NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

April 22, 2020

VIA Electronic Mail

President Donald J. Trump
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
317 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Charles Schumer
Minority Leader
U.S. Senate
322 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
235 Cannon House Office Building
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
326 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. President, Leader McConnell, Leader Schumer, Speaker Pelosi, and Leader McCarthy:

On behalf of the National Association of State Budget Officers (NASBO), representing the states' budget and finance officers, we write to express our appreciation for the funding that has been provided to states for COVID-19 response. Unfortunately, the economic impact of this pandemic is even greater than Budget Officers anticipated when we first communicated the need for assistance in our letter on March 19. Without additional direct federal aid to states, forecasted reductions in state revenues will exacerbate the economic fallout from this crisis, as well as impede states' ability to provide vital services to citizens.

Data on the economic impact of the COVID-19 pandemic is beginning to become available. All revenue streams relied upon by states are seeing declines. The two largest sources, income and sales taxes, are experiencing severe reductions due to the public health crisis.

Based on weekly data from the Department of Labor, 22 million Americans have filed for unemployment since March 14.[1] Personal income tax is the largest source of revenue for most states and withholding is the largest component of that tax. In the aggregate, personal income taxes made up 45 percent of state general fund revenues in fiscal year 2019, according to NASBO's *Fall 2019 Fiscal Survey of States*.

Additionally, on April 15 the U.S. Census Bureau reported an 8.7 percent decline in retail and food services sales in March, the largest and fastest month-to-month decline in three decades.[2] This precipitous decline affects sales taxes, which for most states is the second largest source of revenue, comprising 30 percent of total state general fund revenues in fiscal year 2019. With most stay-home orders in place and layoffs at a peak, states expect that April revenue numbers will show a steep decline, with many projecting a shortfall in excess of 20 percent for sales tax revenue alone.

In aggregate, states entered this crisis well-positioned financially following a decade of revenue growth and building reserves. In fact, a significant majority of states have higher rainy day fund levels as a share of general fund spending now than they had before the Great Recession.[3] However, given the sudden, severe, and unprecedented nature of this crisis and its economic impacts, even with the use of rainy day funds, states will still be forced to cut essential services in order to balance their budgets. States are currently facing revenue impacts that could dwarf what was observed in the last recession. Over a two-year period during the Great Recession, total general fund revenue declined by 11.6 percent. States are currently forecasting steep revenue declines of up to 20 percent. In addition, some budgetary management tools employed during that downturn – such as reducing Medicaid provider payments – may be unwise or unfeasible when combatting a public health crisis. Raising taxes and fees would also be difficult and counter to economic recovery, given the largest rise in unemployment claims since 1967 when data began to be tracked.

Additional direct aid to the states, with maximum flexibility to cover revenue loss, will ensure funding for key services including public safety, health systems, infrastructure, and education, while also enabling states to move quickly in re-opening the economy. As we learned from the Great Recession, sustained reductions in state spending and employment can be a significant drag on economic recovery. Additional federal support to states to lessen the impact of state budget cuts is key to a quick economic rebound from the public health crisis.

Again, we thank you for your consideration and we look forward to working with you to safely reopen our economies and begin the road to recovery. Please feel free to reach out to Shelby Kerns, Executive Director at (202) 624-8434 or skerns@nasbo.org, if there is additional information that may be helpful as you consider the request for additional direct aid to states.

Sincerely,

Marc Nicole

Marc Nicole
President, National Association of State Budget Officers

cc: The Honorable Richard Shelby, Chairman, Senate Appropriations Committee
The Honorable Patrick Leahy, Vice Chairman, Senate Appropriations Committee
Secretary Steven Mnuchin, Department of the Treasury
Russell Vought, Acting Director, Office of Management & Budget
Douglas Hoelscher, Deputy Assistant to the President & Director, White House Office of Intergovernmental Affairs

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[1] Department of Labor. “Unemployment Insurance Weekly Claims”. April 16, 2020. https://www.dol.gov/sites/dolgov/files/OPA/newsreleases/ui-claims/20200632.pdf

[2] United States Census Bureau. “Advance Monthly Sales for Retail and Food Service. March 2020”. April 15, 2020. https://www.census.gov/retail/marts/www/marts_current.pdf

[3] National Association of State Budget Officers. *Fall 2019 Fiscal Survey of States*. December 2019. https://www.nasbo.org/reports-data/fiscal-survey-of-states