

Bond Case Briefs

Municipal Finance Law Since 1971

Municipal Budget Crunch Pressures Payrolls. And Direct Federal Stimulus Isn't Forthcoming.

State and local governments won't receive direct aid if the latest version of the \$910 billion stimulus package is signed into law—and when it comes to employment at municipalities, there is a lot of lost ground to recover.

The bipartisan stimulus deal that Congress passed on Dec. 21 includes \$600 stimulus checks, expanded unemployment aid, and \$325 billion of small-business funding, as well as extra direct funding for municipal entities such as schools, transportation, and state health-care efforts. The bill doesn't make grants to states—a topic of controversy during negotiations. And while it isn't clear if the package will be signed into law, stimulus should indirectly support municipal revenue through sales and property taxes.

"Overall, we think the agreement will allow finances to muddle through. It offers a short-term lifeline for schools, mass transit, and health care, and helps avoid the benefit cliff that was soon to occur," wrote Tom Kozlik, head of municipal strategy and credit with HilltopSecurities.

A Dec. 23 report from the National Association of State Budget Officers provides a sobering view of states' fiscal situations. Revenue fell for the fiscal year ended June 30, for the first time in a decade, according to preliminary data.

Part of the reason for the decline may be the Cares Act's tax-deadline delay to July 15. Even so, states are planning to reduce general-fund spending by 1.1% in the current fiscal year, according to the report. The second-most common way states say they are cutting back, behind "targeted cuts," is hiring freezes.

In fact, after a temporary hiring rebound in April and May, state and local governments have lost workers the past few months, according to the Bureau of Labor Statistics. This year's budget crunch and pandemic have dealt a severe blow to a sector that has historically provided nearly 15% of U.S. payrolls.

Since February, there have been roughly 1.4 million state and local government jobs lost, according to the BLS, nearly 7% of the jobs that existed in that sector before the pandemic.

That 7% may not sound too severe, as it is roughly comparable to the total share of jobs lost in the U.S. But even as the job-creation trend has continued across the total labor market, it has reversed course within state and local governments. While there have been a total of 1.5 million jobs created in the U.S. since August, state and local government payrolls have fallen by 321,000.

Excluding the worst of the job losses in May and June, state and local government employment hasn't been this low any month since 2001. Those payrolls now make up slightly less than 13% of the total U.S. nonfarm payroll workforce—the lowest proportion since at least 1975, BLS data show.

To be fair, it does look like at least 9,000 additional job losses could be avoided if the bill becomes

law. Congress allocated about \$4 billion in funding for New York's Metropolitan Transportation Authority, and the agency says that money will allow it to "get through 2021 without devastating service cuts and layoffs."

Schools would also get some relief from the package. That and the transit relief should provide "a good chunk of money—to start," says Elizabeth Pancotti, policy adviser at Employ America. She estimates that a "plurality" of state and local jobs lost were in education, though it isn't yet clear how many are permanent.

Even if the aid arrives, 2021 may not get off to the best start—K-12 education is slated to see the largest cuts in state general-fund spending, with enacted budgets reflecting a \$7.4 billion reduction. Before the pandemic, governors had recommended an aggregate \$8.1 billion increase in spending.

"Schools are just facing insurmountable costs," Pancotti says. "It's likely we'll have to come back to explore more discretionary funding."

Barron's

By Alexandra Scaggs

Dec. 24, 2020 11:00 am ET