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State, local governments slash services as demand rises

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Calls to 911 are up, domestic violence cases have surged, and trash collectors are struggling to keep up with ever-higher piles of garbage. But the states, counties and cities that pay workers to address these and other crises generated by the coronavirus pandemic are readying budget cuts so severe that these services risk being cut back.

Covid-19 budget cuts have already resulted in 935 layoffs or furloughs nationwide for fire department employees, according to the International Association of Fire Chiefs, with as many as 30,000 additional layoffs projected this year and next. New York state announced more than \$10 billion in spending cuts that include \$8.2 billion slashed from local aid to schools, health care programs and municipalities, and in Los Angeles, city workers must take 26 furlough days this fiscal year, which amounts to a 10 percent pay cut.

"Two numbers we care about a lot are going in opposite directions at the wrong time," said Oregon State Treasurer Tobias Read. "The need for these services is going up, but just at the time that our capacity and our revenue at state and local levels is going down."

Now House Democrats are preparing to vote Friday on a \$3 trillion coronavirus bill that includes at least \$915 billion in aid to state and local governments on top of the \$150 billion included in the last one.

"The \$150 billion was a good down payment, but the guidelines established by the Treasury secretary created unnecessary obstacles to the use of the money," said Sen. Chris Van Hollen (D-Md.), who serves on the powerful Senate Appropriations Committee. "The next round needs to focus on additional funds, but also more flexibility."

Many Senate Republicans and the White House, though, are resisting calls for that kind of spending. Senate Majority Leader Mitch McConnell rejected the House Democrats' bill at a press conference Tuesday, calling it "not something designed to deal with reality but designed to deal with aspirations."

Republicans are especially wary of moving billions to states governed by Democrats that, they believe, mismanaged their finances well before the coronavirus pandemic.

"The federal government can't just give money away with no strings attached to poorly-managed states that are going to turn around and use it to backfill their decades of fiscal mismanagement," said Sarah Schwirian, the press secretary for Sen. Rick Scott (R-Fla.), in an email to POLITICO. "California, Illinois, and New York have big budgets, high taxes, and tons of debt because they refuse to make the hard choices and live within their means."

States face budget shortfalls as high as 10 percent in fiscal 2020 and 25 percent in fiscal 2021, according to the Center on Budget and Policy Priorities. Josh Bivens of the left-leaning Economic Policy Institute wrote in a Monday blog post that combined state revenue shortfalls could reach \$1 trillion by the end of 2021.

Moody's Investors Service said last month that budget gaps are likely even if states cut funding to local governments, increase taxes and receive more federal aid. After the 2008 financial crisis, Moody's noted, states did all three — but still had to cut budgets on average 3.8 percent in fiscal 2009 and 5.7 percent in fiscal 2010.

In an outlook released Monday, the credit rating firm detailed another dilemma facing the states: Deep cuts can help preserve state-level credit quality, but they come at the expense of smaller governments, including school districts that rely heavily on state aid. That was the conclusion of its analysis of Georgia's fiscal 2021 state budget proposal, in which Gov. Brian Kemp earlier this month requested a 14 percent reduction across all agencies and departments.

A common complaint voiced by Democrats during the early years of the recovery was that growing Republican control of state legislatures slowed the hiring of state and local employees — and, because these employees numbered nearly 20 million nationwide, such austerity policies kept the unemployment rate high. Today Republicans control a majority of state legislative chambers, increasing the likelihood such complaints will be heard again.

The Federal Reserve has taken unprecedented steps to stabilize the municipal bond market after a market selloff in March, including the establishment of an emergency facility that will purchase up to \$500 billion in new short-term debt. But the overwhelming majority of what's already owed — more than 98 percent across state and local governments nationwide — are payments on long-term debt. Short-term debt makes up less than 2 percent of the balance.

Meanwhile, bills pile up as tax collections decline from widespread business closures, stay-at-home orders and layoffs. Many governments have also delayed tax collections to match a delay announced by the IRS in late March.

“This is a pretty unprecedented situation given the heavy weight on counties for the health response,” said Teryn Zmuda, chief economist at the National Association of Counties. Counties supply health transport and hospital services in many parts of the country, and compounding the problem is that “this pandemic is hitting the nation essentially at once.”

“We cannot defeat this pandemic and reopen the economy if our front-line workers are thanked with a pink slip,” said AFSCME President Lee Saunders Tuesday. If Congress doesn't act, “We're going to see more trash in the streets, fewer street lights working, fewer cops on the streets, dirty water, longer 911 response times.” AFSCME has dropped \$1 million to persuade Congress to supply more money to states and cities in its next relief package.

But state governments are readying layoffs anyway.

“We think the federal government needs to step up and help the states,” said Jaime Contreras, vice president of SEIU 32BJ, a union that represents 175,000 service workers on the East Coast, including essential workers in the public sector like janitors and security officers. “Otherwise, we're going to have an even bigger crisis.”

Officials urged expediency, warning of the impact on local governments if aid is delayed.

“It’s important to make sure small business is taken care of and that the shop down the street doesn’t fall apart ... [but] it’s also important to make sure there’s a cop on the street to make sure that that business can function, or that the fireman is there in case there’s a fire in the kitchen,” said Democratic Treasurers Association Executive Director Dave Wallack.

Cutting essential services, Wallack warned, could result in an even larger economic crisis.

“There are conditions that it takes for markets to function, for firms to function,” Wallack said, “and what these state employees do is create the platform for that to function.”

Jared Rosenberg, paramedic supervisor for the Greenburgh, N.Y., police department, says a spike in first responder calls — about half of them coronavirus-related — makes New York state’s planned spending cuts “shameful.”

“Here’s one thing I know for sure we can’t afford to cut: the dedicated people on the front lines of this fight. It would be dangerous and a national disgrace to lay off the public service workers who have stepped up for our communities every day,” said Rosenberg.

But some conservatives counter that furloughing and layoffs are not governments' only available course of action. "State and local governments should be working with their employees' unions in finding ways they can minimize those layoffs," Rachel Greszler, a research fellow at the right-leaning Heritage Foundation, told POLITICO. "It's far better to do something like freeze pay increases, and keep everyone on board."

"The states should be able to get through this without a further federal relief package," said Chris Edwards, director of tax policy studies at the libertarian Cato Institute. "States put forward their most crucial and highly visible cuts. But police, fire and sanitation — three core services — that’s only 7 percent" of budgets," Edwards said. "There’s a lot of nonessential stuff that can be restrained first."

In addition to seeking more federal funds, state and local governments are asking for more flexibility in spending those dollars.

“The way that the Department of Treasury wrote the rule, you have to be spending the money in response to coronavirus,” said Van Hollen. “These are really two sides to the same coin: There are unanticipated costs that you have to pay because of the coronavirus, but there are also unanticipated losses, and it makes no sense to prevent localities from using funds to make up for revenue they lost because of the coronavirus.”

That’s why Van Hollen said he opposed restrictions in the next package on using aid money to make up for lost revenue due to the coronavirus.

For Oregon, skyrocketing unemployment meant a sharp decline in revenue because the state relies solely on income tax, said Read. But backfilling that would not qualify as a Covid-19-related expense.

“Let us use those dollars more flexibly to replace lost income and we’re going to be able to do a lot more.” said Read. Otherwise, even fee-supported services like trash removal could be at risk, he said.

Democrats are on the brink of revealing their proposal for the next aid package, though the Senate and the White House have turned their attention to other matters, making a timeline for passage — and enactment — murky.

“At this point,” Wallack said, “every day is a day too late.”