The Impact of the Pandemic on State and Provincial Budgets

Thursday, July 9, 2020 | 10:00 – 11:00 a.m. CDT

MODERATOR
Senator Carolyn McGinn | Kansas | Chair, Senate Ways & Means Committee

PRESENTERS
Ms. Shelby Kerns | Executive Director | National Association of State Budget Officers

Mr. David West | Chief Economist and Deputy Officer | Financial Accountability Office of Ontario
• The Council of State Governments
  • Only national organization that works with all three branches of state government

• CSG Midwest and the Midwestern Legislative Conference
  o Serves legislators in 11 Midwestern states and 4 Canadian provinces
  o Conducts policy research and publishes a monthly newsletter
  o Provides educational and networking opportunities through in-person and virtual events
  o Offers annual leadership training for new legislators
Six live, web-based teleconferences that explore new institutional, organizational and policy challenges that state and provincial lawmakers are dealing with as a result of the pandemic

1. Elections
2. Remote Legislative Sessions
3. Legislative Oversight

4. Fiscal Impact of the Pandemic
5. Emergency Preparedness
6. Reopening the Economy

_in addition to the live webinars, each session will be recorded and made available on the CSG Midwest website._
THE IMPACT OF THE PANDEMIC ON STATE AND PROVINCIAL BUDGETS

MODERATOR

Sen. Carolyn McGinn
Kansas
Chair, Senate Ways & Means Committee
2nd Vice Chair, Midwestern Legislative Conference
Today’s webinar will include:

- A look at how Midwestern state budgets and fiscal conditions have been, and will be, affected by the COVID-19 pandemic

- A look at how Canadian provincial budgets and fiscal conditions have been, and will be, affected by the COVID-19 pandemic

- A brief discussion on the Kansas Legislature and COVID-19 budget impacts

- Question and answer
THE IMPACT OF THE PANDEMIC ON STATE AND PROVINCIAL BUDGETS

PRESENTERS

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Revenue Sources in the General Fund

Estimated Fiscal 2019

Source: NASBO State Expenditure Report
General Funds Expenditures
By Function

Estimated Fiscal 2019

Source: NASBO State Expenditure Report
Total State Expenditures

By Fund Source

FY19
$2,119 Billion

Source: NASBO State Expenditure Report
Total State Expenditures
By Function

Estimated Fiscal 2019

Source: NASBO State Expenditure Report
Finished FY 2019 with revenue surpluses

Rainy day funds at highest levels

FY 2020 budgets include another year of modest spending growth

K-12 and Higher Ed – usually big gainers in good times

Cautionary tale: preparing for the next downturn

Long term challenges: pensions and retiree health liabilities; infrastructure and transportation demands

What was the state fiscal environment for 2020 legislative sessions?

(FEBRUARY 2020)
General Fund Revenue Collections Compared to Budget Projections by Fiscal Year

46 States Had Fiscal 2019 Revenue Collections Exceed Budget Projections

Source: Fall 2019 Fiscal Survey of States
Most States Continued to Strengthen Rainy Day Funds

Median balance reached all-time high

41 States Reported Increases in Fiscal 2019;

32 States Were Forecasting Increases in Fiscal 2020

Source: Fall 2019 Fiscal Survey of States
State General Fund Spending Was Expected to See Moderate Increase In Fiscal 2020, Following Above-Average Growth in Fiscal 2019

45 States Enacted Spending Increases in Fiscal 2020

- 41-year historical average annual nominal growth rate in state general fund spending is 5.4 percent.
- Source: Fall 2019 Fiscal Survey of States
No States Made Mid-Year Budget Reductions in Fiscal 2019 Due to a Shortfall

Budget Cuts Made After The Budget Passed

Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions as to whether the reductions were made due, at least in part, to a revenue shortfall. Effective in FY2018 going forward, only states reporting mid-year budget cuts due to a shortfall are included in the totals reported in this figure. Prior to FY2018, particularly in non-recessionary periods, states that reported mid-year cuts that were due to other reasons, such as a reduction in caseload, would have been included in the counts above.
<table>
<thead>
<tr>
<th>Key Themes &amp; Common Budget Items for Fiscal 2020 (FEBRUARY 2020)</th>
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</thead>
<tbody>
<tr>
<td>• Teacher pay increases</td>
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<tr>
<td>• Early Education – Pre-K expansions</td>
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<td>• More states starting and expanding last dollar two-year college degrees</td>
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<td>• Medicaid expansion and some supplemental funds for FY 2019</td>
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<td>• Corrections employees – additional hiring and increased pay</td>
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<td>• Children’s service/child welfare</td>
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<td>• Housing</td>
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<tr>
<td>• Workforce Development</td>
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<tr>
<td>• Broadband/wireless expansion</td>
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<tr>
<td>• Full funding of pension contributions plus some extra for unfunded liabilities</td>
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<tr>
<td>• State employee pay increases – many budgets have 2 to 3%. Most number states in many years</td>
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<tr>
<td>• One-time spending from one-time funds – many different initiatives</td>
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</tbody>
</table>
State Budgets Provide Significant New Resources for Education & Other Key Priorities

Enacted General Fund Budgets for Fiscal 2020 Provide for Net Appropriation Increases of $39.1 Billion

Net increases for fiscal 2020 are compared to enacted appropriation levels for fiscal 2019. Net increases for fiscal 2019 are compared to enacted levels for fiscal 2018.
All sources of revenue (personal income, sales, corporate income, motor fuel, gaming) are being impacted by COVID-19

Impacting states in different ways and different magnitudes - e.g. oil producing states; tourism; manufacturing

Different than other recessions – public health emergency and sharp economic declines

States are facing both increased spending demands and significant revenue declines

States are revising revenue forecasts

What is the current fiscal environment for states?

(JULY 2020)
Ways to address budget shortfalls

- **Budget cuts**
  - Can include targeted cuts, across the board, personnel, etc.

- **Rainy day funds and reserves**
  - Size of shortfalls greater than amount in rainy day funds
  - Try not to drain immediately

- **Increased taxes**
  - Typically not first option and amount less than budget cuts

- **Federal aid**
  - Was very helpful during Great Recession
  - This time: question of how flexible and how much
Strategies Used to Manage Budgets, Fiscal 2010

- 35 states used TARGETED CUTS
- 25 states used ACROSS THE BOARD CUTS
- 24 states used LAYOFFS
- 16 states used FURLoughs
- 9 states used SALARY REDUCTIONS
- 13 states used CUTS TO STATE EMPLOYEE BENEFITS
- 19 states used REDUCE LOCAL AID
- 14 states used REORGANIZE AGENCIES
- 13 states used RAINY DAY FUND
- 19 states used USER FEES
Revenue declines during Great Recession (From fiscal 2008 to fiscal 2010)

- Total general fund revenue: -11.6%
- Sales tax: -6.8%
- Personal income tax: -14.7%
- Corporate income tax: -24.1%
- Gaming: -7.8%
- All other revenue: -8.2%
General fund expenditure declines during the Great Recession (From fiscal 2008 to fiscal 2010)

• Elementary and secondary education: -7.9%
• Higher education: -10.5%
• Public assistance: -5.5%
• Medicaid: -16.2%
• Corrections: -3.9%
• Transportation: -15.5%
• All other: -7.6%

• Total -9.2%
COVID-19 Response Bills and Other Actions

- Includes $8.3B in supplemental spending, $1.05B to states & localities

- Various appropriations, increases FMAP, unemployment insurance stabilization, emergency family medical leave, emergency paid sick leave

- Provides more than $2 trillion in relief

- $483 billion including $310 billion to replenish the Paycheck Protection Program, $11 billion to states and locals for COVID-19 testing

Other Actions include major disaster declarations, Medicaid flexibilities, food and nutrition assistance flexibilities, etc.
Coronavirus Aid, Relief, and Economic Security (CARES) Act

• Passed the Senate (96-0) on March 25 and passed the House (voice vote) on March 27. The President signed the bill on March 27.

• Provides more than $2 trillion in relief to individuals; businesses; state, local and federal agencies; and industry sectors impacted by COVID-19.

• Provisions of importance to states:
  • $150 billion Coronavirus Relief Fund
  • $30.75 billion Education Stabilization Fund
  • $1.5 billion from CDC for mitigation, preparedness and response activities
  • $100 billion Provider Relief Fund
  • $1.32 billion for Community Health Centers
  • $400 million in election security grants
  • $5 billion for Community Development Block Grant and $4 billion for Emergency Solutions

• Expands unemployment compensation (UC) by adding an additional $600 per week to regular UC, adding 13 more weeks to regular UC, expanding UC to those normally ineligible such as the self-employed or gig workers.

• Provides $500 billion to the Economic Stabilization Act, to provide liquidity to businesses, states and municipalities for losses incurred as a result of the coronavirus.
  • Federal Reserve created the Municipal Liquidity Facility to purchase short-term notes issued by states and certain counties/cities.
States will continue to respond to increased spending demands from the coronavirus

Taking actions to ensure fiscal 2020 budgets are balanced

Adjusting revenue forecasts for fiscal 2021

Fiscal 2021 budgets will continue to be revised, including after enactment

Question of how much federal aid and how flexible

States will likely face impact of COVID-19 for many years to come
The Impact of COVID-19 on Ontario’s Provincial Budget

Presentation to CSG Midwestern Legislative Conference
July 9, 2020
Ontario’s Financial Accountability Office

• An independent, non-partisan office comparable in function to the Congressional Budget Office

• Supports Ontario’s Legislative Assembly by providing parliamentarians with balanced and timely economic and financial analysis.

• Budget offices, like the FAO, improve the transparency of government and help legislatures hold governments accountable.
Ontario Key Facts*

- **Population:** 14.6 million (39% of Canada)
- **Labour market:** Employed: 7.5 million (+210,000), Unemployment Rate: 5.6%
- **GDP:** $860 billion CA (~$635 billion US)
- **Sectoral distribution:** (% of GDP, 2019)
  - Goods: 23%
  - Manufacturing: 12%
  - Services: 77%
  - Real Estate: 13%
  - Professional and Administrative Services: 10%
  - Finance and Insurance: 9%
- **Key Export Markets**
  - US: 79.8%
  - UK: 6.5%
  - China and Hong Kong: 2.5%
  - Mexico: 1.3%

* 2019 data
COVID-19 pandemic having severe impact on Ontario economy and Province’s finances

- FAO released an Economic and Budget Outlook on May 11.

- The outlook hinges on the continuing success of the current measures to contain the pandemic and the pace at which the containment measures can be lifted.

- Our forecast assumed that the economy would be gradually reopened through the middle of the summer.
  - Assumption based on the government’s framework for reopening Ontario.
Pandemic has pushed Ontario economy into historic recession

- FAO projects Ontario real GDP will decline by a record 9.0 per cent in 2020, the result of broad government-directed shutdowns.
- As containment measures are eased, the economy will recover, with real GDP projected to partially rebound by 8.5 per cent next year.
Pandemic has caused record job losses

- Ontario has lost 1.2 million jobs since February.
- Unemployment rate jumped to 13.6 per cent in May, highest on record.

Source: Statistics Canada and FAO.
Record job losses lead to near doubling in annual unemployment rate

- Employment to drop 7.0 per cent in 2020 (-524,000 jobs).
- Unemployment rate will almost double to 10.5 per cent in 2020.

Source: Statistics Canada and FAO.
Province’s revenues will drop by record amount this year

- Sharp economic contraction will result in a $21.7 billion revenue drop this year.
- As economy recovers, revenues expected to rebound -- but will remain below 2019-20 level.

![Revenue Comparison Chart](chart.png)

Source: Ontario Public Accounts and FAO.
Program spending to increase faster than previously planned

- Ontario government plans to increase program spending by 5.2 per cent this year, more than double the pace previously announced.

Record budget deficit projected this year

- Ontario’s budget deficit projected to quadruple to $41.0 billion this year, or 5 per cent of GDP, a record high.
- Modest improvement to $25.3 billion, expected next year.

Note: Budget balance is presented before reserve.
Ontario’s debt burden will reach record high

- Budget deficits over the next two years will push up Ontario’s debt-to-GDP ratio to record high of about 49 per cent by next year.

Despite much higher debt, historically low interest rates will dampen rise in debt servicing costs.

Interest payments as a share of revenue are expected to rise to 9.8 cents in 2020-21, up from 8.0 cents the prior year.

Source: Ontario Public Accounts, Ontario March 2020 Economic and Fiscal Update, and FAO.
What’s Next

- **Reopening Ontario**
  - All regions currently in stage 2 of the government’s 3-stage framework for reopening.
  - Government expected to announce move to stage 3 - and a broader reopening of businesses and community facilities in the coming weeks.

- **Ontario’s 2020 Budget: expected by November**
  - Government required to release a multi-year fiscal plan that includes a path to a balanced budget as well as a debt burden reduction strategy.

- **Update on Ontario’s Credit Rating**
  - Standard and Poor’s, Moody’s, and DBRS Morningstar have all reaffirmed Ontario’s credit rating and outlook.
  - Fitch is expected to release its update soon, having recently downgraded Canada and Alberta’s rating.
Sharp Deterioration in Budget Outlook for all Provinces

Source:
*Pre-pandemic data based on government budgets prior to COVID-19 and post-pandemic data is based on consensus average.
** Scotiabank.

<table>
<thead>
<tr>
<th>Province</th>
<th>Real GDP Growth*</th>
<th>Budget Balance to GDP **</th>
<th>Debt to GDP **</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>-6.3</td>
<td>-4.6</td>
<td>50.6</td>
</tr>
<tr>
<td></td>
<td>1.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alberta</td>
<td>-8.4</td>
<td>-6.8</td>
<td>22.6</td>
</tr>
<tr>
<td></td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td>-4.5</td>
<td>-4</td>
<td>40.7</td>
</tr>
<tr>
<td></td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>-6.7</td>
<td>-3.3</td>
<td>20.8</td>
</tr>
<tr>
<td></td>
<td>1.7</td>
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Economic growth would be weaker if pandemic is prolonged

- Public health concerns could cause containment measures to be lifted more slowly, weakening the economic recovery.

- In a delayed recovery scenario, real GDP would decline by 9.3 per cent in 2020, followed by a significantly more muted recovery of 4.6 per cent in 2021.

*Adjusted for 2019 Q4 data from Ontario Economic Accounts. Source: Ontario Economic Accounts and FAO.
Ontario’s fiscal position would deteriorate if economic recovery is delayed

- If Ontario’s economic recovery is delayed, budget deficits and provincial debt would be much higher.
  - The budget deficit would deteriorate to a $45.3 billion in 2020-21 and recover modestly to $37.6 billion in 2021-22.

![Budget Balance Chart](chart.png)

Source: FAO.
## Fiscal comparison of select provinces

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Alberta</th>
<th>Saskatchewan</th>
<th>Manitoba</th>
<th>Ontario</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-Pandemic forecast 2020-21</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Real GDP Growth*</td>
<td>2.5</td>
<td>1.7</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Budget balance as per cent of GDP**</td>
<td>-1.9</td>
<td>0.1</td>
<td>-0.3</td>
<td>-2.3</td>
</tr>
<tr>
<td>Debt/GDP ratio (Per Cent)**</td>
<td>12.1</td>
<td>14.3</td>
<td>34.2</td>
<td>41.7</td>
</tr>
<tr>
<td><strong>Post-Pandemic forecast 2020-21</strong></td>
<td></td>
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<tr>
<td>Real GDP Growth*</td>
<td>-8.4</td>
<td>-6.7</td>
<td>-4.5</td>
<td>-6.3</td>
</tr>
<tr>
<td>Budget balance as per cent of GDP**</td>
<td>-6.8</td>
<td>-3.3</td>
<td>-4.0</td>
<td>-4.6</td>
</tr>
<tr>
<td>Debt to GDP Ratio**</td>
<td>22.6</td>
<td>20.8</td>
<td>40.7</td>
<td>50.6</td>
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Source:
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Thank you
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DISCUSSION

Questions? Comments?
Type your question in the question pane to be read by staff

OR

“Raise your hand” and we will unmute your line when we announce your name
THE IMPACT OF THE PANDEMIC ON STATE AND PROVINCIAL BUDGETS

RESOURCES

NASBO

• “States Work to Finalize Fiscal 2021 Budgets”
• “State Fiscal Outlook: Pre- & Post-COVID-19”
• “Coronavirus Resources”

Financial Accountability Office of Ontario

• “Tourism, Culture and Heritage: An Overview of the Tourism, Culture and Heritage Economic Sectors, Related Ministry Programs and the Impact of the COVID-19 Pandemic”
• “Ontario’s Regional Labour Markets During the COVID-19 Pandemic”
• “Economic and Budget Outlook, Spring 2020”

For further information or research assistance, contact Mitch Arvidson at CSG Midwest: marvidson@csg.org
Thank you for joining us today!

Future Webinars:

• Lessons Learned: Preparing for the Next Public Emergency
  July 16 | 10:00 a.m. CDT

• Back to Business: Assessing Economic Reopening Strategies
  July 23 | 10:00 a.m. CDT

Register on the CSG Midwest website
  csgmidwest.org