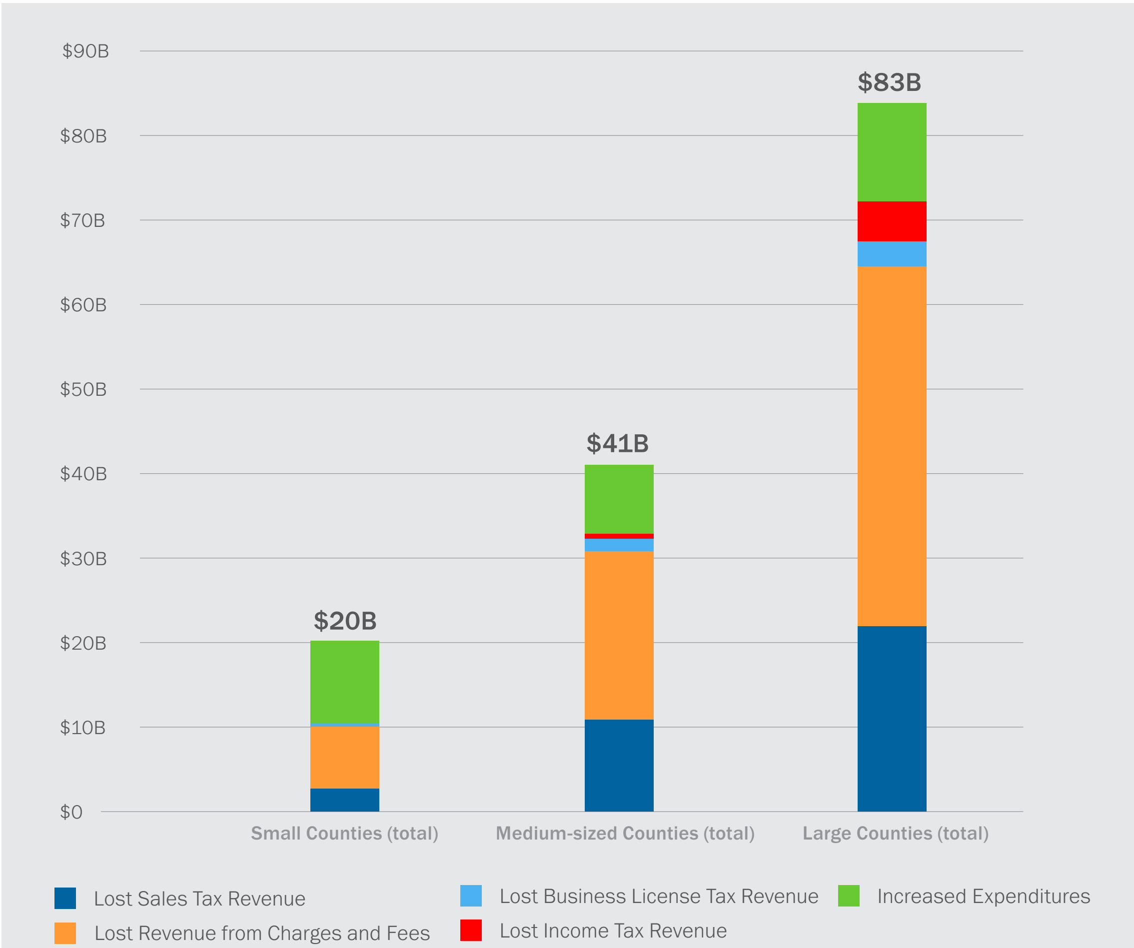
RUNNING ON FUMES: IMPACT OF COVID-19 ON COUNTY FINANCES

EXECUTIVE SUMMARY

ISSUE BRIEF | APRIL 2020

COVID-19 COULD HAVE OVER $144 BILLION IMPACT TO COUNTY BUDGETS THROUGH FY2021

COUNTIES FACING $114 BILLION LOST REVENUE AND $30 BILLION IN RESPONSE COSTS

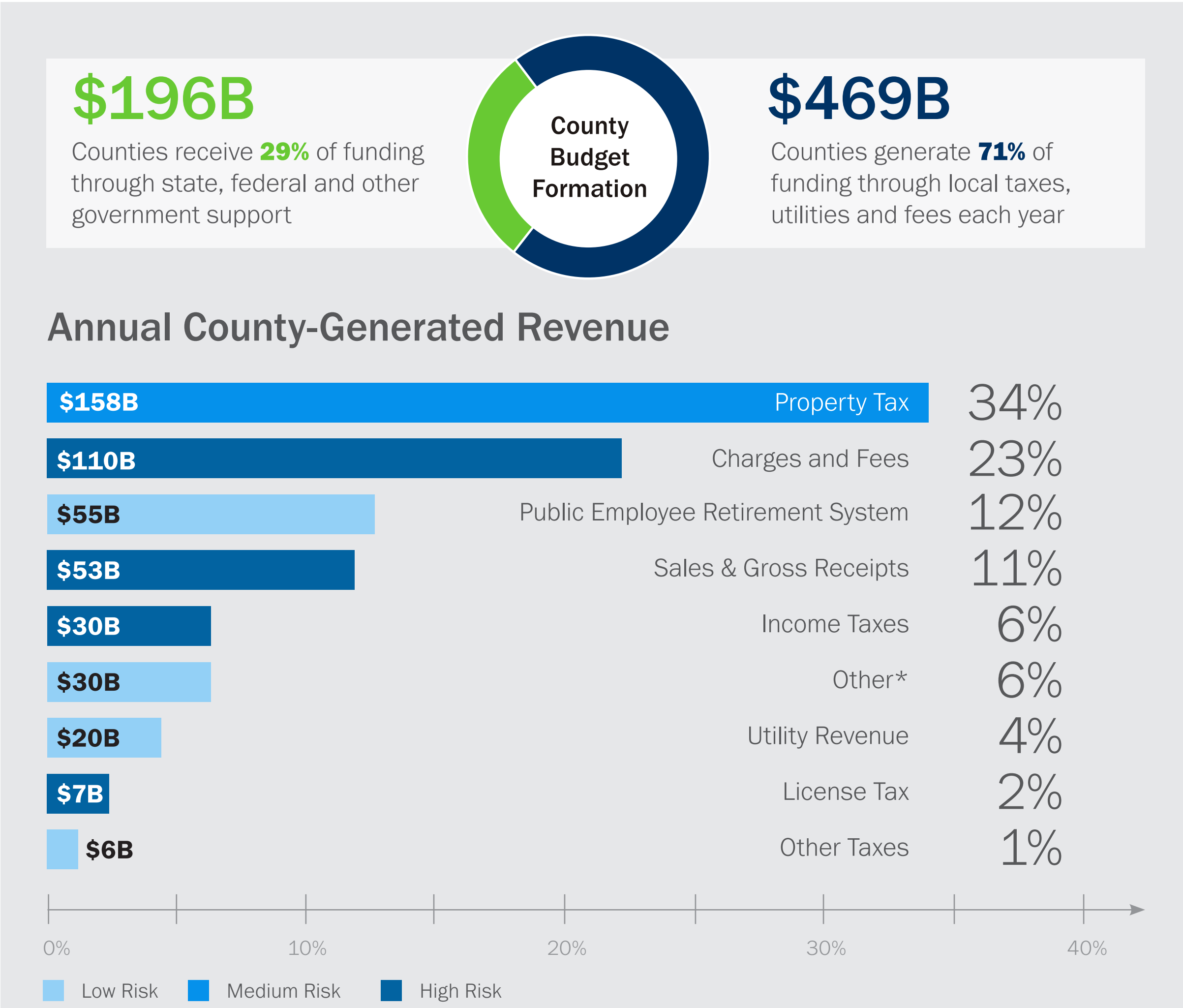


Source: NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance, NACo analysis of survey data from county leaders

- County governments provide critical services needed for the nation's COVID-19 response and recovery efforts, but **we are facing serious revenue shortfalls and budgetary challenges resulting from the pandemic.**
- The COVID-19 pandemic has the potential to impact county budgets by over $144 billion through fiscal year 2021.[i]
- **This estimate is conservative in that it does NOT include potential lost property tax revenue (should home prices and assessments decrease), nor does it take into account funding that states share with counties from sources like state sales or income taxes, which will likely also be reduced significantly.**
- An additional $54 billion in property tax revenue is at risk in states where counties have not yet collected any or all property tax revenue in FY2020.[ii]
- Between lost revenue and increased expenditures, in total, **small counties may see a nearly one quarter (24 percent) percent reduction in their budgets.**

MAJOR COUNTY REVENUE STREAMS UNDER THREAT; COUNTIES LIMITED IN ABILITY TO RAISE ADDITIONAL FUNDS

71% OF COUNTY REVENUE COMES FROM FUNDING STREAMS THREATENED BY COVID-19

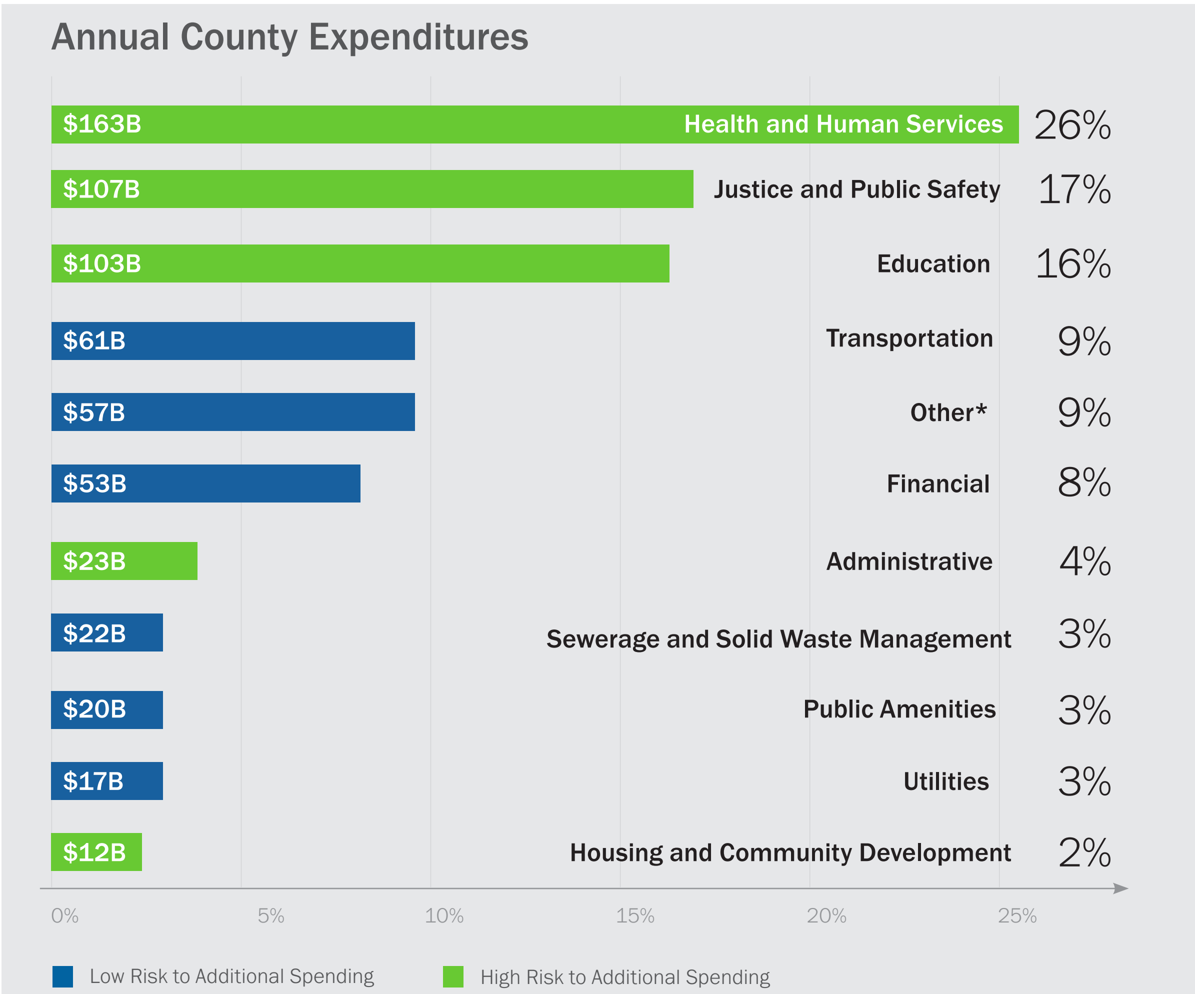


Source: NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance

- County governments raise 71 percent, or $469 billion, of our revenue locally through taxes, administrative charges and fees and utility revenue, with voter approval.[iii]
- **Charges and fees, sales and gross receipt taxes, income taxes and license taxes, which together comprise 42 percent of all county-generated revenue, are in danger of a $114 billion decrease because of the COVID-19 pandemic through FY2021.**[iv]
- Counties are severely limited in our ability to respond and raise additional revenue, even when additional expenditures make it imperative that we do so.
- **More than two-thirds of counties (69 percent, or 2,125 counties) are severely restricted in their authority to raise any additional revenue,** since they are under Dillon's Rule or Hutchinson's Rule authority – which permit them to raise revenue only from sources explicitly outlined in state law.[v]

COUNTY EXPENDITURES SOAR TO $30 BILLION AS RESOURCES ARE POURED INTO LOCAL COVID-19 RESPONSE

EQUIPMENT, HEALTH SPENDING, IT INFRASTRUCTURE COSTS SKYROCKETING



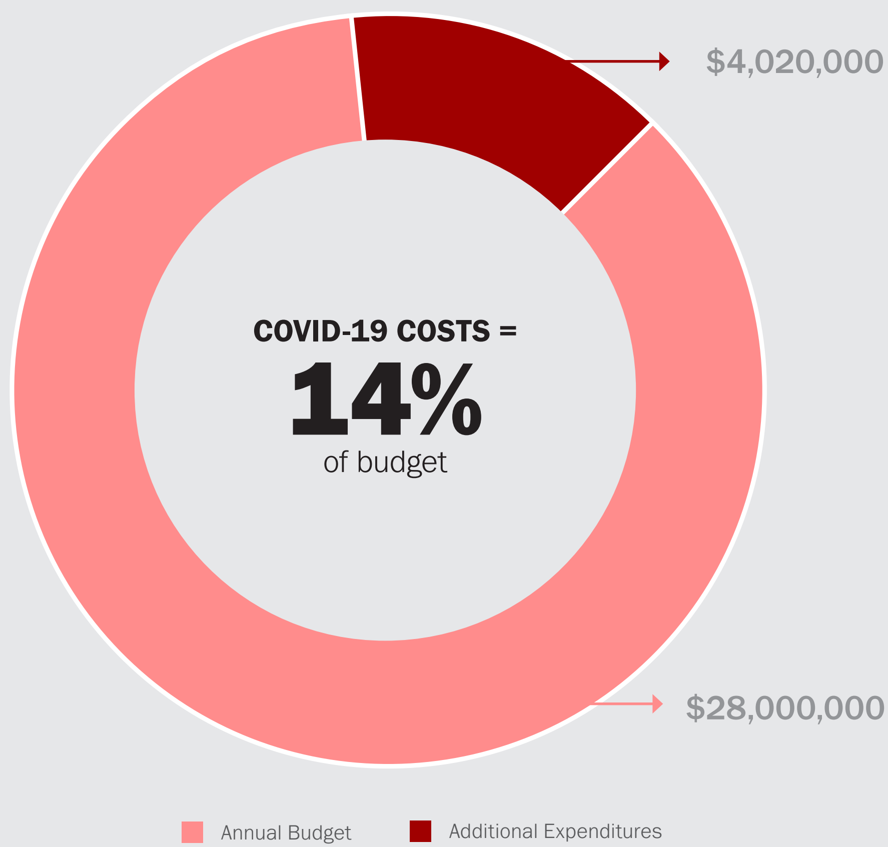
- **Preliminary estimates from NACo show that counties could expect a nearly $30 billion increase through the end of FY2021** in expenditures like health, human services, justice, education, housing and other categories that together comprise 65 percent of county expenditures.[vi]
- **Harris County, Texas has already incurred nearly $43 million of expenditures and expects to continue to invest nearly $11 million each month, resulting in nearly $138 million in additional expenditures by the end of 2020.** The county is investing additional funds in its county hospital district, public health services, sheriff's department, public works department, among other items.[vii]
- **Contra Costa County, Calif. has estimated the crisis will have cost its health department alone $46 million through the month of May:** $6 million for equipment, $6 million for testing, $4 million for services and supplies, $5 million for IT infrastructure, $5 million in increased staffing costs and $20 million in service interruption.[viii]

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

SMALL AND MEDIUM-SIZED COUNTY BUDGETS WILL STRUGGLE TO HANDLE LARGE UNEXPECTED COVID-19 RESPONSE EXPENDITURES

COUNTIES SPENDING LARGE PORTIONS OF ANNUAL BUDGET ON RESPONSE

Roscommon County, Mich., Budget and COVID-19 Costs



- **Small, rural counties are known for having especially tight budgets, so the COVID-19 pandemic is hitting their finances particularly hard.**
- **Roscommon County (Mich.), a county of less than 24,000 residents with a budget of just over $28 million, estimated that it will incur an additional $335,000 of expenditures each month** for closure costs, extra equipment and overtime. These costs translate to a loss of over 14 percent of the county's monthly budget and take away funding from other crucial county services.[ix]
- **Humboldt County, Nev.,** home to 17,079 residents, is **projecting $468,000/month in new costs** that include support to their county hospital, county emergency response, increased inmate medical, emergency day care for essential employees, additional supplies, IT costs for telework and staff costs. The estimate also includes monthly lost revenue of $118,000.[x]

Source: NACo survey, 2020

ENDNOTES

1. NACo's estimate of additional expenditures was calculated using survey data from 30 counties reporting on the cost of COVID-19 in their counties. NACo's estimate of the loss of sales tax revenue, business license tax revenue and revenue from charges and fees assumes a 50-75% decrease in each of these revenue sources for the remainder of FY20, and a 25% reduction for FY21. The loss of income tax revenue is calculated using a 4.1% unemployment rate for Dec. 2017, as compared to a 4.4% rate for March 2020, 20% rate for April 2020, predicted 30% rate for May 2020, predicted 10% rate for the remainder of 2020, and predicted 6-10% for 2021. County revenue and expenditure data comes from NACo's analysis of U.S. Census Bureau - Census of Individual Governments: Finance. 2017 numbers were adjusted to reflect inflation rates for 2018 and 2019.
2. These states include: Colorado, Illinois, Indiana, Kansas, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oklahoma, Oregon, South Dakota, Vermont, Washington, Wisconsin and the District of Columbia
3. NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance
4. Ibid.
5. NACo collection and analysis, 2015.
6. NACo Analysis of U.S. Census Bureau - Census of Individual Governments: Finance; NACo survey, 2020.
7. NACo survey, 2020
8. Ibid.
9. Ibid.
10. Ibid.

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