

SPECIAL REPORT:
The Cost of Republican Inaction,
Volume 1.

American Families and Communities Will Pay the Price *If Republicans Refuse to Support State and Local Services*

Debbie Stabenow
DPCC Chairwoman

Chuck Schumer
Senate Democratic Leader

Joe Manchin
DPCC Vice Chairman

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DPCC

DEMOCRATIC POLICY & COMMUNICATIONS COMMITTEE
CHAIRWOMAN DEBBIE STABENOW

As States, Tribes, and Cities Face COVID-19 Budget Shortfalls, American Families and Communities Will Pay the Price

Across America, state and local governments provide critical services that are needed every day to keep people safe, educate our children, and maintain our quality of life. These services are even more important in times of crisis like the COVID-19 pandemic. Police officers, 911 operators, firefighters, doctors, nurses, teachers, bus drivers, and so many other public service workers are truly essential.

During this pandemic, however, our state and local governments are facing rising costs and collapsing revenues.

*“Governors must be able to step up and get the job done.
We will be with you ALL THE WAY!”¹
– President Donald Trump*

President Trump said that states were the frontlines in the COVID-19 health crisis and that he would have their backs. Yet, now after leading efforts to respond and protect lives, governors are being told that the White House and Republicans in Congress won't have their backs. They face massive budget deficits that are already forcing over a million layoffs and cuts to services our families and businesses depend upon.

Without urgent federal assistance, these cuts will soon affect our safety, the education of our children, and our overall quality of life. They will also prolong our nation's recovery from this unprecedented health and economic crisis.

According to a survey of local reports, the DPCC found that the following community services are at risk of being cut across the country:

- Emergency response, including firefighters and police
- Education and public libraries
- Health care and in-home assistance
- Water and sewer
- Trash collection
- Parks, pools, and recreation

“I would certainly be in favor of allowing states to use the bankruptcy route.”

– Senate Republican Leader Mitch McConnell

Instead of working in a bipartisan way to deliver financial relief to American communities, **Senate Republican Leader Mitch McConnell has suggested he would rather states go bankrupt,**² saying he is **“not interested in rescuing them.”**³

Republican Leader McConnell would rather “pause”⁴ on providing Americans with relief. President Trump says he too is “in no rush.”⁵ McConnell admits **Republicans have not “yet felt the urgency of acting immediately.”**⁶ President Trump’s Administration says it would like to **“give it a month or so”**⁷ and see what happens.

“I don’t think we have yet felt the urgency of acting immediately.”

– Senate Republican Leader Mitch McConnell

American Families Have a Sense of Urgency

Democrats know that families and communities don’t have the luxury of waiting. **Without federal action, state budget shortfalls could total \$650 billion over three years⁸ – far exceeding the \$283 billion states lost in the decade after the Great Recession.**⁹ This means states and municipalities will be forced to lay off frontline workers and cut spending on health care, education, and public assistance – services our families depend on.

Nearly 90 percent of cities surveyed by the National League of Cities and the United States Conference of Mayors said they anticipate budget shortfalls this year. More than half said their cuts will impact public safety.¹⁰

Public Safety: Budget cuts have already forced fire departments to furlough or lay off 935 employees nationwide, including EMTs, paramedics, and front-line firefighters. Fire chiefs expect as many as 30,000 fire department jobs could be cut by next year¹¹ – a grim prediction as 911 calls rise.¹²

Education: Officials also anticipate deep cuts to K-12 public schools and higher education. School districts across the country are preparing for budget cuts as high

as 25 or 30 percent, more than double the average cut during the worst year of the last recession.¹³ Public colleges and universities are also bracing for losses, with many already enduring permanent mid-year cuts. Given that public higher education funding is already low and has not fully recovered from previous recessions, the impact on public colleges, students, and families will be devastating.

- Officials in Michigan warn of a potential 25 percent cut to K-12 education – that’s about \$2,000 less spent on each student.¹⁴
- In California, where education makes up 40 percent of the state’s budget, schools could lose \$18 billion – as much as \$2,700 less per student in some districts.¹⁵ Governor Newsom has already announced a \$1.7 billion cut to the state’s higher education system.¹⁶
- Other states like New York, Colorado, Oregon, Ohio, and Georgia have also announced across-the-board-cuts.¹⁷

Health Care: Even in a public health crisis, states are considering cuts to essential health services and programs like Medicaid. As jobless claims surge, as many as 23 million additional Americans could enroll in Medicaid in the coming months. Still, states are proceeding with cuts that could be disastrous for Medicaid providers and beneficiaries.

- Governor Mike DeWine is implementing a \$210 million cut to Ohio’s Medicaid program in the next two months,¹⁸ despite projections that nearly 1 million more Ohioans may enroll.¹⁹
- In Georgia, where Medicaid enrollment could rise by as much as 567,000 in the coming months, Governor Brian Kemp is planning 14 percent agency-wide cuts.²⁰

By providing swift and meaningful federal relief to state and local communities, we can avoid devastating cuts to essential services and prepare American communities for a faster and stronger recovery.

States will be Forced to Make Cuts in Critical Services, Including Mass Layoffs, if Republicans Refuse to Act

States, cities, and towns throughout the country are facing steep fiscal cliffs through no fault of their own as public health and health care costs surge and revenues collapse. Unemployment is rising at a record-shattering pace,²¹ and demand for health care and public assistance continues climbing. At the same time, revenue from taxes,

charges, and fees has fallen dramatically as a result of social distancing practices to contain the spread of the coronavirus.²² Experts say tax revenues fall roughly 3 percent for every 1 percent increase in unemployment.²³

According to the Center on Budget and Policy Priorities, state budget shortfalls could total **\$650 billion over three years,²⁴ which is far greater than the \$283 billion states lost in the ten years after the 2008 recession.²⁵** Cities could lose \$360 billion in revenue²⁶ and counties, which also provide indispensable local services, could lose \$144 billion through fiscal year 2021.²⁷

Cuts of this magnitude threaten the salaries and jobs of the more than 20 million people who work in state and local government,²⁸ including people who are serving on our front lines:

- 528,000 public health and hospital workers;
- 374,000 law enforcement officers; and
- 93,000 fire protection workers.²⁹

State and local governments cut nearly 1 million jobs in April alone and reduced the salaries of thousands of workers.

Unlike the federal government, states cannot run a deficit. They can only spend what they collect in revenue.³⁰ As a result, states have little choice other than to cut spending when revenue dries up.

In fact, states and local governments have already implemented cuts to address their growing budget shortfalls. **State and local governments cut nearly 1 million jobs in April alone and reduced the salaries of thousands of workers.³¹**

- The City of Detroit laid off 200 part-time and temporary workers;³²
- Miami Beach, Florida, laid off more than 250 part-time employees and furloughed 35 full-time workers;³³
- Norfolk, Virginia, furloughed at least 550 part-time city workers;³⁴
- Pittsburgh implemented a 10 percent cut to non-personnel departments in the face of a \$125 million shortfall.

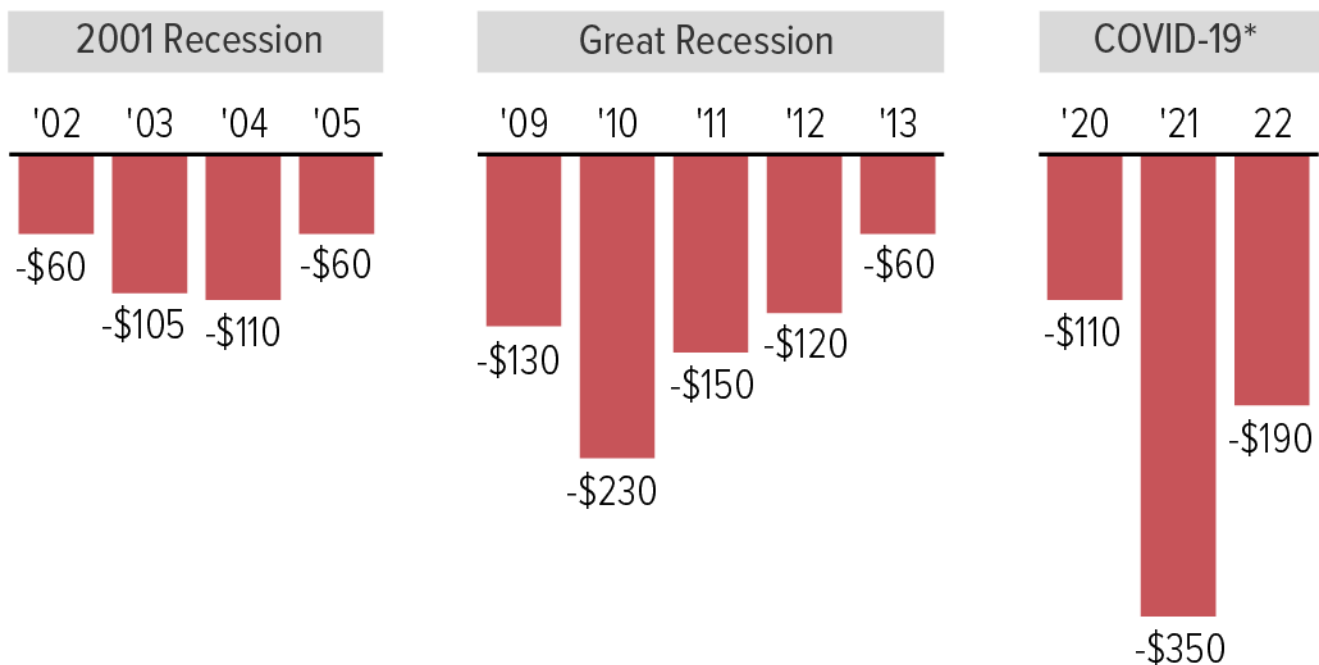
As Pittsburgh Mayor Bill Peduto put it, “The revenue sources that we rely upon to pay our daily bills have completely ended.” Among other sources, Pittsburgh is losing revenue on suspended parking-meter enforcement and taxes otherwise collected through professional sporting events.³⁵

Budget shortfalls will be bigger than any seen in modern history.

- Kentucky³⁶ and Louisiana³⁷ each expect \$500 million budget shortfalls;
- The City of Philadelphia expects a \$650 million deficit – five times larger than the city’s deficit after the last recession;³⁸
- Maryland expects a \$2.8 billion loss, 15 percent of the state’s annual general fund;³⁹ and
- Kansas anticipates a \$653 million shortfall by June of next year.⁴⁰

COVID-19 State Budget Shortfalls Could Be Largest on Record

Total shortfall in each fiscal year, in billions of 2020 dollars



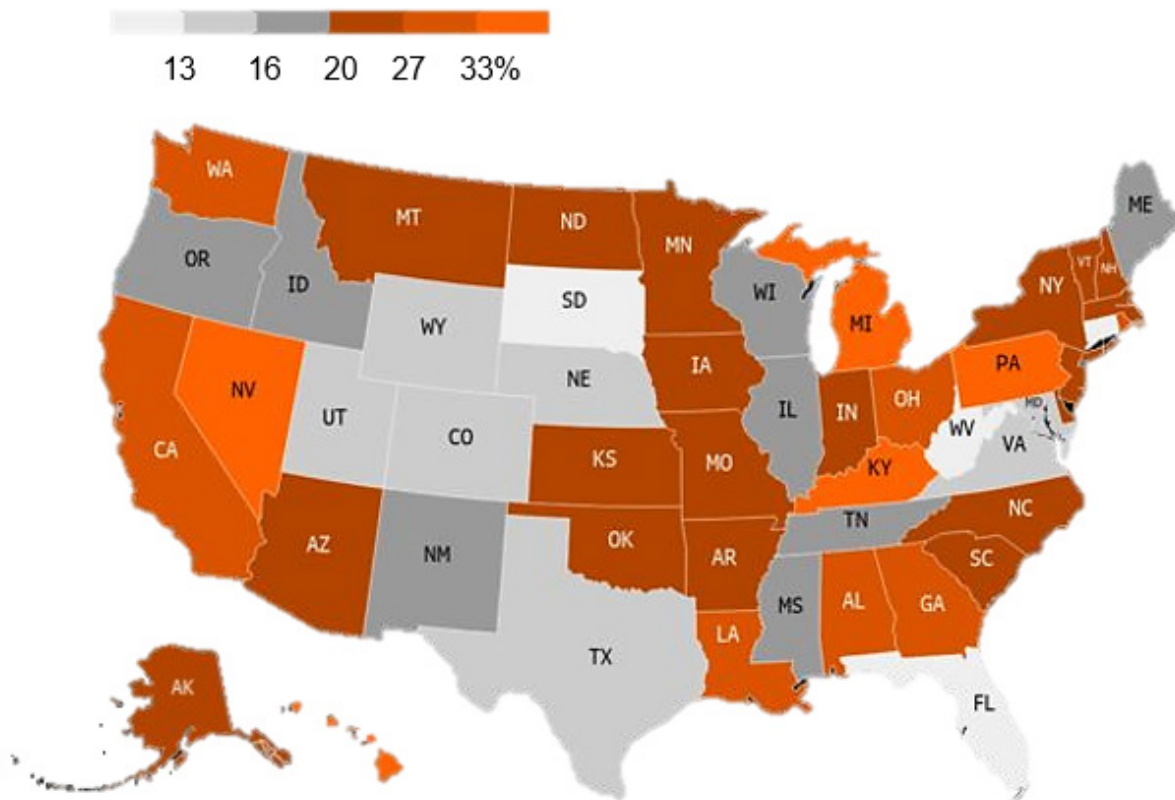
* Estimates based on CBPP calculations using Congressional Budget Office and Goldman Sachs unemployment estimates. Does not reflect use of rainy day funds or federal aid already enacted.

Source: CBPP survey of state budget offices (through 2013); CBPP calculations (2020-2022)

According to the Center on Budget and Policy Priorities, state budget shortfalls could be the largest on record,⁴¹ dwarfing the painful losses of the last two recessions, which we are still recovering from in many ways.⁴² Moreover, most of the losses are concentrated in one year alone.⁴³ The Center on Budget and Policy Priorities is [tracking](#) estimated revenue shortfalls for each state on its website.⁴⁴

Each state, city, and town faces a unique situation – some worse than others – largely depending on their revenue sources and expected rises in unemployment. Cities and towns in Pennsylvania, Kentucky, Michigan, Hawaii, and Nevada are likely to suffer the worst losses. Pennsylvania expects its unemployment rate to be nearly 12 percent higher than estimated before the pandemic, and the state is bracing to lose 40 percent of its revenue.⁴⁵

Revenue Loss Estimates (%) for U.S. Cities, Towns, and Villages



Source: Bloomberg; May 14, 2020

With these losses and absent federal action, states have little choice other than to implement mass layoffs, furloughs, and pay cuts and to slash spending for health care, education, public safety, and other essential services. **The National League of Cities expects that without federal assistance, 1 million city employees across the U.S. could soon be laid off or furloughed.**⁴⁶

- The New Jersey State Senate proposed a plan that would cut the hours and pay of 100,000 public workers;⁴⁷
- Los Angeles Mayor Eric Garcetti's fiscal year 2020-2021 budget proposal would furlough 15,000 public employees;⁴⁸ and
- Nevada Governor Steve Sisolak announced he would be working with agencies to identify areas for up to \$687 million in cuts over the next two years.⁴⁹

Budget cuts will cause particular pain in rural communities and small towns across America already struggling with under-resourced hospitals and a lack of essential services like high-speed internet and transportation.

Essential Services for Native American Communities Are Threatened as Tribal Governments Face Similar COVID-19 Budget Shortfalls

Native American communities – already facing inadequate federal resources – are among those most vulnerable to the health and economic impacts from COVID-19.⁵⁰ Families in Indian Country depend on their respective tribal government for economic opportunity and essential services, especially in times of crisis like the COVID-19 pandemic.

Despite U.S. trust and treaty obligations, the federal government funds and operates only a portion of the essential community services for Native communities. Tribal governments, in turn, provide the majority of critical services for their communities – including, in many cases, education, public safety, child welfare services, housing assistance, and healthcare. Indian Tribes cannot levy taxes and therefore depend on revenue from tribal business enterprises to support these critical government functions.

Like states and cities, Tribal governments are facing rising costs and falling revenues.

Before the pandemic, tribal businesses and governments supported 1.1 million jobs, including 915,000 held by non-Native Americans.⁵¹ However, according to a recent survey by the Federal Reserve Bank of Minneapolis's Center for Indian Country Development, Indian Tribes across the country face massive budget deficits that are already forcing thousands of furloughs and layoffs and cuts to services for their members.⁵²

- Ninety percent of Tribal government respondents reported experiencing increased operations costs.
- Over 80 percent of Tribal governments and enterprises participating in the survey have experienced revenue losses due to COVID-19, including 30 percent who were generating no revenue at all at the time of the survey.
- Over 50 percent of all Tribal governments and enterprises participating in the survey have laid off or furloughed employees. Over 30 percent of enterprises reported they had laid off or furloughed 80 to 100 percent of their workforce.

These revenue losses, furloughs, and service disruptions will not only affect the health and safety of Native communities, but also prolong Indian Country's recovery from the COVID-19 crisis. **Without urgent federal assistance, Tribes risk further disproportionate losses within their communities.**⁵³

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Severe Budget Cuts Will Deepen the Recession and Delay the Recovery

Severe cuts to health care, education, and other vital services will exacerbate the pain of this economic crisis, undermine efforts to tackle this virus, and delay our long-term recovery.

Health Care

Health care and education generally make up the largest proportions of state budgets⁵⁴ and are therefore often the first programs targeted during fiscal crises. Though always dangerous, cuts to health care are especially threatening during a public health and economic crisis, during which millions of people are losing their jobs, demand for Medicaid and other public assistance is surging, and health care costs are rising.

Medicaid provides health insurance to over 70 million Americans – including some of the most vulnerable to complications from COVID-19. As many as **23 million more Americans could enroll in Medicaid** in the coming months as unemployment continues to rise. **Virginia has already reported a 20 percent increase in enrollment applications since mid-March**, and authorities in New Mexico reported a surge in applications in the first two weeks of April. Forty two percent of New Mexico’s population was already enrolled in Medicaid before the pandemic.⁵⁵

On average, Medicaid accounts for approximately 16 percent of spending in state budgets.⁵⁶ It sustained broad cuts in the last recession, but experts fear it could fare even worse in this crisis. **Already, states are considering and even proceeding with cuts to their programs as they try to manage state budget pressures.** While Congress provided some additional relief in the Families First Coronavirus Response Act, more dedicated support for state Medicaid programs is needed.

Education

Like health care, education was gutted after the Great Recession, and these deep cuts caused lasting damage. **Ninety-two percent of K-12 education funding comes from state and local sources,**⁵⁷ so when revenue streams dry up, states and school districts are often forced to eliminate school staff positions, reduce services for students, and make other cuts to education. Economists estimate K-12 per-student spending fell

by 7 percent on average in the years following the 2008 financial crisis. Today, 22 states and the District of Columbia are still providing significantly less K-12 funding per student than they did in the 2008-2009 school year, and the nation still has fewer teachers today than it did in 2008.⁵⁸ In fact, half of the 600,000 state and local jobs shed after the 2008 financial crisis were teachers.⁵⁹

Funding for higher education was also slashed during the last recession— by nearly 50 percent in some states, and most states never recovered. In 2018, 41 states were still spending less per student in higher education than they were in 2008.⁶⁰ To make up for budget cuts, most public colleges and universities increased tuition and fees⁶¹ – thereby shifting the burden onto students and facilitating the student debt crisis.⁶²

These losses and resulting cost increases have disproportionately affected low-income students and widened the racial-wealth gap. Students of color are more likely to be enrolled in high-poverty school districts that cannot raise local revenue to offset state cuts to education.⁶³ Disparities in education funding produce inequitable educational opportunities that the federal government must address.

Regrettably, **states are once again being forced to slash K-12 and higher education spending.** Some school districts are preparing for budget cuts as high as 25 or 30 percent, more than double the 8 percent average cut during the worst year of the last recession.⁶⁴

- Nevada is preparing for a \$125 million cut to higher education over the next two years.⁶⁵
- Ohio recently announced a \$355 million immediate K-12 education cut, with more expected in the next fiscal year.⁶⁶
- Hawaii Governor David Ige is also weighing a 20 percent teacher pay cut as the state faces a \$1.5 billion shortfall.⁶⁷ Hawaii already has the lowest teacher salaries in the nation, when adjusted for cost of living, and one of the worst teacher shortages.⁶⁸

As states announce budget cuts, school districts are stretching their imaginations to come up with ways to manage them. Some districts are considering four-day school weeks as well as eliminating non-mandated programs, and consolidating schools in addition to teacher furloughs and pay cuts.⁶⁹ These changes will result in less instructional time for students and may lead to lower quality educational opportunities for students.

Teachers and staff are already responding to significant learning loss and distance learning due to COVID-19 and school closures. When schools reopen, they will need to implement additional public health measures to ensure students are safe. These measures will require additional investments.

Public Safety and Vital Workers

State, Tribal, and local budget cuts contribute to already dire unemployment levels and reduce essential workforces. Across the United States, more than 20 million people work in state and local government,⁷⁰ and approximately 1.1 million people work for Tribal governments and their enterprises.⁷¹ Counties alone employ 3.6 million people, including 528,000 hospital and public health workers; 374,000 law enforcement officers; and 93,000 fire protection workers. However, **due to a lack of federal assistance, states, Tribes, cities, and counties are furloughing and laying off large portions of their workforces just as demand for services rises.**

- The City of Grand Haven in Michigan has already laid off 32 percent of its workforce.⁷²
- Wyoming County in West Virginia laid off one third of its employees.⁷³
- West Chester borough in Pennsylvania laid off 21 percent of its workforce.⁷⁴
- The City of Dayton in Ohio has furloughed 25 percent of its 1,900 employees, including staff in the city's water department.⁷⁵
- The regional government for Multnomah, Washington, and Clackamas counties in Oregon announced it laid off 40 percent of its workforce.⁷⁶

Cities and counties provide indispensable services, and these layoffs undermine ongoing COVID-19 response and recovery efforts. According to the International Association of Fire Chiefs, **budget cuts have already forced fire departments to furlough or lay off 935 employees nationwide, including EMTs, paramedics, and front-line firefighters.** The association expects as many as 30,000 fire department jobs could be cut by next year⁷⁷ – a grim prediction as 911 calls rise⁷⁸ and confirmed COVID-19 infections and deaths continue climbing.⁷⁹ Mayors confirm that without federal assistance, budget cuts would impact police departments and could produce slow response times.⁸⁰

Local governments typically operate 911 call centers, and they provide critical human services for residents experiencing homelessness, unemployment, and domestic violence. They also keep transportation running so that people can get to and from work and school, and they keep our communities safe and clean.

In Arlington, Texas, anticipated budget cuts would reduce trash pickup and street maintenance and reconstruction, in addition to affecting police and firefighters.⁸¹ And Arlington is not alone: **nearly 90 percent of U.S. cities anticipate budget shortfalls this year, and more than half say these cuts will impact public safety.**⁸²

Congress Must Act to Avoid Job Loss and Cuts to Critical State, Tribal, and Local Services

The National Governors Association has urged Congress to “immediately provide robust, flexible relief” to state, territorial, and local governments, as well as additional Medicaid funding.⁸³ New Jersey Governor Phil Murphy warned that there would be “historic” layoffs of public employees without additional support from Congress,⁸⁴ and more than 100 Texas mayors urged their senators and members of Congress to support municipal budgets.⁸⁵ As one leader of the Shinnecock Indian Nation put it, “It becomes a life of death situation when you don’t have the funding your tribe needs.”⁸⁶

In spite of all this, Senate Republican Leader Mitch McConnell said he would rather states go through bankruptcy.

The last time a state defaulted on its debt was Arkansas during the Great Depression.⁸⁷ Democrats are steadfast in ensuring no state is forced to take that action in this unprecedented time of need.

Democrats are committed to providing states, localities, Tribes, and territories with the resources they need to protect their residents and rebuild their economies.

The Heroes Act is the bold response we need to meet the current health and economic demands.

- **Provides nearly \$1 trillion to state, local, territorial, and Tribal governments** so they can continue paying vital workers and offering essential services. This funding is provided through new State and Local Coronavirus Relief Funds to address pandemic-related expenses, replace foregone revenues, and respond to the negative economic impacts of COVID-19. It includes \$500 billion for states and the District of Columbia, \$375 billion for local governments, \$20 billion for Tribes, and \$20 billion for U.S. territories.
- **Increases Federal Medicaid Assistance Percentage (FMAP) payments** to state Medicaid programs by 14 percent starting July 1, 2020, through June 30, 2021.
- **Offers \$100 billion in emergency education funding**, including \$90 billion for state grants to support public K-12 schools and public postsecondary institutions and \$10.5 billion for private non-profit higher education and institutions impacted by COVID-19. It also provides \$450 million for schools in Indian Country.
- **Appropriates an additional \$9.6 billion to the Social Services Block Grant**, to bolster state, local, and community-based emergency aid and services to disadvantaged children, families, and households.
- **Extends weekly \$600 federal unemployment benefit payments** through January 31, 2021, providing a vital safety net for the more than 36 million Americans who are unemployed during this crisis.⁸⁸
- **Establishes a \$200 billion Heroes Fund** to ensure essential workers who have made great personal sacrifices by continuing to leave their homes and families to go to work and keep the country running during the pandemic receive premium pay.
- **Expands the use of CARES Act coronavirus relief funds to cover lost, delayed, or decreased revenue stemming from the COVID-19 public health emergency.**
- **Provides \$3 billion to support federal programs for Native American communities** to ensure essential programs for health care, child welfare, and public safety are not disrupted due to demand and declining Tribal government revenues.
- **Bolsters infrastructure at state and local health departments.**

Endnotes

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