

Coronavirus Hits State and City Budgets; Local officials say they don't know how deep the hole might get; a double punch of higher spending and falling revenue

Calvert, Scott; Kamp, Jon . Wall Street Journal (Online) ; New York, N.Y. [New York, N.Y.]19 Mar 2020.

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FULL TEXT

Minnesota lawmakers have approved more than \$220 million to tackle the coronavirus. Washington state is tapping \$175 million in reserves to test for the virus and treat patients. And Philadelphia's city council is considering holding a teleconferenced public hearing so \$85 million can be freed up to help combat the pandemic. States and cities across the U.S. are scrambling to quickly draw millions of dollars from their reserves to help cover coronavirus-related expenses such as testing and unemployment insurance, while also bracing for steep tax-revenue declines.

As Americans hunker down at home, staying out of restaurants, arenas, convention centers and neighborhood shops, they are dragging down revenue on which state and local governments depend. The effects will be manifold around the U.S: While Oklahoma will feel the pain of revenue lost from low oil prices, the collapsing tourism sector will hammer states such as Florida and Nevada, analysts said.

Budget officials said they have little sense of how deep the hole might get.

"If you multiply a question mark by a question mark, that equals another question mark. It's really hard. How long is this going to last?" said Myron Frans, commissioner of Minnesota Management and Budget, the state's budget agency. "I've never seen anything like this before."

In late February, Minnesota projected a \$1.5 billion surplus through June 2021, but that is disappearing every day, Mr. Frans said. The state legislature on Tuesday approved a \$200 million coronavirus response package, which followed an earlier \$21 million measure.

He said the state's broader priorities include changing health plans so no one has to pay for coronavirus testing; ensuring the state has enough hospital beds; providing child-care subsidies for health-care workers and others; and assisting small businesses.

In Pennsylvania, where the state typically hauls in about \$2.4 million to \$2.5 million each Friday as a cut from casino-table games, the number was just \$1.6 million last Friday, said Matthew Knittel, who directs the state's Independent Fiscal Office. Some casinos had already closed, and the state has since ordered them all to shut down.

Before the coronavirus hit, Pennsylvania's revenue was on pace to come in about \$200 million ahead of forecast for this fiscal year, Mr. Knittel said.

States are trying to craft budgets for the coming fiscal year, which for most begins July 1. They already were looking ahead to a weaker fiscal 2021, and now the remaining four months of the current fiscal year are a major worry, too, said Lucy Dadayan, a senior research associate at the Urban Institute think tank in Washington, D.C. "No matter how much toilet paper people buy," Ms. Dadayan said, "it's not the same as spending at restaurants and bars and theaters."

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What kind of budget adjustments is your city or state making to deal with the virus? Join the conversation below.

One bright spot is that states had collectively amassed their largest rainy-day cushion in at least two decades, about \$75 billion, as of last year, according to a new analysis from the Pew Charitable Trusts. States could run government operations on those savings for a median of 28 days, compared with about 17 days before the 2007-09 recession.

Wyoming had the nation's largest rainy-day reserves as a share of operating costs, Pew said, and a dozen states hit their highest level of savings as a share of spending in nearly 20 years.

Emergency reserves can offer short-term help, but in a sustained crunch states may have to make cuts to areas such as like higher education and aid to cities, budget analysts said.

Local officials are hopeful about incoming federal aid, but the details remain uncertain.

In Philadelphia, officials want to set aside \$85 million, some of which could pay for sites feeding children who no longer can get meals because schools are closed. But the state's sunshine law requires a public hearing. Given the restrictions on public meetings, the City Council has been looking into possibly holding a remote hearing via the internet.

Like many states, local governments generally have also been building reserves in preparation for a downturn. Those reserves will be critically important now, said Jane Ridley, a senior director at S&P Global.

"This is a storm. This is hitting everybody almost like a hurricane coming in. We don't know how long the hit is, but we do know there will be a hit," she said.

In New Orleans, officials said spending cuts of 30% might be needed, possibly including layoffs, service reductions and the closing of libraries. More than half of all city revenue comes from sales taxes, lodging taxes and other tourism-related sources.

"If we don't make some of these important and drastic decisions now, it's going to hurt us so much more in the future," Chief Administrative Officer Gilbert Montano said at a news conference.

Tourism-dependent Las Vegas has frozen hiring and canceled travel and training for city employees, a spokesman said. In Denver, officials said each department is looking for money to set aside until conditions stabilize, with a focus on savings that don't affect services or the coronavirus response.

In hard-hit Washington state, where at least 48 people have died from the disease caused by the coronavirus, the legislature approved \$200 million, including \$175 million for public health, hospitals and testing. A key aim is freeing up hospital beds for people sickened by the virus, said David Schumacher, director of the state Office of Financial Management.

Depending on how events unfold, "we could have several thousand people who need hospital care who aren't in a hospital today," he said.

He hopes the economy eventually bounces back faster than after the last recession, because of pent-up demand from people cooped up at home.

"When it comes down to it, we'll figure out the budget," he said. "I'm much more worried about things like hospital capacity and if we get all the supplies we need for the worst-case scenario."

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DETAILS

Subject: Budgets; Recessions; Public hearings; Tourism; Coronaviruses; Fiscal years; Cities; COVID-19

Location: Pennsylvania Washington (state) Minnesota

Publication title:	Wall Street Journal (Online); New York, N.Y.
Publication year:	2020
Publication date:	Mar 19, 2020
column:	U.S. News
Section:	US
Publisher:	Dow Jones &Company Inc
Place of publication:	New York, N.Y.
Country of publication:	United States, New York, N.Y.
Publication subject:	Business And Economics
Source type:	Newspapers
Language of publication:	English
Document type:	News
ProQuest document ID:	2378723312
Document URL:	https://ezproxy.spl.org/login?url=https://search.proquest.com/pqrl?accountid=1135?url=https://search.proquest.com/docview/2378723312?accountid=1135
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Last updated:	2020-03-19
Database:	The Wall Street Journal

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