**Statement for the Record by the**
**American Federation of State, County and Municipal Employees (AFSCME)**
**For the Hearing on**
**"The Need for Financial Aid to America's States and Territories During the Pandemic: Supporting First Responders, Assisting Schools in Their Efforts to Safely Educate, and Preventing Mass Layoffs"**
**Before the**
**Committee on Financial Services**
**U.S. House of Representatives**
**on**
**September 10, 2020**

AFSCME urges significant immediate federal funding relief to states and localities to ensure they continue delivering vital public services. During the last six months, as our country suffered through a pandemic that killed nearly 200,000 Americans, infected 6 million more, and caused more than 30 million new unemployment claims, the continuing COVID-19 driven recession also has caused painful budget problems and destabilized finances for America's states and localities. This has harmed states, counties, municipalities, school districts and other local governments, including large, medium, and small jurisdictions that are both rural and urban in all parts of the country. Bipartisan groups of governors, mayors, county executives and other elected officials all across America currently face significant budget gaps that cumulatively exceed $1 trillion as a result of troubling revenue shortfalls and still rising COVID-19 related expenditures. These gaps already have led to harmful budget cuts, reduced public services and layoffs, and experts think there is a strong likelihood of deeper budget cuts and mass layoffs extending into 2021 and beyond – potentially erasing the last decade or more of gains.

In response, Americans strongly support Congress helping to solve these problems. Polling shows 84 percent favor $1 trillion in federal aid funding to states, cities and towns to preserve vital public services. There is also strong bipartisan support for significant federal fiscal relief advocated by the National Governors Association, National League of Cities, National Association of Counties, U.S. Conference of Mayors, organizations representing state and local elected officials and other stakeholders, including public sector labor unions like AFSCME.

## Overview of State and Local Budget Problems

Given nearly all states – along with cities, counties and municipalities – have balanced budget requirements, their traditional response to deficits is to cut public services, raise taxes and/or reduce spending on public employees via furloughs or layoffs and wage and benefit concessions. During a recession, these actions are counterproductive because they siphon money out of the local economy, reduce needed spending and investment, and weaken the safety net when Americans require more assistance. Given state and local governments' expenditures are roughly 14 percent of U.S. Gross Domestic Product (GDP), unless Congress provides offsetting funds to assist these jurisdictions, they are likely to reduce spending and make the harmful recession deeper and longer, and delay any recovery by our communities. We strongly recommend Congress take significant immediate steps to prevent a longer, deeper, more harmful recession; and to promote a quicker, stronger recovery.

Nearly four months ago on May 19, 2020, Federal Reserve Chair Jerome Powell testified, "we have the evidence from the global financial crisis and the years afterwards, where state and local governments' layoffs and lack of hiring did weigh on economic growth." Earlier, Powell said, "The thing is, state and local governments have to balance their budget, states do. And if they can't do that, what they'll do is they'll lay people off and they'll cut back on services. And that's not ideal at a time when you're still experiencing heightened medical needs and things like that. So that's something that deserves a careful look." During the last few months, Powell and other expert economists – both Republicans and Democrats – have reinforced this central point and the need to address these problems swiftly with significant federal assistance that meets the challenges. In fact, Powell and other Fed officials have stressed again in recent days that the U.S. recovery is highly dependent on the nation's ability to better control the coronavirus, and that further fiscal stimulus is likely needed to support jobs and incomes.

Unfortunately, in the continuing pandemic, states and localities already implemented budget cuts and layoffs. A net of more than one million state and local government workers have lost their jobs. In April 2020 alone, these lost jobs exceeded the cumulative jobs lost across the entire U.S. economy in the worst month of job losses in the Great Recession. The solution is clear and within reach. Given today's interest rates are historically low – near zero – and economists agree there's active harm in not funding states and localities to preserve needed public services, Congress should act immediately. The price of inaction is too high.

## What's Needed?

AFSCME supports federal fiscal relief for states and localities to fund the front lines, preserve public services, and protect public workers and at-risk residents. To minimize the recession's short-term and long-term harm, keep Americans safe from the pandemic, and shorten and strengthen recovery, AFSCME requests robust flexible direct grants to states and localities; enhanced federal Medicaid funds; and increased funds for public K-12 and higher education. We need:

- **Direct Flexible Grants to States and Localities**: Congress should immediately appropriate at least $1 trillion in unrestricted direct grants to states and localities. These grants should be flexible, allowing broad eligible uses so jurisdictions can address their specific circumstances related to COVID-19 relief and recovery, including replacing lost revenues and preparing for, preventing and responding to coronavirus. This flexibility also should retroactively cover the $150 billion in grants enacted in the CARES Act's Coronavirus Relief Fund, but flexibility alone is not enough.

- **Enhanced Medicaid/FMAP Funding to States**: Congress should increase federal funding to states for Medicaid and the Federal Medical Assistance Percentage (FMAP) to ensure states can finance rising Medicaid caseloads and per capita costs without diverting resources from other vital public services. AFSCME strongly supports the provision in the "Take Responsibility for Workers and Families Act" (H.R. 6379), which proposes permanent counter-cyclical enhanced Medicaid assistance through a formula based on state-by-state unemployment rates, which when needed, will automatically provide enhanced Medicaid funding to states. At a minimum, AFSCME supports increasing FMAP by a total of 14 percentage points to supplement the increase of 6.2 percentage points enacted in the second COVID-19 package. The higher FMAP rate should be retroactive to Jan. 1, 2020 and extend until at least Dec. 31, 2021. Congress also should suspend the Trump administration's Medicaid Fiscal Accountability Regulation (MFAR) for at least two years to avoid cutting federal subsidies for state Medicaid spending, which would annually save states a cumulative $13-$18 billion.

- **Increased Education Funds to States and School Districts**: Congress should provide at least $200 billion in new funding for public K-12 and higher education, including $25 billion for Title I and IDEA.

**America's Worst Recession Since the 1930s is Weakening States and Localities**

Tens of millions of Americans are extremely concerned by the continuing recession, predictions it will worsen, and their daily struggles to make ends meet. If, as some health experts expect, this winter brings a second wave of COVID-19, these financial problems will be devastating across our country and many key sectors of the economy. This includes state and local governments, millions of public-sector front-line workers, safety net advocates, and tens of millions of Americans who have become newly unemployed in recent months (reaching as high as one-fourth of the total U.S. labor force). America's GDP has declined significantly. In recent months, the official overall unemployment rate reached the highest levels since the 1930s Great Depression, and while it has rebounded a bit, it's still too high.

Major ratings agencies have reported more federal fiscal relief for states and localities is needed because the $150 billion enacted for these jurisdictions is too little and unnecessarily restricts funding to costs of unbudgeted COVID-19 needs rather than funding lost revenues or cash flow gaps. The National Association of State Budget Officers (NASBO) has noted it expects this downturn to affect every state and that "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 in states. States are currently forecasting steep revenue declines of up to 20 percent." Unfortunately, in 2020 the budget problems are worse. The Center on Budget and Policy Priorities (CBPP) estimates state governments' cumulative FY 2020-2022 revenue shortfalls exceed $500 billion. State-by-state data further illustrates the breadth of these budget problems as many states estimate the decline in their general fund tax revenues for FY 2021 or FY 2022 will exceed 10 percent, including California, Colorado, Connecticut, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Rhode Island, Texas, Vermont and Washington.

In addition to state budget shortfalls, cities, counites and other localities are also suffering budget problems. The National League of Cities estimates over three years, cities face a cumulative revenue loss of $360 billion. The National Association of Counties estimates through FY 2021 counties anticipate a cumulative budget impact $202 billion. When states, counties, cities and other localities are added together, the projected cumulative total shortfall for states and localities exceeds $1 trillion. To address these budget problems, the bipartisan National Governors Association requests $500 billion in federal fiscal relief to help state governments continue delivering needed public services. The bipartisan National League of Cities requests $500 billion over two years to help municipalities continue delivering needed public services.

**COVID-19 Fiscal Crises Causes Layoffs and Public Service Cuts that Worsen the Recession**

Current state and local government revenue shortfalls (e.g. income tax, sales tax, business tax) are magnified because nearly all are required to balance their budget. In past recessions, this traditionally led to spending cuts that reduced vital public services and personnel, including layoffs, furloughs, hiring and pay freezes, and workers' givebacks on wages, pensions and health benefits. Worse, when states and localities cut public services and laid off workers, it imposed a heavy drag that significantly weakened and delayed private sector growth and overall economic recovery.

Simultaneously, with tens of millions of Americans newly unemployed during recent months of the pandemic, demand for states and localities to deliver more public services is skyrocketing and significantly raising their needed expenditures. These jurisdictions must help address their constituents' lost wages and benefits, medical needs, homelessness, food insecurity, requests from hospitals and health care providers, and personal protective equipment for front-line workers. Demand has increased for unemployment benefits, Medicaid services, housing, SNAP and nutrition, and other vital public services. Individuals in need are suffering longer waiting times and longer lines for many vital services. However, for states and localities, these falling revenues and rising demand for services are huge problems that without offsetting federal assistance will increase unmet needs and prolong the recession. If forced evictions are allowed to occur, millions of American families are at risk. Thus, while initially a COVID-19 health crisis, these problems have exploded into two intertwined crises – a national pandemic and the worst U.S. recession since 1930s – and without swift effective action it will become a depression.

**Conclusion**

AFSCME thanks the Committee leadership for convening this hearing and focusing attention on the need for federal aid to states and territories, supporting first responders, assisting schools, and preventing mass layoffs of public sector workers. We appreciate the testimony of Governors Michelle Lujan Grisham of New Mexico; Tim Walz of Minnesota; Laura Kelly of Kansas; and Lourdes Leon Guerrero of Guam. AAF's Douglas Holtz-Eakin also provided interesting testimony. We appreciate Representatives' participation in the hearing and thoughtful statements highlighting the state and local needs and support for federal assistance.

Congress must act swiftly to provide at least $1 trillion in federal funding to states and localities. This should include unrestricted flexible direct grants needed to preserve vital public services and protect local economies. Congress must also provide enhanced Medicaid funding and a 14 percentage point increase to the federal Medicaid match (FMAP) to provide counter cyclical relief and ensure states can afford to care for millions of newly unemployed and low-income Americans temporarily needing Medicaid's safety net services. Congress must also provide at least $200 billion for public K-12 education and higher education, including $25 billion for Title I and IDEA.