, 50 are in the Midwest, 43 are in the Southwest, and 53 are in the West. This distribution implies that respondents were evenly spread in all five regions of the United States. Jurisdictions of all sizes were also represented in the survey.

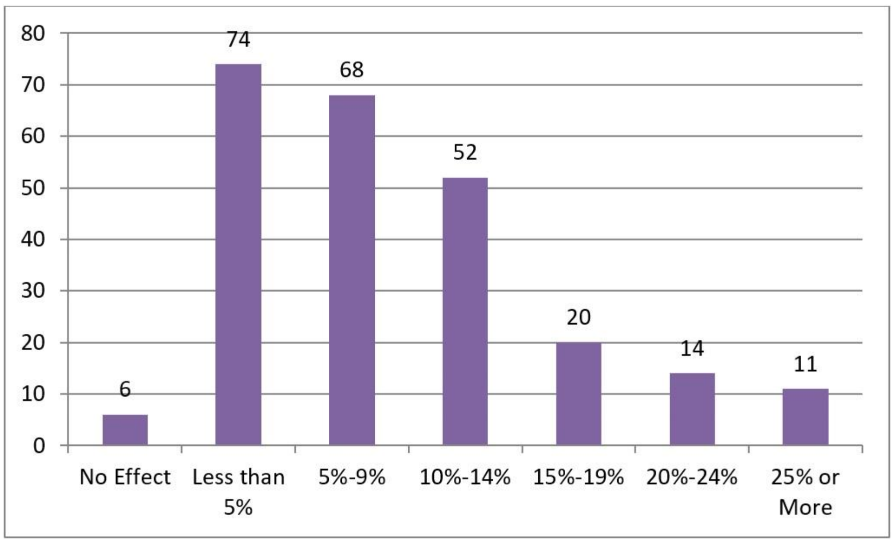
Analysis of the survey responses shows that the COVID-19 mitigation policies have had some impact on the FY 2020 budget revenue of county and city governments, including declines in sales tax revenue and personal income tax revenue.

FISCAL IMPACTS

The decline in consumption and spending on services and durable goods stemming from the COVID-19 mitigation policies implemented by state and local jurisdictions has put many of these jurisdictions in difficult financial positions. The following illustrates some of the revenue shortfalls, the actions taken by local governments, and why the $120 billion aid is a welcome relief for county and city governments:

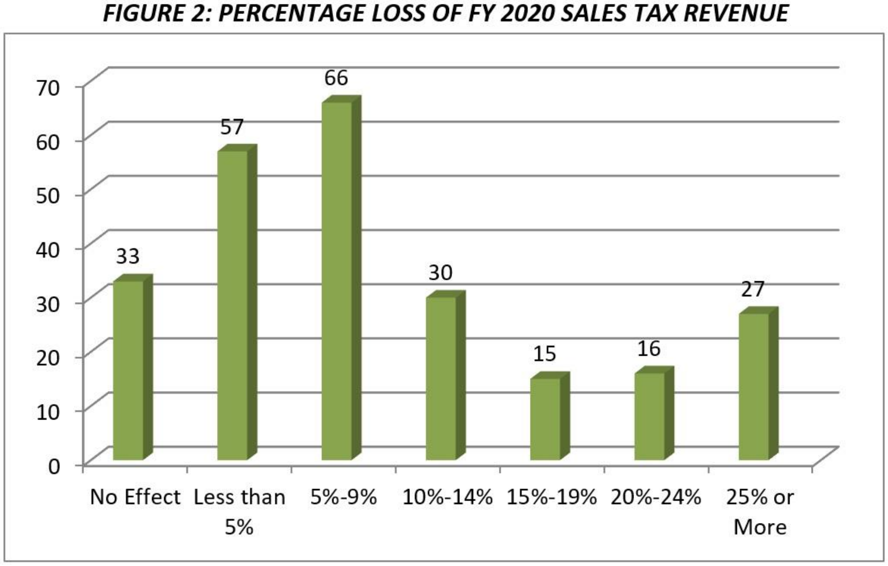
Budget Revenue Loss in FY 2020: Figure 1 shows that the governments of 74 of the 245 survey respondents (30 percent) had an estimated budget revenue loss of less than 5 percent in FY 2020 as a result of COVID-19, 68 respondents (28 percent) had between a 5 and 9 percent revenue loss, 52 respondents (21 percent) had a revenue loss between 10 and 14 percent, and 20 respondents (8 percent) had a revenue loss between 15 and 19 percent. This implies that 87 percent of the respondents had up to a 19 percent budget revenue loss due to the impacts of the COVID-19 pandemic.

FIGURE 1: PERCENTAGE LOSS OF FY 2020 BUDGET REVENUE



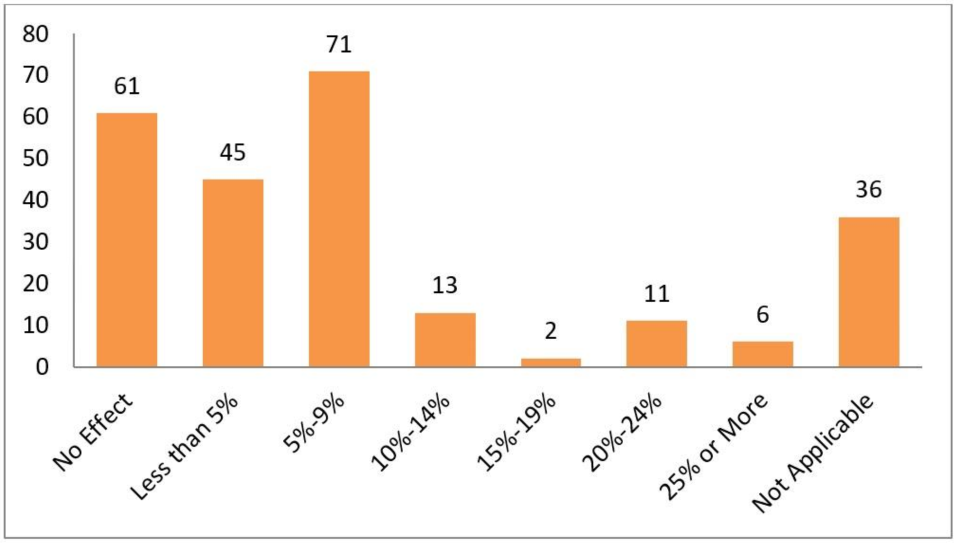
Sales Tax Revenue Loss in FY 2020: Figure 2 shows that 57 of the 245 survey respondents (23 percent) said their governments had an estimated revenue loss of less than 5 percent in their FY 2020 sales tax revenue, 66 respondents (27 percent) had between a 5 and 9 percent sales tax revenue loss, and 30 respondents (12 percent) had between a 10 and 14 percent revenue loss. This shows that 50 percent of the local jurisdictions had up to a 9 percent revenue loss in sales tax due to the COVID-19 pandemic.

FIGURE 2: PERCENTAGE LOSS OF FY 2020 SALES TAX REVENUE



Income Tax Revenue Loss in FY 2020: Figure 3 shows that 61 of the 245 survey respondents (25 percent) said COVID-19 had no effect on their FY 2020 income tax revenue. Forty-five respondents (18 percent) said their governments had an estimated revenue loss of less than 5 percent, 71 respondents (29 percent) said they had an estimated revenue loss between 5 and 9 percent, and 13 respondents (5 percent) experienced a revenue loss between 10 and 14 percent. This implies that 52 percent of respondents said they had up to a 14 percent revenue loss in income tax due to the COVID-19 pandemic. Thirty-six respondents (15 percent) said that income taxes are not applicable in their state.

FIGURE 3: PERCENTAGE LOSS OF FY 2020 INCOME TAX REVENUE



LOCAL RESPONSE AND WHY THE FEDERAL AID IS A BIG RELIEF TO LOCAL GOVERNMENTS

In response to the revenue shortfalls, various local governments have adopted measures to deal with such impacts. The measures include reducing funding and FTEs for various administrative services in FY 2020 and planned reductions in FY 2021. Forty nine percent of respondents said their governments reduced funding for police in FY 2020 and 42 percent said their governments did the same for fire, healthcare, and mass transit services. Additionally, governments have performed various other actions aimed at expenditure reductions and efficiency of operations, including reviewing programs to eliminate waste, postponing certain expenditures, and scrutinizing operations for savings.

The findings from the survey show that—the above-mentioned responses notwithstanding—local governments need more financial help from the federal and state governments. Twenty two percent of local jurisdictions anticipate between 5 and 9 percent of their FY 2021 total budget revenue to come from the federal government, compared to the 15 percent who actually received between 5 and 9 percent of their total revenue from the federal government in FY 2020. The percentage of local governments who anticipate between 5 and 9 percent of their total budget revenue from the state government in FY 2021 has also risen to 22 percent, from the 14 percent of jurisdictions who actually received between 5 and 9 percent of their total revenue from the state government in FY 2020. The percentage of jurisdictions who anticipate less than 5 percent of their FY 2021 revenue from state governments has also increased to 71 percent, compared to the 46 percent who actually received such help in FY 2020.

It is important to note that the fiscal distress on local governments is exacerbated by the fact that county and city governments had to carry a higher financial burden in dealing with the public health crisis, as they struggled to provide support for their vulnerable citizens at the time when their own-source revenue plummeted. As a result of the revenue shortfalls, many local governments cut funding for administrative services such as fire, police, public housing, healthcare, education, and mass transit. According to the federal

Bureau of Labor Statistics, about 1.4 million state and local government workers—many of them employed by schools—have lost their jobs since the beginning of the pandemic.

Unlike the $150 billion state and local government aid provided under the CARES Act that was signed into law in March 2020—which provided direct aid to counties and cities with a population of at least 500,000 and could only be used as a response to the pandemic—the amount provided under the American Rescue Plan Act is meant to help alleviate the COVID-19 imposed financial stress on all county and city governments. Consequently, the $120 billion federal aid to local governments provided under this act will not only replenish the lost revenue mentioned above, but it can also help to restore local services that were cut and the rehiring of essential public workers who were laid off as a result of the pandemic.

View the full survey results here.