



Though the exact duration and severity cannot be predicted, the COVID-19 pandemic recession will have major implications for state revenues, services, and resources. Jobless claims experienced an enormous spike as many Idaho businesses closed in response to the new public health rules and customer demand dropped.

Idaho and its communities will require a robust public response to this crisis, including strong fiscal policies that will shield people who are most impacted and preserve public services that will aid in economic recovery and help all communities thrive. To respond to the health and economic crisis, state policymakers could consider:

- directing resources to Idahoans who are most impacted
- tapping state reserves
- maximizing CARES Act and other federal funds dedicated to the pandemic for both health and overall budget needs
- creating a transparent process to identify economic impacts and needs in communities

Evidence from the Great Recession Points to Large-Scale Revenue Loss

The economic slump will cut into revenue the state relies on to fund schools, build roads, and provide other critical public services. Lower consumer demand will lead to an immediate and dramatic drop in sales tax revenues, while job losses and declining wages will decrease income tax revenues in the longer term.

During the Great Recession, Idaho General Fund revenues fell sharply and the legislature was forced to make significant cuts to ensure a balanced budget. While revenues fell in most areas, the greatest drops were seen in revenues from individual income taxes and corporate taxes. Sales tax revenue declined by 10.5 percent in 2009 and 6.5 percent in 2010.¹

While there is no official estimate yet on the revenue impact from COVID-19, Governor Little reported the state is already experiencing sharp drops in sales tax revenue that will affect the current budget year (FY2020). Before the pandemic began, the Division of Financial Management had projected about \$546 million in sales tax revenue between March and June. If sales tax revenue experiences the 10.5 percent decline seen in the Great Recession, it will create a shortfall of about \$57 million in sales tax revenue. However, greater drops could be seen in sales tax revenues compared with the Great Recession due to required closures of many businesses producing a sharp halt in economic activity. For example, if sales tax revenue comes in 15 percent below March to June projections, it would create a shortfall of about \$82 million in sales tax in the current budget year.

Although the state's tax filing deadline of June 15 will help ensure income tax collections are not delayed beyond the current fiscal year, two dynamics are putting downward pressure on income tax revenue now: the decline in income taxes formerly contributed through paycheck withholding by Idahoans who are getting laid off, and small businesses facing bankruptcy not able to make tax payments.

Calculating the precise impact of a drop in revenues, especially in the circumstance of an unprecedented kind of recession – with a dramatic decline and potentially shorter recovery - involves many unpredictable factors. However, we can apply the Great Recession drop of 15.2 percent across all collections from 2008 to 2009 to FY2021 revenue using as a baseline projected FY2020 revenue (subtracting the potential loss in sales tax revenue of \$82 million). If this recession plays out to that effect, Idaho would see a decline in revenue of \$672 million in FY2021. Combined with a potential loss in FY2020 of \$82 million, this brings potential overall fiscal impact to \$754 million.

Additional Fiscal Responses to the Pandemic Will Be Required

In response to the health needs of the pandemic and to prepare for the revenue impacts, policymakers have already taken fiscal actions both by legislation and executive order. Idaho should be prepared to enact further fiscal measures that address health needs and ensure that public schools, roads, and other critical services are protected as another step to keep the economy afloat through the recession.

Fiscal Responses Already Taken by Policymakers		
Action	Description	State Fiscal Impact
Senate Bills 1400 1428 1429	Boosted the Governor’s Emergency Fund by \$2 million for COVID-19 response; allocated \$500,000 for sick and paid administrative leave for state employees; allocated \$800,000 for technology allowing state employees to telework	\$3.3 million
Senate Bill 1430	Gives the Board of Examiners authority to transfer funds from the Budget Stabilization Fund (rainy day fund) to the General Fund to balance just the FY2020 budget	Makes an estimated \$393 million available for budget needs ²
Executive Order 2020-05	Cuts 1 percent from all state agencies in the current budget year, except for those providing direct COVID-19 relief	Cuts \$40 million in FY2020
Executive Order 2020-06	Transferred \$39.3 million from the Tax Relief Fund to the state Disaster Emergency Account for personal protective equipment and other critical health supplies which already contains \$52.3 million. ³	Makes an estimated \$91.6 million available for health needs

State Budget Cuts Could be Premature; State Budget Aid Likely Available Very Soon

Federal lawmakers enacted three bills intended to address the pandemic’s health and economic impacts. The most recent of those - the CARES Act passed on March 27- created the Coronavirus Relief Fund (in addition to provisions that can assist Idahoans directly, such as unemployment benefits; Idaho Center for Fiscal Policy will analyze these in the coming days). This fund will provide \$1.25 billion in direct aid to the state of Idaho that must be used before December 30, 2020.⁴ However, the Legislature is not currently scheduled to convene in time to

allocate Coronavirus Relief Fund dollars before they must be drawn down. During the Great Recession, federal relief funds were appropriated by Idaho lawmakers.

While current guidance around the Coronavirus Relief Fund is very limited, there are indications the aid could be used to fill gaps in the state budget, potentially making recently ordered budget cuts premature. The state must use the Coronavirus Relief Fund aid on necessary spending for the virus, a broad purpose that will require clarification. The United States Treasury is expected to issue guidance within a week on how states can tap this aid.⁵

CARES also created the Education Stabilization Fund to provide aid to state and local education agencies at a total of \$30.75 billion; however, most of these funds are more directly targeted to public education entities and will be available via a direct application from school districts and colleges. This fund includes \$13.5 billion for school districts, \$14.25 billion for institutions of higher education, and \$3 billion directly for governors to use at their discretion to assist K-12 and higher education with pandemic effects.⁶ Idaho's allocation will be based primarily on Title 1 participation rates for schools and Pell Grant enrollment within higher education. These funds will be available roughly 60 days from enactment of CARES and must be used within a year of receipt.⁷

Looking Ahead

The pandemic is quickly changing the revenue and budget landscape in Idaho, with the lives and livelihoods of Idahoans at stake. Policymakers should consider steps to ensure aid is directed to those Idahoans and areas of the economy most impacted by the health and economic effects of the pandemic and preserve critical public services that will help communities thrive.

Direct dollars to Idahoans who are most impacted. Directing state and federal aid to Idahoans and small businesses that will then spend dollars quickly to meet basic needs is a common-sense way to boost the economy. Idahoans who were already living paycheck to paycheck are most likely to experience abrupt unemployment for the duration of the pandemic while wealthier individuals are more likely to be able to weather financial disruptions. Similarly, small businesses are most at risk of failing, while some larger businesses still remain profitable and certain industries are experiencing growth as a result of the pandemic.

Tap state reserves. The rainy day fund was created to address revenue shortfalls during an economic downturn. Evidence suggests the pandemic will have lasting effects on Idaho's economy beyond the immediate public health crisis. Reserve funds could be deployed and other untapped funds maximized. A recent evaluation by Moody's Analytics reveals the state may not be able to weather a severe recession without cutting the budget by an estimated 6.6 percent or finding new revenue.⁸ State funds like the Tax Relief Fund - though originally intended to offset some tax responsibility for Idaho households by collecting online sales tax revenue- could be used to preserve public services, including public schools. Currently at \$52 million, the online sales tax revenue collected by the fund is expected to grow as Idaho consumers increase online purchasing during the pandemic.

Maximize federal funds dedicated to the health and economic effects of the pandemic. State reserves may not be able to fully address the coming recession. While guidance is needed on how Idaho might use federal aid, policymakers could seek flexibility to use the Coronavirus Relief Fund to help avoid state budget cuts, preserve critical public services, and balance the state budget while identifying further needs for federal policymakers to address in a reported fourth federal relief package.

Create a transparent process to identify economic impacts and needs. With or without a special legislative session, policymakers could convene stakeholders, in addition to state agencies, to identify the growing costs from the economic impacts of the pandemic across communities and how to best use state and federal funds.

¹ Idaho Division of Financial Management, "General Fund Revenue Book," Jan., 2020. Retrieved from https://dfm.idaho.gov/publications/eab/gfrb/gfrb_jan2020.pdf

² Personal communication with Legislative Services Office.

³ Idaho State Tax Commission, "Comparative Statement of Receipts and Distributions," Mar. 5, 2020. Retrieved from: https://tax.idaho.gov/reports/EPB00073_02-29-2020.pdf

⁴ Coronavirus Aid, Relief, and Economic Security Act or the "CARES Act", H.R. 748, 116th Congress, (2020).

⁵ National Governor's Association, "Request for Guidance on The Coronavirus Relief Fund," March 28, 2020. Retrieved from: <https://www.nga.org/letters-nga/guidance-coronavirus-relief-fund>

⁶ Education Week, "Congress Sends Coronavirus Aid Bill with \$13.5 Billion for Schools to Trump," March 27, 2020. Retrieved from: <http://blogs.edweek.org/edweek/campaign-k-12/2020/03/senate-coronavirus-bill-passes-education-funding.html>

⁷ Coronavirus Aid, Relief, and Economic Security Act or the "CARES Act", H.R. 748, 116th Congress, (2020).

⁸ Moody's Analytics, "Stress-Testing States 2019," Oct., 2019. Retrieved from: <https://www.moodyanalytics.com/-/media/article/2019/stress-testing-states-2019.pdf>