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IFP News: Iowa needs more fiscal relief from Congress  
State, cities, counties and schools struggle to maintain essential services

IOWA CITY, Iowa (July 14, 2020) — Iowa will need far more assistance from the federal government to deal with revenue losses due to the COVID-19 pandemic — losses that can be expected to be far greater than predicted in passage of the 2021 state budget.

“The new budget is really based on a mirage,” said Peter Fisher, research director for the nonpartisan Iowa Policy Project. “Revenues are certain to fall well short of what is predicted, and this has far-reaching consequences. The pending HEROES Act in Congress could help states meet this challenge.”

Fisher said Iowa is facing a two-pronged threat that could force drastic cuts in state and local budgets, for crucial public services including education, health care, public safety and others.

“COVID-19 triggered both the recession and the health emergency. Recent estimates predict that the average state will experience budget shortfalls this year and next that will be 37 percent greater than during the worst year of the Great Recession,” Fisher said.

A new analysis by Fisher of the Iowa fiscal situation in light of the pandemic finds:

• Along with national estimates of the impact of the recession on revenues, high unemployment in Iowa and recent revenue forecasts from surrounding states all suggest much lower revenues in the coming year than were projected by the Revenue Estimating Conference.

• In late April, Iowa’s public universities were projecting a net loss of $170 million due to lost tuition and increased expenses resulting from the pandemic. That figure will likely prove far too low as the universities deal with the enormous challenges of safely reopening in the fall.

• Iowa’s school districts received $64.4 million from the CARES Act. But that represents less than 1 percent of school district budgets. Public schools costs’ of re-openings and online learning undoubtedly will far exceed that amount.

• Iowa’s cities and counties face declining revenues across the board — sales taxes, hotel-motel taxes, utility and park fees, road-use tax funds, even property taxes. They face additional costs of services from public safety overtime and emergency management, to public health and elections.

Fisher noted the Governor has promised $125 million in state assistance to cities and counties from the Coronavirus Relief Fund (CRF), but that represents just 1.8 percent of total city and county revenue; fiscal impacts are likely to be several hundred million.

“Additional federal assistance is essential not only to support the low-paid essential workers struggling to make ends meet, the small businesses barely keeping afloat, and the millions of newly unemployed. It is also needed to bolster the economy in the face of an unprecedented shutdown of major sectors and the prospect of a worldwide recession lasting well into next year,” Fisher said.
Consumer spending is the mainstay of the economy, and shoring up that spending requires maintaining jobs wherever possible, including the jobs of teachers, police officers, firefighters, construction crews, nurses, and all the other essential public employees. Already, public sector employment in Iowa has fallen dramatically, by 31,000 jobs from March to May. A recent estimate forecasts public sector job losses reaching 57,000 in Iowa by the end of this year, including 21,000 in education, if additional federal aid is not forthcoming.

“The lost income and lost spending from those jobs will ripple through the Iowa economy, adding to devastation already felt in the private sector,” Fisher said.

The FY2021 budget passed by the Iowa General Assembly on June 14 was based on the special May 29 report of the REC, which projected $360 million less revenue for FY2021 than they had estimated earlier. That left next year’s revenues just slightly below the current year’s figure, a decline of 0.6 percent from the largely pre-recession FY2020 to the recession year FY2021.

Federal fiscal assistance to states provided in the CARES Act are for emergency related purposes beyond what the state budget normally covers. So they are not designed to address the substantial drop in state revenues that is likely for next fiscal year and would force cuts.

Such broader fiscal support may be forthcoming in a fifth piece of federal legislation dealing with the COVID-19 emergency: the HEROES Act. The bill passed the House on May 15 and included nearly $1 trillion in additional aid to state and local governments:

- $5.8 billion to the state of Iowa, $3.5 billion to Iowa local governments, $516 million to public schools, and $238 million to public colleges and universities, all over a two-year period.
- An additional $980 million in Medicaid funding to cover the state’s cost of an estimated 28 percent increase in Medicaid caseloads.

“While it is uncertain what might pass the Senate, something is needed in the next few months,” Fisher said. “That support must be extended beyond December of this year, and should be tied to the length of the economic recession, not the health crisis that triggered that recession and that may well have largely ended long before the economy recovers.

“Without further assistance, public services will shrink and additional private sector job losses and business closures will devastate the Iowa economy.”

The Iowa Policy Project is part of the Iowa Fiscal Partnership, along with another nonprofit, nonpartisan public policy organization, the Child and Family Policy Center. Find reports at www.iowafiscal.org.

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