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

$202B COUNTY BUDGET IMPACT THROUGH FY2021

$114B LOSS IN COUNTY GENERATED REVENUE

$58B LOSS OF STATE FUNDING

$30B IN COVID-19 RESPONSE EXPENDITURES

IMPACT TO COUNTIES THUS FAR: A

71% of counties have cut or delayed capital investments, including infrastructure and economic development projects.

68% of counties indicate a cut or delay to county services, including human services, public safety and community development support.

25% of counties have cut the county workforce, including furloughs, layoffs, requests for employees to retire early or cut in hours, and 40 percent those counties with workforce cuts expect additional cuts within the next 12 months.

66% of counties receiving CARES Act Coronavirus Relief Fund (CRF) dollars either indicate that the funding will not cover COVID-19 budget impacts or are uncertain if budgetary impacts will be covered.

$172B COUNTY GOVERNMENT REVENUE LOSS

$344B LOST IN GDP

$35K CUT IN COUNTY SPENDING ≈ 1 LESS JOB CREATED

per Chodorow-Reich model, Harvard University

per Shoang model, Harvard University

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
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.\(^4\)

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.\(^6\)

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.\(^6\)

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**COVID-19 Impact on County Budgets**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>88%</td>
<td>Of counties report budget impacts from COVID-19</td>
</tr>
<tr>
<td>72%</td>
<td>Indicate expenditures have increased</td>
</tr>
<tr>
<td>60%</td>
<td>Indicate revenues have decreased</td>
</tr>
<tr>
<td>69%</td>
<td>Report a decline in sales tax revenue</td>
</tr>
<tr>
<td>27%</td>
<td>Have experienced a lag or decline in property tax revenue</td>
</tr>
<tr>
<td>43%</td>
<td>Expect property tax revenue lags or declines in the next budget cycle</td>
</tr>
</tbody>
</table>

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**Footnote:**

\(D:\) Stats are based on a recent NACo survey of 197 counties.


**Source:**

NACo Research, 2020; NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance
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-19.3

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.


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

Federal and other government support generated by counties through taxes and fees

State government support

$158B

$469B

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-19.3

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

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. 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. 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.

County Furloughs and Layoffs Examples

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

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. 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.

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

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.

- The Congressional Budget Office found similar results: weak state and local government spending following the Recession slowed economic recovery.

- 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.

- Moody’s Analytics recommends additional federal aid to counties, states and other local governments to mitigate GDP decline and job loss.

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
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. 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.

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.

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

COUNTIES EMPLOY 3.6 MILLION INDIVIDUALS, INCLUDING:

- **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](https://www.naco.org/resources/counties-matter-covid-19)
ENDNOTES


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.


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


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.


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


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.