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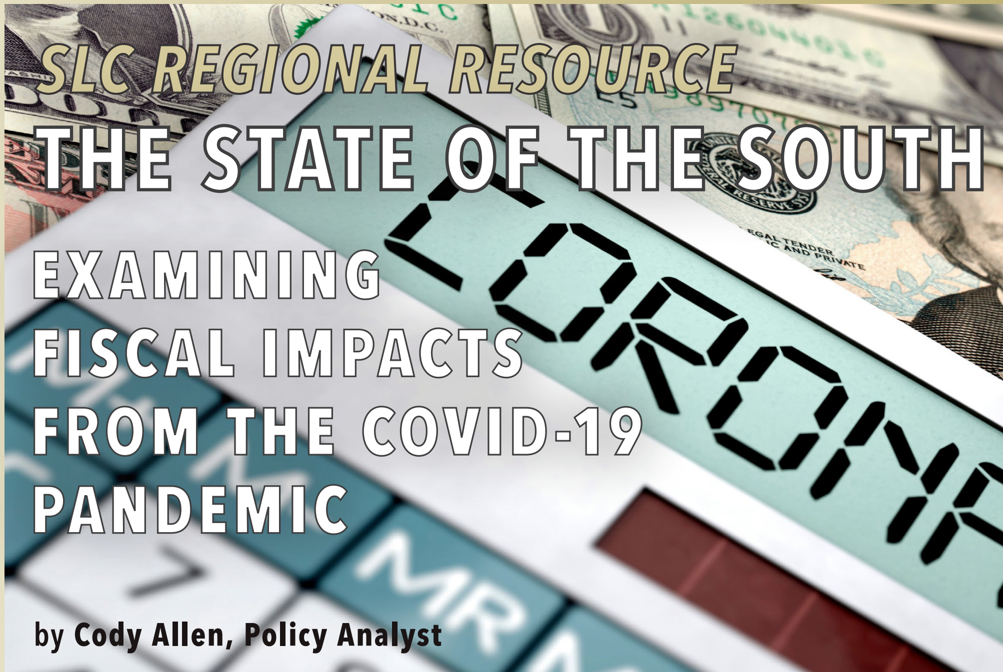

SLC REGIONAL RESOURCE

THE STATE OF THE SOUTH

EXAMINING FISCAL IMPACTS FROM THE COVID-19 PANDEMIC

by Cody Allen, Policy Analyst

On January 30, 2020, the World Health Organization's (WHO) International Health Regulations Emergency Committee declared the COVID-19 outbreak a public health emergency after it had spread to 18 countries.[1,*] After reported cases continued to spread resulting in a new total of 114 afflicted countries, WHO Director-General Tedros Adhanom Ghebreyesus officially declared the outbreak a global pandemic on March 11, 2020.[2]

According to research analyzed by the Southern Legislative Conference of The Council of State Governments (SLC), as of July 1, 2020, there have been 2,675,443 confirmed cases reported in the United States with 120,853 deaths.[3] Of these confirmed cases, more than 30 percent have been reported in SLC states along with more than 17 percent of all recorded deaths.[†] This pandemic, unprecedented in modern United States history, has led to devasting public health and economic crises in the few long months since it was declared a global pandemic.

This *SLC Regional Resource*, current as of **July 1, 2020**, provides a brief account of the current and potential fiscal impacts of the COVID-19 pandemic on the SLC region.

[*] This report uses the terms "COVID-19" and "coronavirus" interchangeably to reference coronavirus disease 2019 (COVID-19) and the novel coronavirus that causes it, severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).

[†] For more information on COVID-19 cases and regional trends, updated weekly, please visit *http://www.slcatlanta.org/research/*.

As this *SLC Regional Resource* demonstrates, many SLC states already have realized significant decreases in revenue collection for fiscal year 2020 (FY20), and can anticipate a continued decline into 2021 and, possibly, beyond as a result of this crisis and the uncertainty regarding the virus's trajectory.[4] However, federal assistance and reserves stronger than prior to the 2007 Great Recession may mean that any short-term economic downturn can be weathered by SLC states, assuming the long-term forecast returns to normal.

Fiscal Year 2020 Impacts

The SLC region saw its first cases of COVID-19 in March 2020, leading every state in the region—apart from Arkansas and Oklahoma—to declare a stay-at-home order by April 7.[5] Public health experts advised policymakers across the country to move quickly to enact social distancing precautions as a best practice response, based on concurrent international responses to the crisis.[6] Facing a looming economic downturn and rising unemployment figures due to the pandemic and resulting shutdowns, state budget and revenue offices reported a steady decline in general fund collections beginning as early as April. As the source of more than 75 percent of revenue for most states, the decreases in income and sales taxes collected will impact budgets in FY20 and beyond.[7] With the federal income tax filing date moved to July 15, most states had no choice but to follow suit—thereby shifting a significant portion of their fiscal year 2020 revenue to the beginning of fiscal year 2021 (FY21).[8]

Table 1	State Individual Income Tax Collections in 2020 (Year-to-Date)*									
	January 2020		February 2020		March 2020		April 2020		May 2020	
State	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*
Alabama	$270.2	4.0	$566.1	13.0	$468.0	6.3	$224.8	-57.8	$525.5	-14.1
Arkansas	$359.0	4.9	$271.6	14.8	$289.6	8.9	$366.4	-39.1	$235.4	1.3
Florida	-	-	-	-	-	-	-	-	-	-
Georgia	$1,353.1	4.3	$541.5	15.4	$971.4	25.5	$851.7	-46.2	$857.1	-3.4
Kentucky	$390.5	13.0	$465.1	5.0	$272.4	25.8	$361.7	-42.2	$344.6	12.4
Louisiana	$475.7	19.4	$183.7	-29.3	$184.2	212.2	$219.7	-55.9	$174.2	-47.8
Mississippi	$229.6	3.0	$180.0	15.9	$172.7	2.9	$192.0	-43.7	$176.7	-4.5
Missouri	$700.1	11.7	$708.4	23.4	$609.2	-8.9	$521.1	-63.9	$558.6	-3.2
North Carolina	$1,380.7	7.0	$897.4	-1.5	$861.6	-1.4	$1,302.8	-42.9	$954.2	12.7
Oklahoma	$333.6	1.5	$276.7	0.1	$325.5	0.9	$350.8	-30.7	$273.7	2.5
South Carolina	$603.3	9.9	-$103.9	13.8	$106.6	-40.0	$238.5	-39.9	$373.7	-18.3
Tennessee	-	-	-	-	-	-	-	-	-	-
Texas	-	-	-	-	-	-	-	-	-	-
Virginia	$1,821.2	8.7	$1,183.4	3.1	$1,377.9	-0.5	$1,616.0	-30.7	$1,452.5	-21.90
West Virginia	$222.2	2.8	$95.8	-7.8	$143.3	16.3	$206.8	-37.9	$125.9	-62.22
SLC Average	-	7.5	-	5.5	-	20.7	-	-44.3	-	-12.2

* Data for Georgia, Louisiana, North Carolina and South Carolina reflects net collections.

Apart from Alabama and Texas, the fiscal year ends on June 30 for SLC member states.* Accordingly, the delay of income tax collections from April 15 to July 15—and from FY20 to FY21—will have major short-term consequences for states.† Virginia is the sole outlier among SLC states due to delaying its income tax filing deadline to June 1, keeping the filing dates within FY20. Tables 1 and 2 demonstrate the impact of the pandemic, and the extension of the federal tax filing deadline, on both individual and corporate income tax collections through the end of May.

* Alabama's fiscal year runs from October 1 to September 30, while Texas's runs from September 1 to August 31.

† Note that only Florida, Tennessee and Texas among SLC states do not levy an individual earned income tax.

In March, Louisiana reported a sizeable 212.2 percent change primarily (see Table 1) due to fewer refunds of income tax withholding—as compared to the same month in 2019. Without Louisiana's sizeable change, the SLC region realized an average decrease in March individual income tax collections of 3.3 percent.

For those states showing unusual variations in corporate income tax collections, as depicted in Table 2, when compared to the prior year, the margin of change typically can be attributed to refund payments. In Kentucky, decreased collections and refund activity led to a $27.1 million drop in corporation income collections as compared to May 2019. In Virginia, May 2019 collections included $25 million in prior refunds, leading to a sizeable discrepancy compared to the current

Table 2 State Corporate Income Tax Collections in 2020 (Year-to-Date)*

State	January 2020		February 2020		March 2020		April 2020		May 2020	
	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*
Alabama	$26.7	61.3	$15.2	81.6	$39.6	7.6	$36.0	-70.3	$8.1	-51.7
Arkansas	$38.6	20.3	$8.1	5.2	$26.2	-68.1	$98.6	-19.1	$15.1	-11.7
Florida	$107.9	-17.8	$65.0	205.2	$139.3	-28.1	$216.1	-65.9	$159.6	-52.7
Georgia	$50.1	28.2	$25.0	44.1	$110.1	0.8	$91.4	-70.6	$24.5	-40.8
Kentucky	-$6.3	-220.1	-$28.2	-23.0	$12.9	-65.4	$24.0	-81.2	-$23.7	-798.9
Louisiana	-$48.3	-366.1	-$24.7	60.0	$40.6	152.9	$57.9	-64.5	$20.4	-78.4
Mississippi	$26.3	-6.4	$12.0	-29.8	$102.3	40.8	$85.5	-60.4	$53.8	31.0
Missouri	$20.4	-25.3	$7.7	-19.3	$39.6	25.8	$48.5	-66.3	$27.2	137.4
North Carolina	$43.3	216.1	$7.6	430.4	$72.2	30.3	$178.2	-45.9	$19.7	-13.2
Oklahoma	$0.2	-95.5	$2.1	-45.7	$15.0	255.8	$14.0	-34.2	$5.0	-25.7
South Carolina	$19.5	149.2	$8.3	44.1	$86.5	-0.2	$28.4	-84.1	$8.7	-39.7
Tennessee	$241.0	19.6	$52.3	-2.0	$248.5	13.0	$264.0	-73.4	$66.7	-4.3
Texas	-$18.8	52.0	$24.1	16.9	$160.3	-11.1	$222.3	-47.7	$652.8	-81.2
Virginia	$29.8	28.7	$17.3	-36.3	$69.2	35.2	$149.9	-45.0	$47.2	1748.3
West Virginia	$11.0	60.2	$3.3	191.9	$8.2	108.9	$20.2	-55.3	$1.7	-96.3
SLC Average	-	-6.4	-	61.6	-	33.2	-	-58.9	-	41.5

* Data for Georgia, Kentucky, Louisiana, North Carolina, South Carolina, Texas, Virginia and West Virginia reflects net collections.

The current and historical revenue information depicted in Tables 1 through 6 was derived from the following state government sources: Alabama Department of Revenue;[9] Arkansas Department of Finance and Administration;[10,11] Florida Department of Revenue;[12] Florida Office of Economic and Demographic Research;[13] Georgia Department of Revenue;[14] Georgia Governor's Office of Planning and Budget;[15] Kentucky Office of State Budget Director;[16] Louisiana Department of Revenue;[17] Louisiana State Treasurer;[18] Mississippi Department of Revenue;[19] Missouri Department of Revenue;[20] Division of Budget and Planning, Missouri Office of Administration;[21,22] North Carolina Office of the State Controller;[23] Oklahoma Tax Commission;[24,25] South Carolina Revenue and Fiscal Affairs Office;[26,27,28] Tennessee Department of Revenue;[29] Texas Comptroller of Public Accounts;[30,31] Virginia Secretary of Finance;[32] and the West Virginia State Budget Office.[33]

year's collections. Excluding Kentucky and Virginia's considerable changes, corporate income tax collections for the month of May in the SLC region decreased by 36.9 percent as compared to 2019.

Table 3 displays the reductions SLC states have seen in sales and use tax collections for the first five months of calendar year 2020. As most sales and use tax collections are reported in the month following actual sales, April data reflects March activity—the first month fully affected by the coronavirus pandemic.[34] Accordingly, the sharpest decline in state revenues can be expected in the April and May collection periods which reflect

Table 3 **State Sales & Use Tax Collections in 2020 (Year-to-Date)**

State	January 2020		February 2020		March 2020		April 2020		May 2020	
	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*
Alabama	$275.2	8.5	$215.5	1.0	$224.1	-0.5	$243.5	-5.9	$222.4	-11.1
Arkansas	$224.4	8.0	$193.1	4.1	$208.0	3.2	$194.5	-2.8	$205.7	-2.8
Florida	$3,227.9	8.7	$2,760.7	6.6	$2,718.4	4.0	$1,886.2	-21.2	$1,495.5	-31.3
Georgia	$1,242.7	4.8	$964.9	-0.1	$936.0	-1.1	$995.7	-9.7	$906.5	-13.3
Kentucky	$430.1	11.2	$270.4	5.2	$298.8	5.0	$340.9	-6.4	$302.8	-10.9
Louisiana*	$316.6	4.7	$243.5	-3.8	$232.4	-8.3	$251.5	-13.9	$241.9	-13.9
Mississippi	$347.2	3.9	$288.6	6.9	$275.1	0.4	$308.3	-5.5	$291.7	-5.0
Missouri	$183.6	-11.9	$222.8	8.9	$173.8	5.6	$156.0	0.2	$199.9	-10.3
North Carolina	$758.4	2.0	$626.6	3.5	$410.2	-4.0	$668.3	-12.6	$600.5	-15.5
Oklahoma	$498.3	1.8	$409.2	-2.1	$422.0	-4.4	$430.4	-9.4	$424.1	-9.5
South Carolina	$317.8	9.8	$245.9	7.0	$239.9	2.0	$207.5	-25.8	$238.0	-15.9
Tennessee	$1,058.5	11.1	$734.0	7.6	$712.8	2.3	$765.8	-6.0	$687.1	-13.4
Texas	$3,038.6	7.8	$2,853.7	2.5	$2,650.9	1.7	$2,544.7	-10.2	$2,568.6	-14.3
Virginia	$379.5	10.0	$276.1	8.8	$262.8	8.0	$306.2	-0.4	$269.5	-12.5
West Virginia	$128.4	3.0	$110.3	5.7	$102.3	2.3	$92.7	-7.8	$108.7	8.1
SLC Average	-	5.5	-	4.1	-	1.1	-	-9.2	-	-11.4

* Data reflects net collections.

when much of the nation was subject to stay-at-home orders or other significant restrictions.

As evidenced by the data in Tables 1, 2 and 3, the coronavirus pandemic already has caused significant declines in state revenue collections—starting in March and continuing steadily through May—correlating with the issuance of public safety measures. However, with much of the United States loosening restrictions in May, collections data in June and July will be instructive in determining whether the long-term ramifications of this public health crisis will severely devastate state revenues beyond FY20.

As expected, with April and May collections reflecting the full impact of the pandemic, alongside nationwide closures, Table 4 shows the SLC region, as a whole, observed a double-digit decrease in collections compared to April and May 2019. In fact, only North Carolina saw a slight increase in reported May collections—due to a sizeable increase in individual income, franchise and insurance and tobacco tax collections as compared to May 2019. As Table 4 demonstrates, the average monthly general revenue for the Southern region declined month-to-month before dramatically falling in April, when the full impact of the coronavirus was first felt, prior to a slight rebound in May, as states began the process of reopening. Experts expect the June—and possibly even July—report to be below FY19 collections as well.[35]

Apart from West Virginia—which realized a slight increase, thanks to strong pre-pandemic collections—

Table 4 **Total Monthly General Fund Revenue in 2020 (Year-to-Date)***

State	January 2020		February 2020		March 2020		April 2020		May 2020	
	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*
Alabama	$1,070.5	11.2	$1,041.7	10.1	$1,009.6	6.7	$876.7	-33.7	$960.4	-12.0
Arkansas	$653.7	5.0	$501.5	9.2	$570.2	-4.9	$687.8	-28.3	$481.9	-2.9
Florida	$3,125.7	4.3	$2,609.0	7.0	$2,656.6	1.3	$2,646.2	-27.9	$2,186.9	-30.1
Georgia	$2,355.2	4.5	$1,353.9	4.2	$1,830.8	9.8	$1,839.4	-35.9	$1,581.1	-10.1
Kentucky	$1,009.7	9.2	$884.0	2.9	$876.1	6.8	$857.0	-33.6	$781.0	-8.1
Louisiana	$877.3	5.6	$536.7	-6.9	$616.3	30.0	$668.9	-42.5	$546.6	-39.2
Mississippi	$743.7	2.3	$624.5	6.9	$677.1	4.2	$764.0	-29.9	$602.2	-7.8
Missouri	$928.9	5.0	$956.1	19.0	$919.2	-6.4	$761.5	-57.2	$803.9	-4.2
North Carolina	$2,372.3	6.1	$1,689.8	1.4	$1,662.9	-0.5	$2,667.7	-33.7	$1,729.8	2.6
Oklahoma	$1,259.0	1.4	$956.8	-1.5	$1,090.4	0.6	$1,078.9	-31.8	$923.1	-14.0
South Carolina	$1,002.7	8.2	$196.7	25.2	$580.1	-6.3	$533.0	-42.9	$654.8	-18.2
Tennessee	$1,890.1	11.5	$1,256.1	7.4	$1,439.8	6.2	$1,592.6	-36.6	$1,240.7	-14.5
Texas	$4,443.9	9.5	$5,196.8	8.5	$4,261.0	-4.6	$3,458.9	-22.2	$3,737.6	-51.8
Virginia	$2,207.7	8.7	$1,196.0	-12.4	$1,463.0	10.8	$1,952.3	-26.2	$1,751.8	-20.6
West Virginia	$437.5	3.6	$299.5	-1.1	$362.8	8.9	$388.5	-35.8	$296.8	-50.9
SLC Average	-	6.4	-	5.3	-	4.2	-	-34.5	-	-18.8

*Total General Revenue data is net for Georgia, Louisiana, North Carolina and Virginia.

every SLC member state has observed decreased FY20 year-to-date collections as compared to the same time period in FY19 as displayed in Table 5 (see page 6). The SLC region, as a whole, realized an almost 3 percent decrease in revenue collections as compared to the prior fiscal year-to-date. Strong pre-coronavirus sales and use tax collections allowed states to blunt the impact of the pandemic on their reported total general revenue for the fiscal year-to-date. The effects of the pandemic were felt most keenly on individual and corporate income tax collections.

Most early estimates expect June, and possibly July, revenue collections to be negatively impacted by the pandemic, state and local government restrictions and the associated economic downturn, suggesting states could be looking at decreases continuing into the first quarter of FY21. A review of historical data to better prepare for various fiscal scenarios during the next 12 to 18 months, as uncertainty continues to surround projections regarding the pandemic's impact, could be instructive as policymakers assess the ongoing economic and fiscal climate.[36]

Comparisons to State Revenue Collections During the H1N1 Influenza Pandemic and Great Recession

Future fiscal projections vary greatly and are dependent upon whether the spread of the coronavirus is contained by early summer, reemerges beyond prior peak levels, or continues to linger through the fall of 2020 and beyond. Some epidemiologists have

Table 5	General Fund Revenue Collections in Fiscal Year 2020 (Year-to-Date)*							
	Individual Income		Corporate Income		Sales and Use Tax		Total General Revenue	
State	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*	Reported Collections *Millions ($)*	Percent Change *Year-to-Year*
Alabama†	$3,138.1	-6.6	$263.3	-19.4	$1,923.0	0.0	$7,854.3	-1.3
Arkansas	$3,116.3	-2.4	$418.8	-15.7	$2,316.3	2.7	$6,271.7	-2.0
Florida	-	-	$2,058.5	-20.5	$22,769.1	2.1	$29,501.8	-3.6
Georgia	$10,666.0	-4.2	$885.8	-15.3	$5,646.0	-1.4	$20,811.1	-4.0
Kentucky	$4,061.3	-1.5	$219.9	-49.9	$3,730.2	3.7	$10,156.4	-1.8
Louisiana	$3,247.8	-5.4	$257.3	-37.7	$2,945.9	-4.7	$7,950.7	-7.8
Mississippi	$1,983.7	-4.3	$548.2	-13.4	$3,242.3	2.1	$7,257.7	-2.2
Missouri	$6,358.3	-9.1	$412.9	-7.5	$2,080.3	1.0	$9,267.0	-6.7
North Carolina	$11,391.1	-5.6	$538.8	-17.9	$7,256.7	1.4	$21,024.2	-3.2
Oklahoma	$3,302.2	-1.2	$81.2	1.4	$5,001.0	-2.0	$11,916.0	-4.3
South Carolina	$4,205.2	-1.6	$284.6	-30.9	$2,637.3	1.5	$7,949.4	-1.3
Tennessee	-	-	$1,920.7	-15.3	$8,847.4	3.0	$16,456.8	-1.1
Texas‡	-	-	$901.0	-76.8	$25,376.9	7.3	$37,800.7	-5.6
Virginia	$14,968.9	-2.8	$780.8	1.6	$3,229.7	5.4	$18,644.2	-1.2
West Virginia	$1,767.6	1.6	$141.9	-5.4	$1,225.5	11.2	$3,988.6	2.3
SLC Average	-	-3.6	-	-21.5	-	2.2	-	-2.9

* All data reflects net collections for Georgia and Louisiana, while for Virginia only Total General Revenue data reflects net collections.

† Alabama's fiscal year runs from October 1 to September 30.

‡ Texas's fiscal year runs from September 1 to August 31.

suggested COVID-19 could become a new seasonal outbreak until a vaccine is widely available.[37]

While it only has been a few months since the first domestic cases were reported, the impacts of the pandemic and resulting restrictions have led to both short- and long-term negative fiscal impacts. As illustrated, in the near-term, emergency appropriations and transfers from reserves or rainy day funds will be the first line of defense to shore up revenue shortfalls and ensure the continuation of essential services.[38] In FY21, and possibly beyond, states can expect revenue decreases due to the cancellation of large events, lack of consumer confidence and, hence, spending, widespread unemployment and a timid public return to daily life.[39]

Each fiscal crisis is different and — while the exact scenarios are not a one-to-one comparison — the impact of the 2009 H1N1 Influenza pandemic on state revenue collections may serve to better inform policymakers when crafting responses to the COVID-19 crisis. The 2009 H1N1 Influenza pandemic began with the first publicly announced case in the United States on April 15, 2009, and continued to spread throughout the country until August 2010, at which point major health organizations declared the virus under control.[40] Occurring during the midst of the

Table 6	SLC States' Gross General Revenue Collections During 2009 H1N1 Influenza Pandemic*									
State	April 2009 *Millions ($)*	Percent Change *Year-to-Year*	July 2009 *Millions ($)*	Percent Change *Year-to-Year*	October 2009 *Millions ($)*	Percent Change *Year-to-Year*	April 2010 *Millions ($)*	Percent Change *Year-to-Year*	FY10 *Millions ($)*	Percent Change *Year-to-Year*
Alabama	$792.1	-5.8	$519.6	-5.3	$537.5	-6.0	$682.0	-13.9	$8,197.1	-2.5
Arkansas	$650.1	-6.8	$406.3	-3.9	$392.3	-7.4	$601.2	-7.5	$5,430.4	-2.4
Florida	$2,024.6	-15.0	$1,618.3	-14.8	$1,638.3	-7.5	$2,265.4	11.9	$22,060.9	2.0
Georgia	$1,399.0	-20.6	$1,096.2	-9.7	$1,140.1	-17.8	$1,340.5	-4.2	$14,459.5	-8.4
Kentucky	$826.7	-12.1	$620.5	-4.0	$652.4	-4.0	$782.0	-5.4	$8,225.1	-2.4
Louisiana	$690.8	-28.4	$627.4	3.1	$553.1	-20.6	$524.9	-24.0	$8,757.6	-9.3
Mississippi	$644.6	-9.1	$375.2	-13.7	$547.2	-4.3	$654.8	1.6	$6,554.8	-4.5
Missouri	$1,172.5	-1.3	$515.1	-5.9	$495.6	-9.1	$1,113.0	-8.3	$8,243.6	-7.3
North Carolina	$2,335.7	-22.0	$1,348.5	0.7	$1,492.1	-6.2	$2,251.9	-3.6	$17,745.0	5.8
Oklahoma	$972.6	-16.2	$739.0	-18.4	$739.5	-19.1	$979.5	0.7	$7,717.3	-11.6
South Carolina	$457.9	-24.5	$303.5	9.5	$475.9	-16.5	$457.8	0.0	$5,719.3	-5.3
Tennessee	$1,215.9	-12.7	$815.0	-4.6	$698.2	-1.5	$1,243.0	2.2	$10,070.4	-1.7
Texas	$2,425.4	-12.2	$2,578.1	37.3	$2,087.1	-24.7	$2,695.0	11.1	$30,954.0	-6.1
Virginia	$1,903.1	-12.4	$1,100.9	-6.7	$1,208.6	-3.0	$1,843.1	-3.2	$14,219.5	-0.7
West Virginia	$490.2	5.1	$269.9	-11.5	$287.2	-12.0	$454.4	-7.3	$3,758.4	-3.7
SLC Average	-	-12.9	-	-3.2	-	-10.7	-	-3.1	-	-3.9

* All numbers reflect gross collections, except for Georgia, for which only historical net collections were available.

Great Recession, the H1N1 pandemic further shocked weakened economies in the United States and across the globe. As Table 6 demonstrates, most states realized significant decreases in revenue collections during FY10 and the peak months of the H1N1 pandemic. By examining the fiscal impact of the 2009 H1N1 outbreak and ongoing recession on state revenue collections, policymakers may be able to anticipate the reserves necessary to minimize the impacts of this pandemic on state functions.

While this comparison may be helpful for illustrative purposes, it is worth noting that other external factors—such as the ongoing global recession—also impacted revenue collections for the time period charted in Table 6. This review of past collections may help to inform current and future fiscal policy decisions, as the United States currently faces a defined and—according to Federal Reserve Chair Jerome Powell—unprecedented recession period due to the coronavirus pandemic.[41]

What can states learn from the 2009 experience? Most states already have realized sharper decreases in revenue collections in April than was seen at any time during the 2009 pandemic and recession, and severe reductions in collections can be expected throughout the remainder of the current fiscal year and on through FY21—especially if, as some public health experts have projected, a resurgence in cases causes another nationwide or regional shutdown. Additional decreases in both individual and corporate income taxes and sales and use taxes can be expected in the states that levy those, due to the prolonged shut-downs, as well as general public uncertainty as states attempt to reopen.[42] Most states have realized sharper decreases in revenue collections in April than was evident during any individual month of the 2009 H1N1 Influenza pandemic in the midst of the Great Recession.

Based on the comparisons of revenue collections during the 2009 H1N1 crisis, it seems prudent to prepare for a significant downturn in fiscal year-end collections of 3 percent or more, as was realized during the 2009 crisis. While not perfectly comparable, due to the pre-epidemic impact of the Great Recession as well as the unprecedented economic shutdown in response to COVID-19, the data in Table 6 may serve as a comparative resource for lawmakers as they move forward in setting fiscal policy.

Table 7 Coronavirus Relief Fund Allocations to State and Local Governments in the South

State	Total Allocation *Millions ($)*	State Government Allocation *Millions ($)*	Local Government Allocation *Millions ($)*	Number of Eligible Local Government Units
Alabama	$1,901.3	$1,786.3	$114.9	1
Arkansas	$1,250.0	$1,250.0	-	-
Florida	$8,328.2	$5,855.8	$2,472.4	12
Georgia	$4,117.0	$3,502.9	$614.1	5
Kentucky	$1,732.4	$1,598.6	$133.8	1
Louisiana	$1,802.6	$1,802.6	-	-
Mississippi	$1,250.0	$1,250.0	-	-
Missouri	$2,379.9	$2,083.7	$296.2	2
North Carolina	$4,066.9	$3,585.4	$481.5	4
Oklahoma	$1,534.4	$1,259.1	$275.3	3
South Carolina	$1,996.5	$1,905.1	$91.4	1
Tennessee	$2,648.1	$2,363.4	$284.7	3
Texas	$11,243.5	$8,038.3	$3,205.1	
Virginia	$3,309.7	$3,109.5	$200.2	1
West Virginia	$1,250.0	$1,250.0	-	-

Source: "Payments to States and Eligible Units of Local Government," U.S. Treasury, May 11, 2020, *https://home.treasury.gov/system/files/136/Payments-to-States-and-Units-of-Local-Government.pdf.*

Direct Federal Relief to State and Local Governments

On March 27, 2020, President Trump signed House Resolution 784, the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation established a $150 billion Coronavirus Relief Fund to distribute direct aid to state and local governments in response to the coronavirus outbreak, as well as other smaller disbursements or grants for other pandemic-related uses.[43] The Coronavirus Relief Fund allocations were distributed to states, with a portion further allocated to eligible local governments whose populations exceed 500,000, based on the most recent U.S. Census Bureau data. Most SLC member states — 11 of 15 — had local government units that qualified for federal funds (see Table 7).[44] Additionally, a second round of direct Congressional aid to state and local governmental entities may be forthcoming. On May 15, the House narrowly passed H.R. 6800 — Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act — which would allocate approximately $3 trillion to state and local governments but faces opposition from Senate leadership and the White House.[45,46]

The distributions from the Coronavirus Relief Fund are subject to certain restrictions governing covered expenditures. Specifically, payments only may be used to cover necessary expenditures incurred due to the COVID-19 public health emergency; unaccounted for in the budget most recently approved as of March 27, 2020, for the state or local government; and incurred during the period beginning on March 1, 2020, and ending on December 30, 2020.[47] While the U.S. Department of the Treasury and White House administration have indicated allocation of CARES

Table 8 — **Estimated Coronavirus State Fiscal Relief Fund State Allocations of the HEROES Act**

State	Year One Allocation *Millions ($)*	Year Two Allocation* *Millions ($)*	Total Allocation *Millions ($)*	Per Capita Total *Hundreds ($)*
Alabama	$3,600	$3,100	$6,700	$1,373
Arkansas	$2,500	$2,700	$5,200	$1,737
Florida	$12,300	$11,800	$24,200	$1,124
Georgia	$7,100	$6,700	$13,800	$1,297
Kentucky	$3,300	$4,100	$7,400	$1,661
Louisiana	$4,300	$4,900	$9,200	$1,980
Mississippi	$2,700	$3,200	$5,900	$1,985
Missouri	$4,200	$4,800	$9,000	$1,460
North Carolina	$6,400	$7,200	$13,500	$1,292
Oklahoma	$3,000	$2,900	$5,800	$1,473
South Carolina	$3,600	$2,900	$6,500	$1,264
Tennessee	$4,700	$4,600	$9,300	$1,366
Texas	$15,800	$18,400	$34,200	$1,180
Virginia	$5,900	$5,000	$10,900	$1,281
West Virginia	$1,900	$2,400	$4,200	$2,366

* Based on projected state unemployment figures through first quarter 2020.

Source: "How Much Would Each State Receive Through the Coronavirus State Fiscal Relief Fund in the Heroes Act?" Center on Budget and Policy Priorities, May 28, 2020, *https://www.cbpp.org/research/state-budget-and-tax/how-much-would-each-state-receive-through-the-coronavirus-state-fiscal.*

Act funds falls to governors, most states have reached compromises where their respective executive and legislative branches established a joint procedure for distributing the federal funds.[48,49]

The restrictions limiting covered expenditures have led some state and local leaders to push for a fourth round of federal legislation focused on direct financial assistance to state and local governments which are facing devasting budget cuts due to the pandemic and lengthy shutdowns. Table 8 reflects the funding states in the SLC region could realize if the HEROES Act passes the Senate, as currently authored, through the Coronavirus State Fiscal Relief Fund.[50]

As depicted in Table 8, across the Southern region, the estimated average per capita allocation would be $1,523. Although some members of Congress have indicated no additional coronavirus aid will be forthcoming, if a subsequent peak in cases requires states to reinstate previous public safety measures, further economic stimulus and financial assistance to states may be necessary.[51] Although there is disagreement among Congressional leadership regarding further direct assistance to state and local governments, specifically regarding the inclusion of spending restrictions, some measure of additional aid likely is to be enacted – whether comparable to H.R. 6800 or a compromise bill drafted through negotiations with Senate leadership.[52,53]

Projected Impacts in FY21 and Beyond

Policymakers across the spectrum recognize there will be significant budget shortfalls in FY21 and beyond – as evidenced by the 2009 H1N1 influenza pandemic and Great Recession data. While economic projections and revenue estimates continually are updated, due to uncertainty regarding the length of the virus's impact and any possible resurgence, significant shortfalls are a near certainty after the United States entered a recession period in February.[54]

Due to uncertainty surrounding the pandemic's long-term resiliency and severity, most state official revenue estimates and forecasts are in a constant state of flux as experts continue to reevaluate projections and models.[55] However, nongovernmental experts have begun to provide models and projection policymakers may wish to consider as they convene special legislative sessions to address budget shortfalls due to this crisis.

On April 14, 2020, Moody's Analytics released its *Stress-Testing States: COVID-19* report, forecasting the impact a coronavirus recession may have on states' economies. The researchers ran state tax revenue projections through two different recession scenarios to anticipate potential economic and pandemic effects. The baseline scenario, in April, assumed a significant recession through the first half of 2020, followed by a modest rally, with peak unemployment only reaching 13 percent in Q2 of 2020 and a peak real GDP decline of 10 percent. Alternatively, the most severe model supposes state travel and business restrictions continue, or are reimplemented, through Q3 of 2020 with peak unemployment up to 17 percent and a peak real GDP decline of 14 percent.[56] Of note, the Federal Reserve Bank of Philadelphia's May 15, 2020, survey of economic forecasters projected Q2 of 2020 unemployment reaching 16.1 percent with a real GDP decline of 32.2 percent which, if realized, would place the United States in Moody's severe recession scenario.[57]

Table 9 — **Modeled State Tax Revenue Projections through end of FY21[*]**

State	Baseline Recession		Severe Recession	
	Shortfall *Millions ($)*	Shortfall *Percentage*	Shortfall *Millions ($)*	Shortfall *Percentage*
Alabama	-$769.80	-8.3	-$1,030.17	-11.1
Arkansas	-$667.35	-11.3	-$705.29	-11.9
Florida	-$6,391.69	-18.8	-$8,138.13	-23.9
Georgia	-$2,553.36	-10.0	-$3,320.28	-13.0
Kentucky	-$1,789.98	-15.6	-$2,475.37	-21.5
Louisiana	-$3,474.04	-36.4	-$4,366.56	-45.7
Mississippi	-$840.04	-14.5	-$1,007.29	-17.4
Missouri	-$2,156.37	-22.5	-$2,900.40	-30.3
North Carolina	-$2,513.90	-10.1	-$3,296.52	-13.3
Oklahoma	-$1,706.42	-22.2	-$2,133.99	-27.7
South Carolina	-$1,407.94	-16.0	-$1,713.93	-19.5
Tennessee	-$1,624.35	-10.8	-$2,188.31	-14.6
Texas	-$8,481.95	-14.7	-$11,987.85	-20.7
Virginia	-$2,780.91	-13.0	-$3,275.96	-15.3
West Virginia	-$1,343.26	-28.2	-$1,876.18	-39.4
South Average	-	-16.8	-	-21.7
East Average	-	-13.7	-	-17.9
Midwest Average	-	-14.8	-	-19.5
West Average	-	-18.4	-	-23.0
50-State Average	-	-14.8	-	-19.5

[*] Regional averages do not include U.S. territories or the District of Columbia.

Source: Dan White, Sarah Crane and Colin Seitz, "Stress-Testing States: COVID-19," Moody's Analytics, April 14, 2020, *https://www.economy.com/getlocal?q=37F6F320-EF2A-4806-9AAB-EADE66FA0317&app=download.*

As Table 9 exhibits, compared to other regions, the South is modeled to realize the second largest average revenue shortfall, more than two percentage points higher than the national average.[*] Seven SLC member states—Florida, Kentucky, Louisiana, Missouri, Oklahoma, Texas and West Virginia—have projected shortfalls of more than 20 percent. Of the states projected to see the highest revenue shortfall in this study, four of the top 10—Louisiana, Missouri, Oklahoma and West Virginia—are in the South, the most of any region.[58]

[*] The regions in Table 9 represent CSG membership designations, as defined at *https://www.csg.org/about/regionaloffices.aspx*.

Many states, however, may find solace in better-than-expected rainy day fund balances, also referred to as a budget stabilization fund—specifically for general fund accounts—as many have rebounded in the decade following the Great Recession. The National Association of State Budget Officers' (NASBO) *Fall 2019 Fiscal Survey of States* compared state budget stabilization fund balances as a percentage of their general fund expenditures. Of note, budget stabilization

Table 10	SLC State Budget Stabilization Fund Balance to General Fund Expenditures Comparison			
	Pre-COVID Status (FY20)*		Pre-Great Recession Status (FY07)	
State	Budget Stabilization Fund Balance *Millions ($)*	Percentage of General Fund Expenditures	Budget Stabilization Fund Balance *Millions ($)*	Percentage of General Fund Expenditures
Alabama	$945	10.1	$675	8.5
Arkansas†	$153	2.7	-	-
Florida	$1,574	4.6	$1,230	4.2
Georgia	$2,557	10.6	$1,384	7.2
Kentucky	$304	2.6	$232	2.6
Louisiana	$430	4.4	$683	8.1
Mississippi	$465	8.1	$264	6.0
Missouri	$654	6.3	$268	3.4
North Carolina	$1,254	5.3	$787	4.2
Oklahoma	$806	11.5	$572	10.3
South Carolina	$569	6.6	$168	2.6
Tennessee	$1,100	7.0	$543	5.2
Texas	$7,830	12.9	$405	1.1
Virginia	$1,375	6.0	$1,190	6.6
West Virginia	$810	16.9	$515	13.9
SLC Average	-	8.1	-	6.0

* Georgia's data reflects FY18 balances, while North Carolina and Oklahoma's data reflects FY19 balances.

† Arkansas's long-term reserve account was established in 2016.

Sources: Jordan Head, Brian Sigritz and Stacey Mazer, "Fall 2007 Fiscal Survey of the States," National Association of State Budget Officers, December 2007, *https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Fiscal%20Survey/fsfall2007.pdf* and Kathryn Vesey White et al., "Fall 2019 Fiscal Survey of the States," NASBO, December 2019, *https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Fiscal%20Survey/NASBO_Fall_2019_Fiscal_Survey_of_States_S.pdf.*

funds, as referenced in Table 10, specifically reflect those funds set aside to support general fund spending during unanticipated downturns, and do not include general fund ending balances.

As Table 10 exhibits, the majority of states in the SLC region are in a stronger position than they were prior to the Great Recession of 2007 to 2009.[59] Only Louisiana and Virginia realized a decrease in their budget stabilization fund to general fund expenditures ratio, while Kentucky's balance remained at the same ratio as it was in FY07. With an overall budget stabilization fund to general fund expenditure growth of 2.1 percent, the South is in a slightly better position to handle the coronavirus-related economic downturn compared to their standing during the Great Recession.

With revenue collections expected to be significantly below projections through the end of FY20, and into the first quarter of FY21, many states in the SLC region may be able to blunt the short-term economic downturn via the use of rainy day fund balances. However, if this economic downturn extends into the second quarter of FY21, or a resurgence causes a return to widespread shutdowns, these reserves may not be sufficient to weather the economic recession without sizeable federal assistance. A June 24, 2020, update to Moody's Analytics *Stress-Testing States: COVID-19* report estimates that states will need an additional $500 billion in direct federal aid during the next two fiscal years in order to dull the effects of the pandemic and resulting economic downturn. Specifically, the updated stress testing model projects a more than $394.4 billion revenue shortfall for states in a severe recession scenario.[60]

Conclusion

As lawmakers continue to monitor and respond to this situation, examining the impacts felt during prior crises—such as the Great Recession and the 2009 H1N1 outbreak—may provide some insight into what lawmakers can expect. While it still is unknown if the current downturn will match the long-term impact felt by the recession a decade ago, into FY21 and beyond, the 2008 economic crisis dominated budget discussion for both the 2009 and 2010 fiscal years. Therefore, states can expect to address the fallout from this pandemic, both in the public health and fiscal sectors, through FY22 at the very least—especially with dire unemployment figures across the country.[61,*] By taking actions now, whether through executive or legislative actions, and prioritizing responses in the course of any special sessions prior to, as well as during, the upcoming 2021 legislative sessions, lawmakers may be able to moderate the impacts while their states work through this crisis.

[*] For more information on unemployment figures across the SLC region, updated weekly, please visit *http://www.slcatlanta.org/research*.

There is a glimmer of good news, as some states—such as Arkansas and Georgia—have reported May collections that, while less than FY19 collections, are above the revised forecasts which had been lowered in response to the pandemic.[62,63] These returns may demonstrate that previous worst-case projections have not yet affected state revenues. If the pandemic is slowing, and does not see a resurgence in the fall that leads to a return to a more restrictive economic shutdown, most states will see reductions in revenue that are more manageable than expected in the short-term, lessening the need for draconian budget cuts.

As Chairman Raphael Bostick of the Federal Reserve Bank of Atlanta has noted, the key to national and regional economic recovery is eliminating COVID-19.[64] Until a widespread vaccination or treatment is determined, policymakers should be on the alert for further fiscal impacts caused by the pandemic.[65] Recent news from public health experts have anticipated a timeline where a successful vaccination or treatment may be widely available by December 2020, or the beginning of 2021.[66] If so, this short-lived—but costly and devasting—public health crisis will avoid becoming a second Great Recession—and states can begin the process of recovery.

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This report was prepared by **Cody Allen**, policy analyst and committee liaison of the Fiscal Affairs & Government Operations Committee of the Southern Legislative Conference, chaired by **Representative Penny Houston** of **Georgia**. This report reflects the policy research made available to appointed and elected state officials by the **Southern Office** of **The Council of State Governments** (CSG).

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