The Coronavirus Recession

Maine needs fiscal relief now to address revenue shortfall of at least $1.2 billion

by Sarah Austin, Policy Analyst | May 5, 2020

Just two months after the coronavirus pandemic's first ripples were felt in the economy, forecasters say unprecedented state revenue shortfalls jeopardize state and local budgets. **In Maine, revenue losses will total roughly $1.2 billion in the fiscal year ending on June 30, 2021.**[1] Maine will likely face further losses in the subsequent budget cycle, as state revenue shortfalls nationwide are projected to total $650 billion by the end of fiscal year 2022.[2]

Those projections represent the steepest revenue drop on record.[3] Without fiscal relief, states will be forced to lay off teachers and other workers, cut important services like health care and education, and take other actions that will ultimately make the recession and its recovery longer and more painful.

The best solution lies with the federal government, which has unparalleled power to backfill state budget shortfalls, thereby protecting jobs, essential services, and other public investments when they are needed most.

Congress has created a Coronavirus Relief Fund that provided some relief to states. Those funds are a start, but more is needed to prevent an unprecedented state budget catastrophe, that would harm Mainers' health and economic security. Congress and the President must increase and extend the Fund and give states more flexibility in using relief funds to cover rising costs and make up for lost revenues.

How we got here: Coronavirus has hurt Maine workers, economy

The coronavirus pandemic has prompted necessary but economically disruptive measures to reduce transmission and save lives, triggering a new recession unlike any downturn we have experienced before.

The crisis is marked by unprecedented unemployment and unparalleled shocks to consumer demand and global supply chains — not to mention a near-cessation of all normal economic activity as the public limits physical interactions to slow the virus's spread.[4]

Pandemic spurs widespread layoffs

The coronavirus spurred an unprecedented spike in joblessness. In just over a month, Maine lost more than five times the number of jobs lost during the 18-month-long Great Recession.[5] More than 108,500 Mainers filed initial claims for unemployment between March 12 and April 25, a number representing more people than the populations of Portland and Lewiston combined and 15.6 percent of Maine's total workforce.[6] Even more Mainers have lost income as a result of the pandemic.[7]

Nearly half of Mainers were already unprepared for a $400 emergency before the pandemic started, suggesting that few are prepared for a full loss of income.[8] Mainers employed in industries that pay lower wages, such as restaurants and lodging, are most likely to lose their jobs and least likely to be able to withstand the ensuing income shock without significant assistance.[9]

National claims data suggests the US unemployment rate has risen to 20.5 percent, a near-sixfold increase since February.[10] Meanwhile, the Congressional Budget Office expects unemployment to average around 15 percent between April and September, and to remain high for many months thereafter. The CBO expects the unemployment rate to decrease slowly, reaching 9.5 percent by the end of 2021.[11] In comparison, the US unemployment rate during the Great Recession *peaked* at 10 percent in October 2009.[12]

With unemployment likely to remain high for the next year and a half, policy decisions must be made with a goal of protecting whatever jobs we can. Public-sector jobs in Maine account for roughly one-sixth of Maine's labor force — about 128,000 jobs.[13] Shoring up state and local budgets is key to stabilizing this large section of Maine's labor force.

In the middle of a pandemic, out-of-work Mainers also risk losing health care

The Economic Policy Institute estimates that 47,884 Maine workers lost their employer-sponsored health insurance when they were laid off.[14] This estimate does not include additional Mainers — such as children, spouses, and other dependents — who may have lost coverage that they received through a family member's employer-sponsored plan.

April enrollment reports for Medicaid show an additional 7,490 Mainers enrolled in the past month,[15] a larger-than-usual 3 percent increase in total enrollment. However, it is not unusual for Medicaid enrollment to lag unemployment, in part because laid-off individuals may not realize they are eligible. The month-long prohibition on nonessential hospital visits has likely also reduced enrollment, as many eligible individuals do not apply for coverage until urged to do so during a hospital visit.

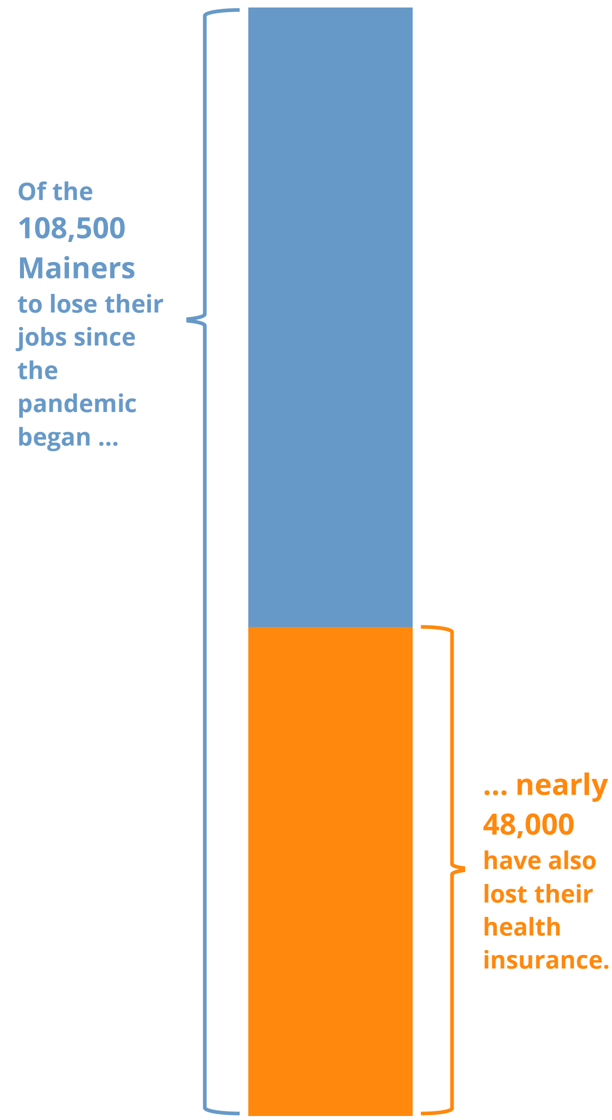
Economists predict GDP plummet

Economists at large forecasting firms predict precipitous declines in GDP and have already declared a new recession based on those projections.[16]

Most of the country began feeling the effects of the pandemic only in mid-March, but the impact was so swift that first quarter GDP this year dropped by 4.8 percent. The second quarter, encompassing the months of April through June, is expected to register a staggering 39.6 percent drop in GDP.[17]

The Congressional Budget Office forecasts US GDP will fall 5.6 percent this year and the International Monetary Fund predicts a slightly steeper plunge in US GDP of 5.9 percent for the same period.[18]

Chart 1: More than four in ten newly unemployed Mainers have also lost their health insurance



Notes: Job losses represent new Maine Unemployment Insurance Claims, March 15 through April 25.

Sources: Unemployment claims from Maine Department of Labor. Employer-sponsored health insurance losses from Economic Policy Institute Analysis of state UI claims data, federal UI claims data, Quarterly Census of Employment Wages data, and the 2018 Annual Social and Economic Supplement to the Current Population Survey.

Chart 2: State budget shortfalls from Coronavirus could be largest on record

*Total shortfall per fiscal year, in billions of 2020 dollars. * Chart and estimates from analysis by Center on Budget and Policy Priorities, using Congressional Budget Office and Goldman Sachs unemployment estimates. Does not reflect use of rainy day funds or federal aid already enacted. Source: CBPP survey of state budget offices (through 2013); CBPP calculations (2020-2022)*

Economic slowdown spurs state budget crisis

This economic downturn threatens Maine's budget stability at a time when the state is taking on new costs associated with fighting the pandemic and reducing harm from the recession.

State revenues take a hit as Mainers reduce spending, businesses close their doors, and incomes decline as a result of reduced hours and increased unemployment.

New analysis from the Center on Budget and Policy Priorities anticipates that states will see a $650 billion drop in revenues through the end of the 2022 fiscal year. [19]

Under this scenario, Maine would lose 30 percent of its annual revenue next fiscal year — a record shortfall that will put a hole in the current two year budget of at least $1.2 billion.

Despite continued uncertainty about the trajectory of the public health crisis and the future of the economy, the scale of the problem facing Maine is clear. Without substantial fiscal relief from the federal government, states will be forced to make deep cuts to education, health care, and other investments that are critical not only to Mainer's health and economic security, but to the overall recovery effort.

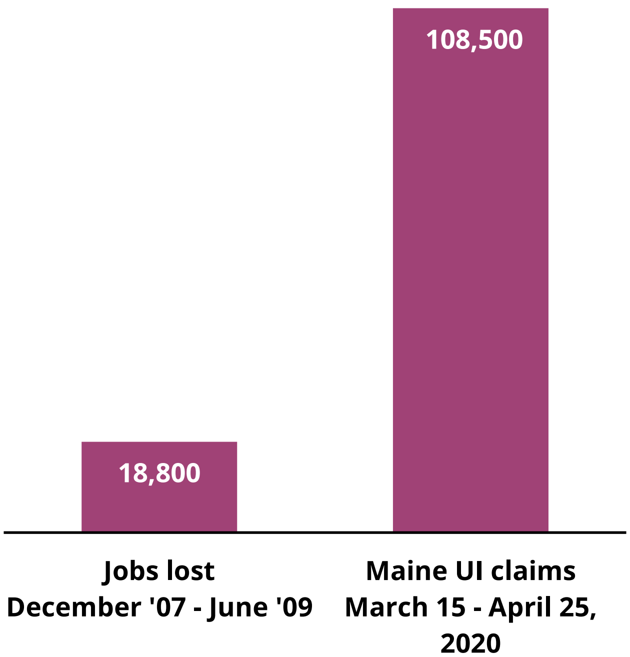
Budget Stabilization Fund cannot cover unprecedented coronavirus fiscal crisis

Maine's Budget Stabilization Fund exists to help the state stabilize the budget and fill revenue holes in economic downturns and periods of temporary reductions in expected revenue.

Maine has done a reasonably good job building up this strategic reserve.[20] The state entered this recession with a fund balance of $258 million — approximately 6.3 percent of 2021 forecasted general fund revenues. That figure includes $17.4 million appropriated by the legislature in their supplemental budget passed in March.[21]

That puts Maine in the middle of states, in terms of reserves available for a "rainy day." Unfortunately, the coronavirus recession is more like a 100-year flood. The Budget Stabilization Fund was never designed to address a crisis of this magnitude. The current balance would cover only a fifth of the estimated revenue decline for fiscal year 2021.

Chart 3: Coronavirus jobs toll already 5 times that of Great Recession



Source: US Bureau of Labor Statistics CES data and Maine Department of Labor Statewide Unemployment Insurance Claims data. Non-seasonally adjusted data, see Endnote 5.

Revenue shortfall has already begun

Steep revenue declines are anticipated for both fiscal years of Maine's current two-year budget cycle, with a budget-busting 30 percent shortfall in the second year, which ends June 30, 2021.

Lawmakers have until that date to balance the current budget to account for any revenue shortfalls — and to pass the next two-year budget, the revenues for which will likely still be down from pre-pandemic projections.

However, it is difficult to raise revenue or reduce costs retroactively. Policymakers should not wait to act.

Data on revenue collections during the pandemic and lockdown is still weeks away, and a revenue re-forecast is not due until August. Still, we have some information that shows the dire fiscal situation Maine faces:

- **Maine revenues for the current fiscal year were already $10.9 million below what was projected before the current downturn began.**[22] Declines in sales tax revenues are all but certain for the month of March and April, but receipts for that period will not be available until later this month.
- **National sales were down 8.7 percent for March,** according to the US Census Bureau.[23] At that time, businesses were beginning to adjust operations as a result of the pandemic, but full-scale lockdowns were not yet in effect in most of the country. It is all but certain that April sales decreases will be far more severe. Even after mandated closures and stay-at-home orders are lifted, cautious consumers may be slow to resume pre-pandemic levels of economic activity.[24] Until people feel safe, sales are likely to remain lower than they were before the crisis.
- **Meals and lodging taxes are estimated to be down 75 percent** in the period of lockdowns, a much sharper decline than the drop in sales tax revenue generally.[25] These predictions of steep decline are becoming clear in data. In the last week of March as lockdowns got underway, national hotel occupancy rates fell to just 22.6 percent.[26] Food service and drinking establishment business was down 26.5 percent for the month of March.[27] The initial losses in meals and lodging tax revenues may be mostly attributed to the necessary limitations on non-essential businesses. But the economic hardship many families face will likely lead to sustained reductions in spending.
- **Income taxes will decline as layoffs and reductions in working hours wipe out household earnings.** Regular unemployment benefits are taxable and may help to make up part of the lost income tax base, but a major shortfall will remain. Unemployment benefits typically equal only about 60 percent of normal income, and not everyone who becomes unemployed or loses income will be successful in securing benefits.[28] Temporarily increased unemployment benefits will increase the tax base, however they are scheduled to expire at the end of June. On balance, the income tax base will be significantly smaller this year and next.
- **Questions remain about capital gains revenue.** Income tax receipts will be depressed further by declines in capital gains income,

at least in the short term. The stock market declined in late February and bottomed out in mid-March as investors saw the early signs of the coming crisis. Since March 23, the Dow Jones Industrial Average, a good indicator of overall market performance, has regained roughly half of its pre-crash peak, but the stock market's long-term stability and performance is uncertain and remains likely to cause a sharp decline in capital gains revenues.

- **The economic decline will decrease taxes paid by corporations.** Higher costs of doing business, mass closures, and depressed consumer demand will all lead to lower corporate profits. Forecasters at Bank of America estimate that year-over-year corporate profits will be down in all four quarters of 2020.[29]
- **Reduced travel will tank gas tax revenue.** Families and workers are not commuting to work or school and are limiting other travel as well.[30] Just as spending may not bounce back quickly when the economy reopens, it is unclear when Mainers will return to pre-pandemic travel habits. Gas tax revenues will remain down until they do.

Pandemic brings added costs even as revenues decline

As the state sees a dramatic decline in revenues, it will also experience increased expenses.

This section focuses on three major areas where costs are expected to rise: Medicaid, K-12 and higher education, and costs associated with retirement payments for public-service workers such as teachers, public health nurses, and social workers.

However, the full extent of cost increases from the pandemic and recession will be widespread and include many areas of the budget not described here.

Towns and cities face their own pandemic budget crunches

State revenue shortfalls also threaten the budgets of towns and cities, which will need significant fiscal relief if they are to continue providing critical services and infrastructure to Maine communities.

Municipalities rely on a share of state income and sales taxes through the Municipal Revenue Sharing program. Those funds go to local services and infrastructure — including schools, water treatment, road and bridge maintenance, and public safety. When state revenues are in freefall, that aid to towns and cities also declines.

Even before the crisis, Municipal Revenue Sharing was underfunded. But towns and cities are still taking on increased costs during this crisis.[31]

Municipalities have few options to raise revenue, and federal assistance is so far unavailable to Maine communities; No Maine town or city is large enough to meet population requirements for local government relief funds approved by Congress.

Local spending and local government workers are an essential part of Maine's economy. Local governments fund 59,400 jobs in Maine.[32] Roughly 3,200 Mainers employed in local government lost their jobs as a result of the Great Recession[33] and as of 2019, the state still had not recovered all the public jobs it lost.[34]

Public-sector workers at the local level include teachers, firefighters, public works and sanitation staff, and others who deliver critical, economy-boosting services to their communities. Layoffs at the local level would set back Maine's job recovery and limit the services towns and cities are able to provide at a time when those services are most critical to the economy.

Medicaid enrollment likely to swell until jobs recover

As thousands of Maine households lose income and employer-sponsored health insurance, the population eligible for MaineCare — the state Medicaid program — is likely to swell.

The Economic Policy Institute estimates that 47,884 Mainers who have filed for unemployment insurance in the past month have also lost their health insurance.[35]

The Great Recession was deeper and longer as a result of insufficiently bold action by the federal government.

This time, Congress has a chance to get it right.

Medicaid eligibility is determined by income and many newly unemployed Mainers are likely to qualify. Regular unemployment benefits count against Medicaid eligibility limits but replace only about 60 percent of earnings. So, many unemployed Mainers are likely eligible for Medicaid even if they are receiving unemployment payments.

While the federal government covers the lion's share of Medicaid spending, the state does incur some costs. In fiscal year 2019, Medicaid accounted for $834 million, or 22.8 percent of state general fund spending.[36] The Families First Act approved by Congress in March increased federal funding for Medicaid but falls short of what is likely needed.[37]

The current downturn is unlike any we have ever experienced, making it difficult to estimate the coming spike in Medicaid enrollment. However, history can provide some guidance; During the Great Recession, enrollment increased by roughly two people for every job lost. Between February of 2008 and February 2012, Maine lost 22,600 jobs and Medicaid enrollment increased by 40,607.[38]

Much remains uncertain about how long Mainers can expect to remain out of work, which will affect the number that ultimately enroll in Medicaid. But it is certain that Medicaid enrollment, and with it the state's share of the cost, will increase in the coming months.

Reopening schools will bring new costs to Maine's education system

Even as schools remain closed to in-person instruction in the short term, it is essential to preserve staff and infrastructure so that public education systems are able to resume normal operations as soon as it is safe.

Not all children have had equal access to ongoing education during the crisis. Distance learning may exacerbate pre-existing educational inequality.[39] An estimated 180,000 students enrolled in pre-K through 12th grade lacked functional internet connections at home when schools were ordered to close their doors in April.[40]

Quality education systems are the backbone of a strong economy. Schools will need additional resources, not only to ensure equity and help children get caught up when they return to the classroom, but to adopt and adequately staff new systems and procedures to keep students, teachers, and staff safe when schools reopen.

Nearly 43,000 Mainers work for the public education system which was budgeted to pay out over $1.4 billion in wages over the 2020 school year.[41] Protecting these jobs is not only essential to providing high quality education, but is also necessary to hasten Maine's job recovery.

While the state has yet to meet the voter-approved school funding mandate for schools, General Purpose Aid to school districts in fiscal year 2019 accounted for 29.1 percent of state spending, nearly $1.1 billion.[42] A 30 percent cut to education would take a $350 million bite out of the coming year's school funding formula and hurt low-income communities that are more reliant on state aid. It is essential that legislators maintain education spending or even increase funding as needed to cover new costs.

As of 2018, Maine higher education funding per student still had not returned to pre-Great Recession levels,[43] and Maine colleges and universities are likely facing their own revenue shortfalls. Higher education costs accounted for 8.4 percent of state general fund spending, or $308 million, in fiscal year 2019.[44]

With already strapped budgets, the university and community college systems now face new costs associated with online learning, lost revenues from on campus sales and events, and potentially lower enrollment for the 2020-2021 school year. The state will need to consider additional funding to help ensure quality higher education in Maine.

Protecting retirees brings additional costs to state pension system

Teachers, case workers, game wardens, judges and other workers who devote their careers to public service rely on state pension income after they retire. Market volatility during the coronavirus recession will likely spur losses in the state pension system. Legislators will need to increase funding to ensure Maine seniors get what they have earned in their retirement years.

MainePERS, the state public employee retirement system, is primarily funded though employer and employee contributions over an employee's career. Those contributions are invested in a fund that pays out benefits to retired workers.

At the close of the 2019 fiscal year, the state's pension system had roughly $15 billion invested[45] and is one of the best funded in the country based on anticipated commitments to retirees.

When the stock market crashes and the pension system's investments fall short of expected gains, the state helps cover those losses spread over a 20-year period. This protects the system and ensures Maine meets its obligation to retired workers.

The stock market crash in March resulted in an estimated $1 trillion loss to state and local pension systems around the country, according to Moody's Investors Service.[46] As of the close on May 1, the Dow has since recovered nearly half of its losses from the market crash in March, but still remains 19.7 percent below its pre-crash peak.

Congress and President Trump can do much more to aid states facing budget collapse.

Increased fiscal aid to states will avoid painful cuts that will hurt Mainers and make the coronavirus recession longer.

The stability and future trajectory of stock market gains is still uncertain and the value of the MainePERS portfolio at the end of June will determine the degree to which legislators will have to increase contributions to the pension system to make up for market losses beginning with the next two year budget cycle.

Federal aid for states so far: too little and too limited

Congress in March enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act. One element of the Act was a new Coronavirus Relief Fund to provide $110 billion in aid to states.

Maine received $1.25 billion from this fund. However, states are limited in how these dollars may be used.[47] For example, federal restrictions prevent the state from using these funds to backfill any of the more than $1.2 billion revenue shortfall in the next fiscal year.

A separate fund in the CARES Act does allow for backfilling budget holes associated with public education. But the funding falls well short of what is needed.

For Maine, the Act provided $46 million for K-12 education — about 4 percent of the education budget for next year while the state faces a revenue shortfall of 30 percent.

The bill also includes $42 million for higher education,[48] but roughly half of these funds will be available as grants to students to help mitigate financial strain caused by the health emergency. That is laudable assistance to students but does little to help sustain institutions of higher education during the downturn.[49]

To date, federal aid to states has been far short of what is needed to prevent spending cuts that will hurt families and communities and lengthen the recession. Congress must enact additional emergency fiscal relief for states.

Conclusion: State fiscal aid crucial to Congress's next relief package

After the Great Recession, federal aid to state and local governments ended too soon, leading to massive job losses that set full employment back for years. Inadequate relief slowed economic growth when consumer spending was at its lowest.[50]

The federal government's ability to run deficits is unique and essential during times of crisis. States must balance their budgets and do not have the ability to borrow money at the levels required to respond to an economic collapse. By contrast, the federal government can borrow large sums of money with low or no interest and use those funds to stabilize the economy in moments of crisis. Now is one such moment.

Only the federal government can stabilize state and local budgets during an economic downturn as severe as this one. Doing so will protect jobs, ensure help is available to those who are laid off, and safeguard investments in our infrastructure and economy when they are needed most.

But so far, Congress has yet to act to pass legislation that meets the fiscal challenge faced by states. In debating fiscal relief for states, some lawmakers have cited concerns about the federal deficit. Those concerns ring hollow, especially after those same lawmakers added trillions of dollars to the deficit with tax cuts for the wealthy and large corporations.

In truth, deficit spending is not only an appropriate tool, it is the primary tool available to prevent the economy from falling further into recession. In the next round of coronavirus relief legislation, Congress must provide fiscal aid to states at a scale suitable to meet the current crisis. The clock is ticking for states facing mounting shortfalls, but it is not too late for Congress to act.

About MECEP

The Maine Center for Economic Policy is a nonprofit research and policy organization dedicated to economic justice and shared prosperity by improving the well-being of low- and moderate-income Mainers. Since its founding in 1994, MECEP has provided policymakers, advocates, media organizations, and the public with credible, rigorous research and analysis. MECEP is an independent, nonpartisan organization.

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