



COMPREHENSIVE ANALYSIS OF COVID-19'S IMPACT ON COUNTY FINANCES AND IMPLICATIONS FOR THE U.S. ECONOMY

JULY 2020

KEY TAKEAWAYS

1. Counties anticipate \$202 billion impact to budgets through FY2021, with widespread economic consequences

- Alongside \$30 billion of additional expenditures and \$114 billion of lost county-generated revenue, NACo forecasts a \$58 billion cut in state funding for counties as states collectively anticipate a \$555 billion budget shortfall

2. Decreased local government spending may lead to a \$344 billion decrease in economic output and 4.9 million less jobs, according to leading national economists

- Without federal intervention, local government budget challenges will inhibit economic recovery

3. Most surveyed counties report cuts or delays in capital investments, infrastructure projects or county services

- Seventy-one (71) percent of counties have cut or delayed capital investments and 68 percent have cut or delayed county services

4. Revenue shortfalls and delays in tax collection will impact local government spending

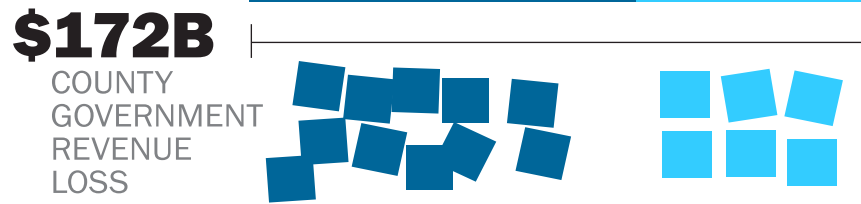
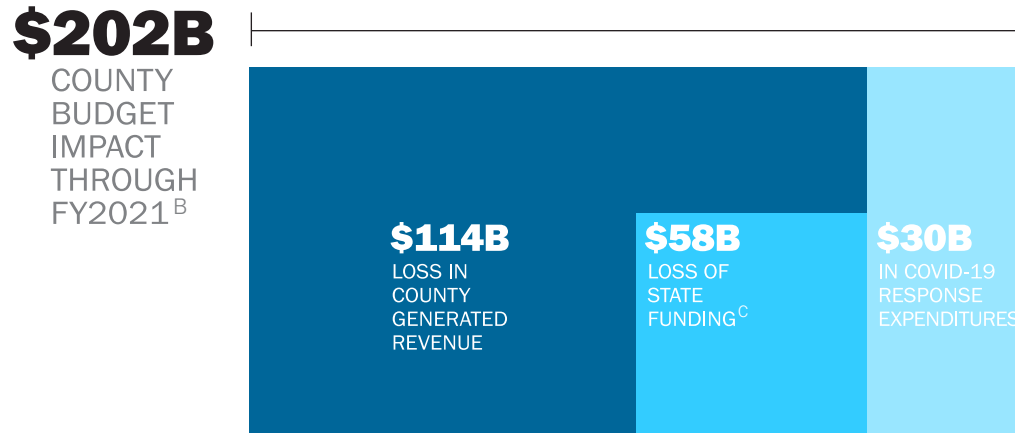
- Budget impacts were reported in 88 percent of counties and 60 percent indicate a revenue decrease
- Sixty-nine (69) percent of counties report a decline in sales tax revenue and 43 percent expect future shortfalls in property tax collections

5. COVID-19's impact on county budgets results in widespread cuts to infrastructure investment and county employment

- Sixty-seven (67) percent of counties reported delays and cuts to infrastructure projects, and local governments lost 1.2 million jobs since March despite recovery of other major sectors

6. Sixty-six (66) percent of counties receiving federal aid related to COVID-19 through the CARES Act Coronavirus Relief Fund (CRF) indicate that it will not cover the budgetary impacts or are uncertain if budgetary impacts will be covered

COUNTIES ANTICIPATE \$202 BILLION IMPACT TO BUDGETS THROUGH FY2021, WITH WIDESPREAD ECONOMIC CONSEQUENCES



\$1 CUT IN COUNTY SPENDING ≈
\$2 LOST IN GDP
per Chodorow-Reich model, Harvard University¹

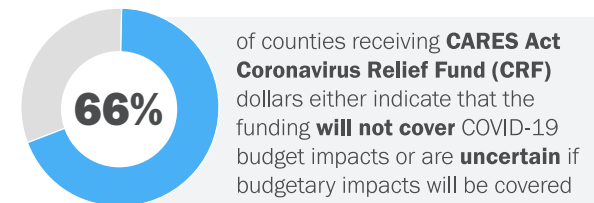
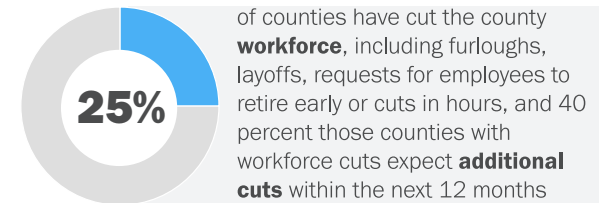
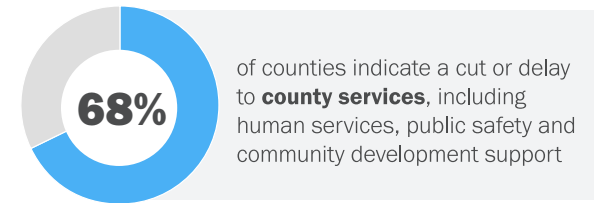
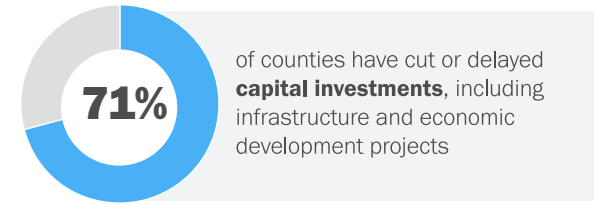
\$35K CUT IN COUNTY SPENDING ≈
1 LESS JOB CREATED
per Shoang model, Harvard University²

\$344B LOST IN GDP

IMPACT TO THE NATIONAL ECONOMY

4.9M LESS JOBS

IMPACT TO COUNTIES THUS FAR:^A

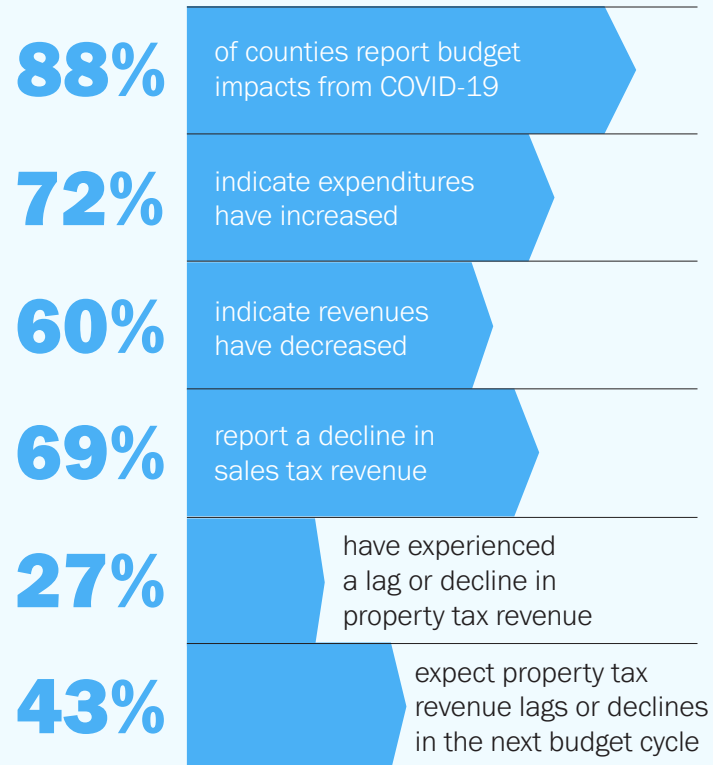


Footnotes: **A:** Stats are based on a recent NACo survey of 197 counties. **B:** These estimates were calculated from March 1, 2020 through September 30, 2021, the end of the federal government fiscal year. County budgets typically follow one of three budget cycles: January to December (calendar year), July to June or October to September (federal government fiscal year). For more details on the estimates regarding county-generated revenue or additional expenditures, see NACo's "Analysis of the Fiscal Impact of COVID-19 on County Finances," available at <https://www.naco.org/resources/analysis-fiscal-impact-covid-19-county-finances>. **C:** NACo estimated this state funding loss based on a study from the Center on Budget and Policy Priorities (CBPP), which found that states would lose 10% of their total revenue in FY2020 and 25% in FY2021. Data are from 2017 Census of Governments, adjusted for inflation to 2019 dollars.

Source: NACo Research, 2020; NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance

COUNTIES' REVENUES DROPPING AT STAGGERING RATES WITH LIMITED OPTIONS FOR RECOVERING LOSSES

COVID-19 IMPACT ON COUNTY BUDGETS^D



Footnote: D: Stats are based on a recent NACo survey of 197 counties. **E:** States include Fla., Ill., Ind., Iowa, Md., Mass., Minn., Miss., N.J., N.Y., Ohio., Okla., Wash., W.Va., Wyo.

Source: NACo Research, 2020; NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance

County budgets annually invest more than **\$665 billion** in local services, programs and operations on which residents rely every day.³ County budgets operate under strict regulations from the state, and generally do not have much flexibility to cover unexpected budget shortfalls.

COVID-19 has impacted **88 percent** of county budgets, according to a recent NACo survey, with some reported deficits **exceeding one third** of the county general fund.

In total, counties are estimated to lose **\$35 billion** in sales tax through fiscal year 2021.⁴ **Sixty-nine (69) percent** of counties that levy local option sales tax have reported a decline in sales tax revenue related to COVID-19, reporting **losses between 7 and 41 percent of sales tax**.

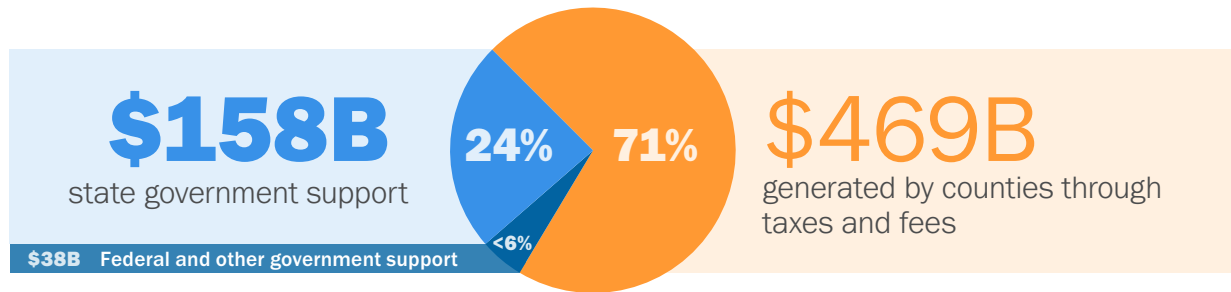
To accommodate financial impacts of COVID-19, **more than half** of counties have already initiated depletion of reserve funds, which will have a long-term impact on local government credit ratings and financial markets.

In the short-term, counties face cash flow challenges due to the delayed collection and timing of property taxes. State and county authorities in **16 states** across the nation have extended property tax deadlines or penalty relief for late payment.⁵ **Twenty-seven (27) percent** of counties have experienced reduced property tax collections in the current budget cycle and **43 percent** expect shortages to surface in the next budget cycle.

Reduced travel in April and May alone has impacted county budgets by an estimated **\$1.2 billion** in gas tax and other transportation-related revenues. These losses from two-months of travel decline may hit counties in stages throughout the budget cycle and will compound with sustained travel stagnation. According to the Federal Highway Administration (FHWA), travel decreased by 40 percent between April 6 and May 10, 2020, leading to the estimated **42 percent reduction** in related revenues, and FHWA continues to report reduced travel volume.⁵

Most county revenue streams, including property and sales taxes, are highly restricted by state laws, severely limiting options when a county faces an unexpected deficit.⁶

COUNTIES EXPECT CUTS IN STATE FUNDING AS STATES ANTICIPATE \$555 BILLION BUDGET SHORTFALL



As of July 2020, counties in **38 states** have already been notified that the county’s funding from the state will, or will likely, be reduced as a result of the financial impacts of COVID-19.⁶

COUNTY LOSSES AND FUNDING CUTS:

- **Los Angeles County, Calif.**, carved out 8 percent of funding from all county departments to make up for a \$935 million tax revenue shortfall caused by the pandemic and subsequent economic crisis.
- **Cook County, Ill.** officials are bracing for a budget gap that the COVID-19 crisis has stretched to nearly \$281 million for the rest of this fiscal year and to as much as \$409 million for next fiscal year.
- In **New York, Nassau County and Suffolk County** are facing budget deficits of \$749 million and \$800 million, respectively.
- **Cuyahoga County, Ohio**, is facing a \$76 million budget deficit. In response, all departments are implementing 15 percent cuts. Many employees were also asked to take a two-week furlough, and the county currently has a hiring freeze.
- **Charlotte County, Fla.**, was notified that the state would likely decrease its funding to counties by 50 percent, which would cause the county to lose over \$14.5 million.

Footnote: F: See footnotes B and C on page 4 for more information. **G:** States include Alaska, Ala., Ariz., Calif., Colo., Fla., Ga., Hawaii, Idaho, Iowa, Ill., Kan., Ky., Mass., Md. Mich., Minn., Miss., Mont., N.C., N.D., N.J., N.M., Nev., N.Y., Ohio, Okla., Ore., Pa., S.C., S.D., Tenn., Texas, Va., Wash., Wis., W. Va., and Wyo.

Source: NACo Analysis of U.S. Census Bureau – Census of Individual Governments: Finance

County revenues totaled **\$665 billion** in 2017, which included over **\$158 billion** (24 percent) of funding from state governments. The states fund roughly 80 percent of intergovernmental revenue distributed to counties.⁷

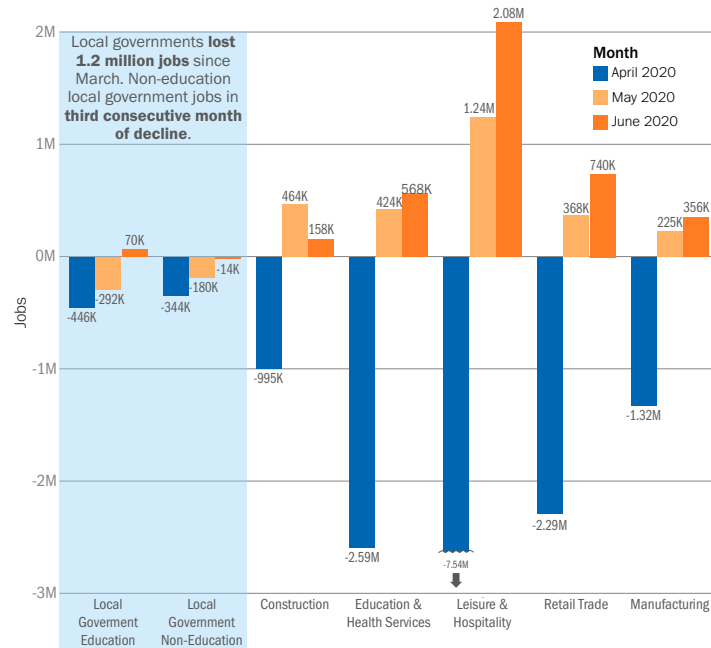
According to the Center on Budget and Policy Priorities (CBPP), state budgets expect a \$555 billion shortfall through FY2022.⁸ The jolt to state budgets compounds the local government fiscal viability, contracting the funds available for counties.

Counties in 38 states indicated receiving communication from the state that the expected state allocations for counties would be impacted, in a recent NACo survey.

NACo estimates that this state budget shortfall will translate to a **\$58 billion loss of state funding** to counties through FY2021, contributing to a total county budget impact of **\$202 billion.**^F This loss of funding will impact local government spending and services such as public health, court management, housing, human services and public safety.

COVID-19'S IMPACT ON COUNTY BUDGETS RESULTS IN WIDESPREAD CUTS TO LOCAL GOVERNMENT EMPLOYMENT AND CRITICAL INFRASTRUCTURE INVESTMENTS

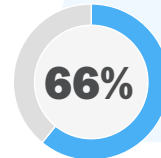
Change in the number of jobs by selected industries, April through June 2020



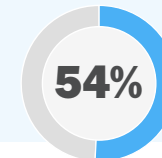
Source: NACo Analysis of Bureau of Labor Statistics (BLS) data, 2020.

Local governments have lost **1.2 million jobs** since the outset of the pandemic. Non-education local government jobs have declined for three consecutive months, with cuts of more than **537,000** Americans including court clerks, librarians, health care practitioners, public works, transit employees and utility workers.⁹ According to a NACo survey, among counties that have cut the workforce, **40 percent expect additional cuts within the next 12 months.**

Counties invest **\$134 billion** annually in infrastructure and public works.¹⁰ The financial fallout from COVID-19 has forced cuts and delays in capital investments. These cuts will mitigate cash flow shortages in the short-term but will have long-term economic impacts and disrupt local development.



of counties have cut or delayed infrastructure maintenance



of counties have cut or delayed new infrastructure projects

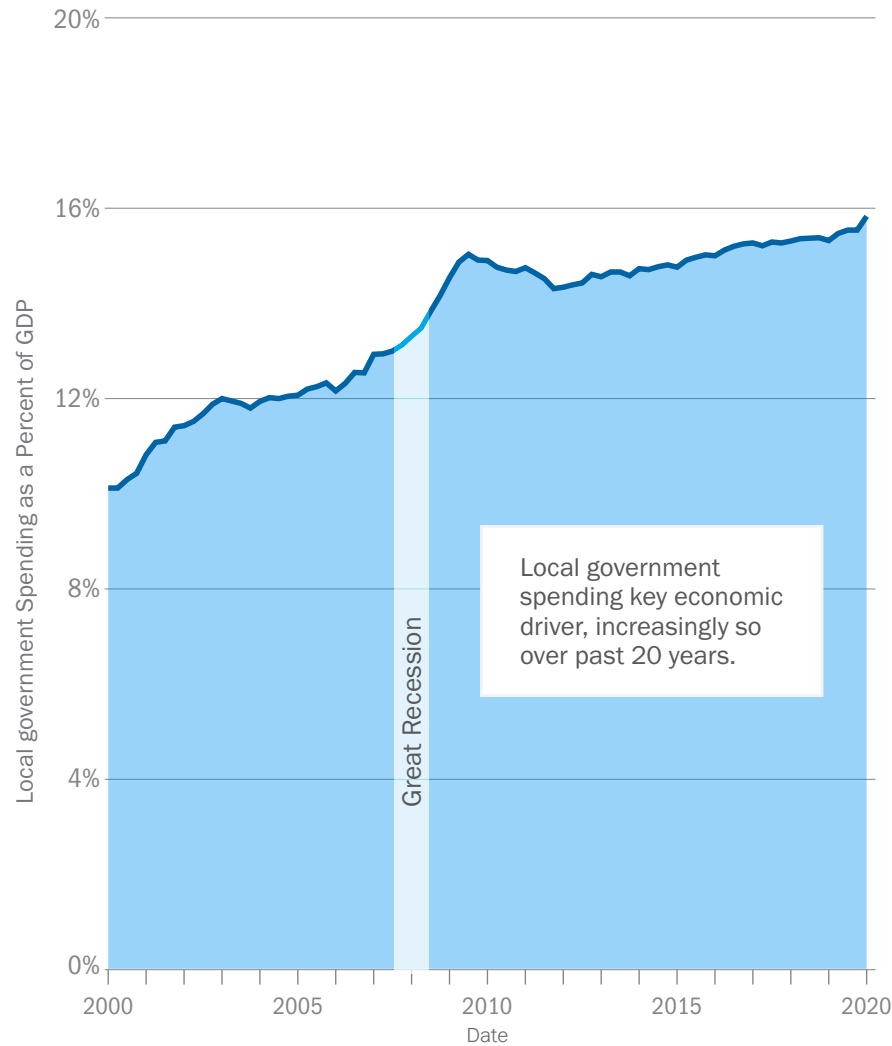
County Furloughs and Layoffs Examples¹¹

County	State	No. of County Employees	No. of Furloughed/Laid Off Employees	Share of Employees Furloughed or Laid Off
Cuyahoga County	Ohio	14,739	7,100	47%
Milwaukee County	Wis.	3,567*	775	22%
Westmoreland County	Pa.	1,950	500	26%
Washington County	Wis.	750	417	56%
Muskegon County	Mich.	1,000*	400	40%
Delaware County	Pa.	3,229	400	12%

Source: NACo Research, 2020. Note: An asterisk (*) denotes a county-reported estimate.

DECREASED LOCAL GOVERNMENT SPENDING MAY LEAD TO \$344 BILLION DECREASE IN ECONOMIC OUTPUT

Local government spending percentage of GDP -Q1 2000 to Q1 2020



Decreases in local government spending will have impacts across the nation’s economy, including a contraction in the nation’s **Gross Domestic Product (GDP)**.

Local government is a critical share of the nation’s economic output, comprising more than **15 percent** of U.S. GDP in the first quarter of 2020.¹² For every dollar cut in local government spending, overall economic output would reduce by at least \$1.70 and up to \$2, according to a recent Harvard University study.¹³

Thus, the \$172 billion loss of county revenues through FY2021 could translate to a \$344 billion contraction in the national GDP.^H

Recent studies demonstrate the impact of local government spending on the economy:

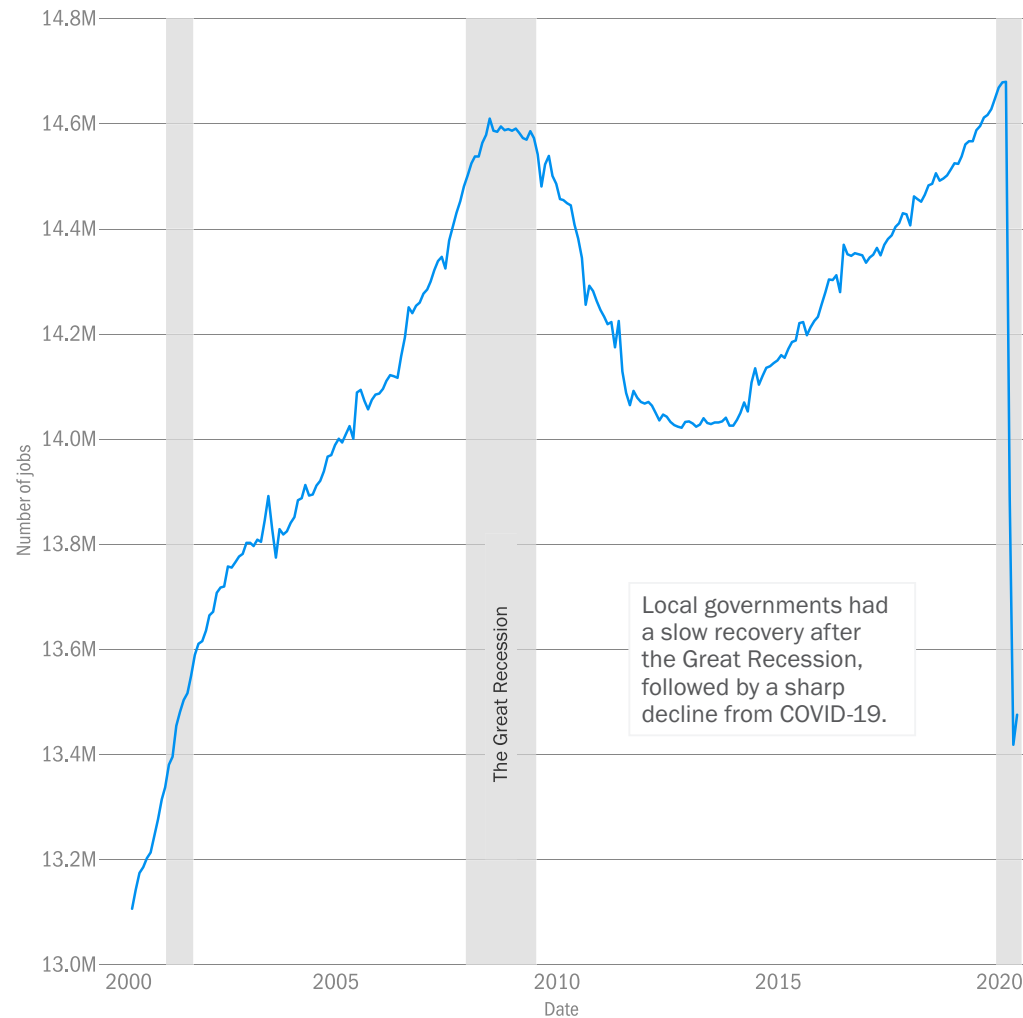
- The Federal Reserve found that **decreased state and local government spending slowed economic growth** for 23 out of 26 quarters between 2008 and mid-2014, resulting in 3.5 percent less economic growth by 2015.¹⁴
- The Congressional Budget Office found similar results: **weak state and local government spending following the Recession slowed economic recovery.**¹⁵
- Governing estimates that the national **GDP will not return to its 2019 level for at least five years** without large amounts of federal aid to counties, cities and states.¹⁶
- Moody’s Analytics **recommends additional federal aid to counties, states and other local governments** to mitigate GDP decline and job loss.¹⁷

Footnote: H: Assuming the larger multiplier of \$2.00 from Harvard University’s Chodrow-Reich model

Source: NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance; NACo Analysis of the U.S. Bureau of Economic Analysis - Local Area Gross Domestic Product, 2018 Vintage

WITHOUT FEDERAL INTERVENTION, LOCAL GOVERNMENT BUDGET CHALLENGES WILL INHIBIT ECONOMIC RECOVERY AND MAY LEAD TO 4.9 MILLION LESS U.S. JOBS

Local government employment, Jan. 2000 to Jun. 2020



Downturns in the local government sector inevitably impact the national economy. Declines in local government employment following the Great Recession took **nearly a decade** to rebuild. The local government labor market gains were eliminated in just two months of 2020 as **1.3 million** local government jobs were shed from the nation's workforce, far more than during the Great Recession.¹⁸

The local government labor market is not yet experiencing significant recovery and the **U.S. labor market** may face substantial impacts with widespread job loss related to local government spending. An analysis from Harvard University found that every \$35,000 spent by state governments generates one additional job. Applying this multiplier to county governments, the \$172 billion loss of county revenues could **reduce overall employment by 4.9 million**.¹⁹

Without help from states and the federal government, local government spending is at risk for continued decline and is likely to remain weak even after health risks subside, causing widespread economic impacts, including a contraction of GDP and job loss.

Source: NACo Analysis of Bureau of Labor Statistics (BLS) data, 2020.

COUNTIES PROVIDE LOCAL SERVICES CRITICAL TO AMERICA'S COVID-19 RESPONSE AND RECOVERY



COUNTIES EMPLOY 3.6 MILLION INDIVIDUALS, INCLUDING:²⁰



328,000
HOSPITAL WORKERS



374,000
LAW ENFORCEMENT OFFICERS



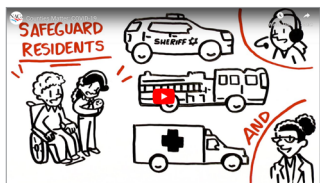
93,000
FIRE PROTECTION WORKERS



259,000
HUMAN SERVICES WORKERS



200,000
PUBLIC HEALTH WORKERS



Learn more about the county role in addressing the COVID-19 pandemic:
<https://www.naco.org/resources/counties-matter-covid-19>

ENDNOTES

1. Gabriel Chodrow-Reich, 2019, “Geographic Cross-Sectional Fiscal Spending Multipliers: What Have We Learned?” (2019), American Economic Journal: Economic Policy 2019, 11(2): 1–34, available at https://scholar.harvard.edu/files/chodorow-reich/files/cross_sectional_multipliers.pdf (July 17, 2020).
2. Daniel Shoag, Harvard University, “The Impact of Government Spending Shocks: Evidence on the Multiplier from State Pension plan Returns” available at https://scholar.harvard.edu/files/shoag/files/impact_of_government_spending_shocks_01.pdf (July 13, 2020).
3. NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance
4. Ibid.
5. NACo analysis of data from the U.S. Census of Bureau’s Census of Governments (2017) and from the Federal Highways Administration’s (FHWA) Weekly Traffic Volume Reports (April 6 – May 10, 2020). The estimate includes a loss of \$431 million of county-generated transportation revenue from motor fuel sales taxes (\$88.5 million), highway and road tolls (\$281.3 million) parking facility fees (\$61.4 million). The estimate also includes an estimated \$808.6 million of lost of transportation revenue from the federal government (\$99.3 million), state governments (\$659.2 million) and other local governments (\$50.1 million). The slowdown in travel has continued through the most recent FHWA report for the week beginning July 6.
6. National Association of Counties (NACo), “Doing More With Less: State Revenue Limitations and Mandates on County Finances,” November 2016, available at <https://www.naco.org/resources/doing-more-less-state-revenue-limitations-and-mandates-county-finances> (July 13, 2020).
7. NACo Analysis of U.S. Census Bureau – Census of Individual Governments: Finance
8. Center of Budget and Policy Priorities, “States Grappling With Hit to Tax Collections” available at <https://www.cbpp.org/research/state-budget-and-tax/states-grappling-with-hit-to-tax-collections> (July 13, 2020).
9. NACo Analysis of Bureau of Labor Statistics (BLS) data, 2020.
10. NACo Analysis of U.S. Census Bureau – Census of Individual Governments: Finance
11. NACo has tracked jobs lost in more than 165 county case studies, where county leaders have reported furloughs or lay offs to a share of the workforce. Still many more counties have not yet reported local losses to county employment. Nearly 40 percent of the counties which NACo has tracked have laid off or furloughed at least 10 percent of the workforce. The top seven counties by number of employees furloughed or laid off are represented in this table. States included in NACo’s tracking include Ala., Ark., Calif., Colo., Fla., Ga., Ill., Ind., Kan., Maine, Mich., Minn., Mont., N.C., N.J., N.M., N.Y., Nev., Ohio, Ore., Pa., Tenn., Va., Wash., Wis. and Wyo..
12. NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance.
13. NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance; NACo Analysis of the U.S. Bureau of Economic Analysis - Local Area Gross Domestic Product, 2018 Vintage.
14. Raymond Scheppach, Governing, “3 Arguments for Federal Aid to State and Local Governments” available at <https://www.governing.com/finance/3-Arguments-for-Federal-Aid-to-State-and-Local-Governments.html> (July 13, 2020)
15. Brian Tumulty, The Bond Buyer, available at <https://www.bondbuyer.com/news/fed-chairman-cites-importance-of-state-local-government-aid> (July 13, 2020).
16. U.S. Congressional Budget Office, “What Accounts for the Slow Growth of the Economy After the Recession” available at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/43707-SlowRecovery.pdf> (July 13, 2020).
17. See Associated Press, “State, local governments need billions more in aid to avert 4 million layoffs, Moody’s finds,” Market Watch, (June 24, 2020), available at: <https://www.market-watch.com/story/state-local-governments-need-billions-more-in-aid-to-avert-4-million-layoffs-moodys-finds-2020-06-24> (July 20, 2020)
18. NACo Analysis of U.S. Census Bureau – Census of Individual Governments: Finance
19. Daniel Shoag, Harvard University, “The Impact of Government Spending Shocks: Evidence on the Multiplier from State Pension plan Returns” available at https://scholar.harvard.edu/files/shoag/files/impact_of_government_spending_shocks_01.pdf (July 13, 2020).
20. NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Employment

NACo's MISSION

Strengthen America's counties.

NACo's VISION

Healthy, safe and vibrant counties across America.

ABOUT NACo

The National Association of Counties (NACo) strengthens America's counties, serving nearly 40,000 county elected officials and 3.6 million county employees. Founded in 1935, NACo unites county officials to:

- **Advocate county priorities** in federal policymaking
- **Promote exemplary county policies** and practices
- **Nurture leadership skills** and expand knowledge networks
- **Optimize county and taxpayer resources** and cost savings, and
- **Enrich the public's understanding** of county government.

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