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Some Regional Economic Perspectives on Covid-19 Impacts

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Some Regional Economic Perspectives on Covid-19 Impacts[1]

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November 9, 2020

It has been about eight months since the Covid-19 pandemic began sweeping across America, causing the well-known health care emergency, and major economic and fiscal distortions. Presumably, we are in the last stages of the damage, as activity has picked up in most realms of daily life. However, recovery problems linger in many areas, including air travel, cruises, hotels, conventions, concerts, and schools. While not over, enough information has emerged to start documenting the regional economic impacts around Kentucky. This note examines the latest public data to study the apparent economic and fiscal damage related to Covid responses, public and private, in the state. This includes the sharp reductions in employment and payrolls due to business interruptions, but also the mitigating (and contributing) impacts of the federal relief packages. I find that:

- <u>Employment</u> fell dramatically, beginning in March. The number of wage and salary jobs, after adjusting for normal seasonal patterns, peaked in February at 1,947,000. By April, there were 326,000 fewer jobs reported than in February, or a 16.8 percentage decline in two months. Restaurants and bars took the biggest hit, accounting for 21 percent of the total net job loss in the state at the worst part of the downturn. Similarly, declines in retail, entertainment, and hotels were widely reported, and together with food and drinking places accounted for about 40 percent of all job losses. By September, about two-thirds of the net job losses had been recovered.
- The <u>average pay</u> in the industries hit hardest by the shutdown is much lower than the average for all industries. For example, the industry “Food Service and Drinking Places”, lost 66,000 jobs during the Spring, with average annual pay of only $18,600. Retail trade lost 32,000 jobs, with average pay of $28,000. The “Arts, Entertainment, and Recreation” industry shed half its jobs statewide, but average pay is only $25,000. Hotel employment was down 66 percent, but the average pay is only $26,000. The average pay across all industries in the state is $46,000. However, manufacturing also suffered significant job losses, around 55,000 in the worst month, and the average pay there is $59,000.
- The measured spike in <u>unemployment</u> since March is the greatest on record. However, there are several factors that make it tricky to compare recent measures with those from previous downturns. First, government public health policies in this case caused the unemployment - as opposed to a conventional recession in a business cycle. Second,

[1] This paper was commissioned by the Institute for the Study of Free Enterprise at the University of Kentucky.

the federal unemployment supplement of $600 per week to the state benefit, through July 25, meant that for most recipients the government has been paying people not to work, thus exacerbating unemployment. Third, traditional qualifications for receiving unemployment benefits were relaxed. Self-employed people were eligible for benefits, even though they had not paid into the unemployment insurance trust fund. Part-time workers were eligible not only for the nominal state benefit, but also the federal $600 supplement per week. Most people receiving unemployment benefits received more income from not working than from their former jobs. Unemployment insurance claims have trended down for four months, with the insured unemployment rate dropping from an April high of 13.8 percent to 3.0 percent by the end of October.

- The CARES Act provided an infusion of at least $13 billion in federal funds to Kentucky over the last six months. Federal unemployment benefit supplement of $600 per week brought around $2 billion to Kentucky workers. The IRS economic impact payments to households amounted to $4 billion. And the Paycheck Protection Program provided over $5 billion in forgivable loans to qualifying Kentucky businesses, some of which will need to be repaid. There are other programs as well. Kentucky state government received $1.4 billion in relief funds, and Louisville-Jefferson County directly received $170 million, provided as grants so long as the expenditures were related to the pandemic. And health care providers in Kentucky received grants totaling $1.3 billion.
- Kentucky state and local governments generally felt a Covid-related decline in revenues at the end of the 2019-20 fiscal year, but most were able to close the fiscal year with about the same revenues as the prior fiscal year. Partly, this was due to the fact that the tax revenue shortfalls occurred late in the fiscal year, a year that was strong in terms of receipts through March. The biggest percentage declines were in net profit fees to local governments and corporate income taxes to state government. Property tax and insurance premium tax receipts for local governments, and sales tax receipts to state government, remained stable. Budgets for FY21, enacted in July, are based on conservative, even pessimistic, economic outlooks for the rest of the year.

Background

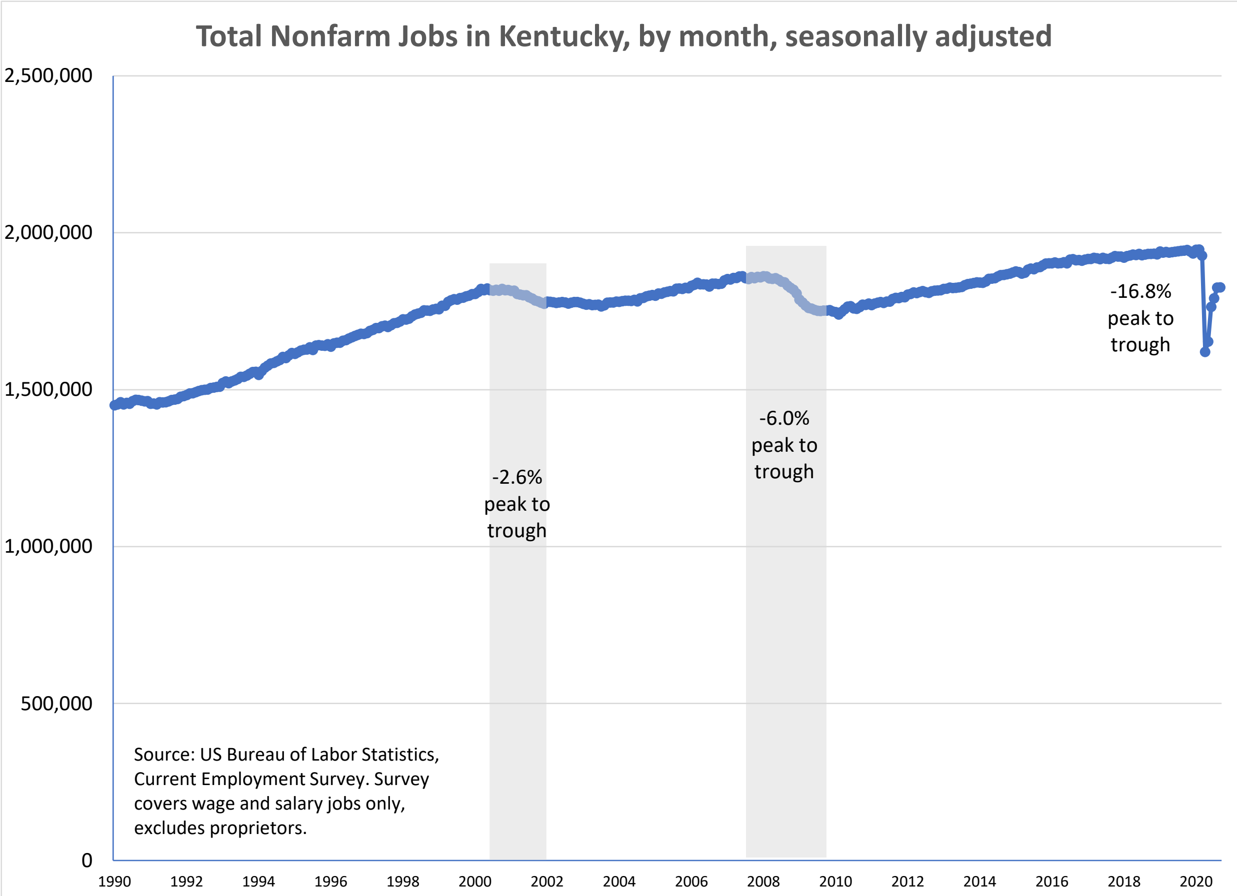
Beginning in mid-March, Kentucky Governor Andy Beshear took unprecedented action to restrict business and social interaction. K-12 schools were closed, as were colleges. Restaurants and many retail establishments were limited to delivery or drive-through sales. Even cross-state travel was banned except for emergency visits or approved commerce. The most severe restrictions on businesses were lifted in late May, though with reduced capacity, and finally at the end of June bars, gyms, and pools were allowed to open. The basic chronology is provided on the Wikipedia site: https://en.wikipedia.org/wiki/COVID-19_pandemic_in_Kentucky There is also nationwide evidence that the public started reducing trips and interactions in response to news reports, a month or two before state and federal officials ordered selective business closures, limitations on travel, and social distancing. And many businesses have reported low traffic after opening, as customers remained reticent about close contact with others.

Partially offsetting these economic negatives, the federal CARES act was passed at the end of March and quickly implemented. This included over $2.3 trillion in programs to mitigate the inevitable economic downturn from the public strictures.

Employment and Payrolls

Preliminary data on wage and salary employment in Kentucky are available through July. These are based on the US Bureau of Labor Statistics monthly survey of employers (and are subject to revision in 2021 when they are benchmarked to the census counts from the state unemployment insurance system). The precipitous decline in jobs is evident from these data beginning with the estimates for April. The decline began in March, but the survey was conducted before the government-mandated shutdowns of businesses (the survey is conducted in the week containing the 12th day of the month, and the major shutdown date in Kentucky was around March 17th). The number of jobs, after adjusting for normal seasonal patterns, peaked in February at 1,947,000. By April, there were 326,000 fewer jobs reported than in February, or a 16.8 percentage decline in two months.

One can see in the chart how the job losses compare to previous recessions. There were 6.0 percent fewer jobs at the trough of the 2007-09 recession compared to the peak of the expansion. The 2001 recession led to a net job loss of only 2.6 percent. It is nonetheless encouraging to see the quick rebound in jobs beginning in May. By September, approximately two-thirds of the net job loss had been recovered. If the early job estimates hold up, this will end up being the deepest but shortest recession on record.



A severe, but quick, decline, followed by an equally quick bounce back could mean the net economic damage would be less than during the long 2007-09 recession. But the hoped for V-shaped recovery is not yet certain. The $13+ billion in federal dollars flowing into Kentucky as part of the CARES act certainly softened the blow to businesses, workers, and households. However, those funds have largely now been deployed, and it remains to be seen whether the economy can lift on its own. The travel and hospitality industries are still operating at historically low levels, there are few orders in some sectors of the supply chain, and many people remain afraid to move about.

It is instructive to examine the detailed estimates of jobs by industry. April was the hardest hit month in terms of job declines. The table shows which sectors had the most job losses, though some further explanation is needed. It is no surprise to see restaurants and bars taking the biggest hit, accounting for 21 percent of the total net job loss in the state. Similarly, declines in retail, entertainment, and hotels were widely reported, and together with restaurants accounted for about 40 percent of all job losses. The third entry, Professional and Business Services, also posted a large decline, which seems counterintuitive since by the title one

Job Growth in Kentucky, April 2019 to April 2020

Industry	Jobs	Contribution to Total Net Decline
Food Services and Drinking Places	-66,100	21%
Manufacturing	-54,800	18%
Professional and Business Services	-38,500	12%
Retail Trade	-32,000	10%
Ambulatory Health Care Services	-15,200	5%
Arts, Entertainment, and Recreation	-13,300	4%
Transportation and Utilities	-11,600	4%
Other Services	-11,100	4%
Accommodations (implied)	-9,600	3%
Social Assistance	-7,900	3%
Local Government Educational Services	-7,000	2%
Financial Activities	-6,600	2%
Construction	-6,100	2%
State Government Educational Services	-6,000	2%
Mining and Logging	-4,800	2%
Wholesale Trade	-4,800	2%
Educational Services	-3,900	1%
Hospitals	-3,500	1%
Information	-3,200	1%
Local Government excluding Educational Services	-2,300	1%
Nursing and Residential Care Facilities	-1,400	0%
Federal Government	-900	0%
State Government Excluding Education	-100	0%
Total Nonfarm	-310,700	

Source: US Bureau of Labor Statistics, Current Employment Survey, not seasonally adjusted.
Program measures wage and salary jobs only, not proprietors, and double counts moonlighters.

assumes most of these jobs could be shifted to home. However, a look inside the sector reveals that the most job losses occurred in the Employment Services subindustry, which includes temporary help agencies. This indicates that companies cut back on ‘temps’ while keeping their regular workers employed.

Manufacturing was also hit hard by Covid and the public response, with employment down 55,000 jobs in April compared to a year earlier (manufacturing employed about 250,000 before the pandemic). The largest component of the job losses were in the transportation equipment sector, dominated by motor vehicle assembly and parts production. By September, manufacturing had gained back about 40,000 of the jobs it had shed in the Spring.

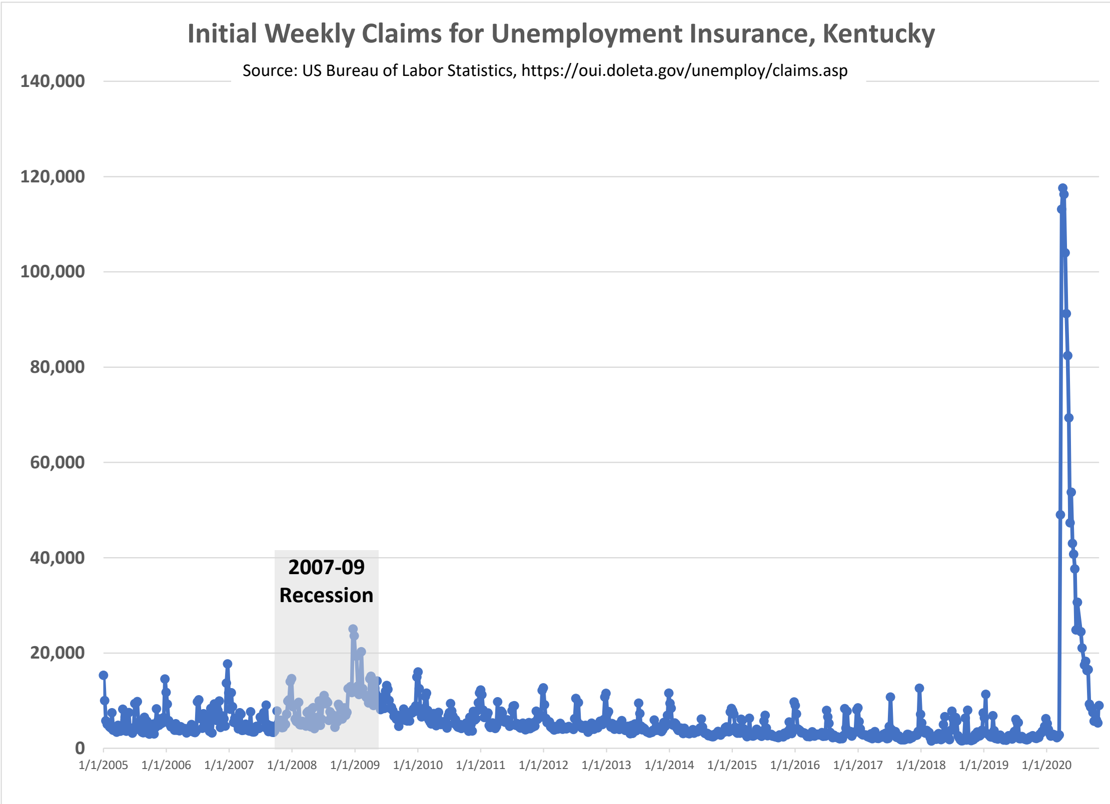
The loss in jobs was more severe than the loss in worker earnings due to the prevalence of part-time and low-pay occupations in some of the hardest hit industries. The average annual pay in restaurants, for example, is only $18,600. Jobs in retail trade average $27,800, hotels $26,000, and arts, entertainment and recreation $24,700. These compare to the statewide average across all industries of $46,000 per year. Meanwhile, large sectors like construction ($53,900), wholesale trade ($64,500), transportation and utilities ($57,100), hospitals ($53,600) posted only modest job losses.

Unemployment – A Novel Variety

The measured spike in unemployment since March is the greatest on record. However, there are several factors that make it tricky to compare recent measures with those from previous downturns. First, government public health policies in this case caused the unemployment, as opposed to a conventional recession in a business cycle. Second, the federal unemployment supplement of $600 per week to the state benefit, through July 25, meant that for most recipients the government has been paying people not to work, thus exacerbating unemployment. Third, traditional qualifications for receiving unemployment benefits were relaxed. Self-employed people were eligible for benefits, even though they had not paid into the unemployment insurance trust fund. Part-time workers, even the occasional substitute teacher, were eligible not only for the nominal state benefit, but also the federal $600 supplement per week. Most people receiving unemployment benefits received more income from not working than from their former job[2]. All these factors resulted in extremely high estimates of unemployment, as well as billions of dollars of government transfer payments to Kentuckians as they were told to stay home to prevent the spread of Covid. We will now see how well the economy can absorb the tens of thousands of people needing to return to work.

The next two charts provide some historical perspective on UI beneficiaries in Kentucky, the first showing intitial UI claims by week, and the second showing continuing claims. One can see the unprecedented spike in claims beginning in late March, then the steady decline in claims through October. In April, Kentucky had the highest proportion of workers receiving unemployment benefits of any state, with continuing claims reaching 261,000. During the last recession, in 2009, continuing claims peaked at 100,000, but relatively high unemployment persisted for two years. This year it appears that the increased unemployment, while severe, will be short-lived. Claims have trended down for four months, with the insured unemployment rate dropping from an April high of 13.8 percent to 3.0 percent by the end of October.

[2] According to the Congressional Budget Office, "Roughly five of every six recipients would receive benefits that exceeded the weekly amounts they could expect to earn from work during those six months". www.cbo.gov/system/files/2020-06/56387-CBO-Grassley-Letter.pdf


Initial Weekly Claims for Unemployment Insurance, Kentucky
Source: US Bureau of Labor Statistics, https://oui.doleta.gov/unemploy/claims.asp
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
2007-09
Recession
1/1/2005
1/1/2006
1/1/2007
1/1/2008
1/1/2009
1/1/2010
1/1/2011
1/1/2012
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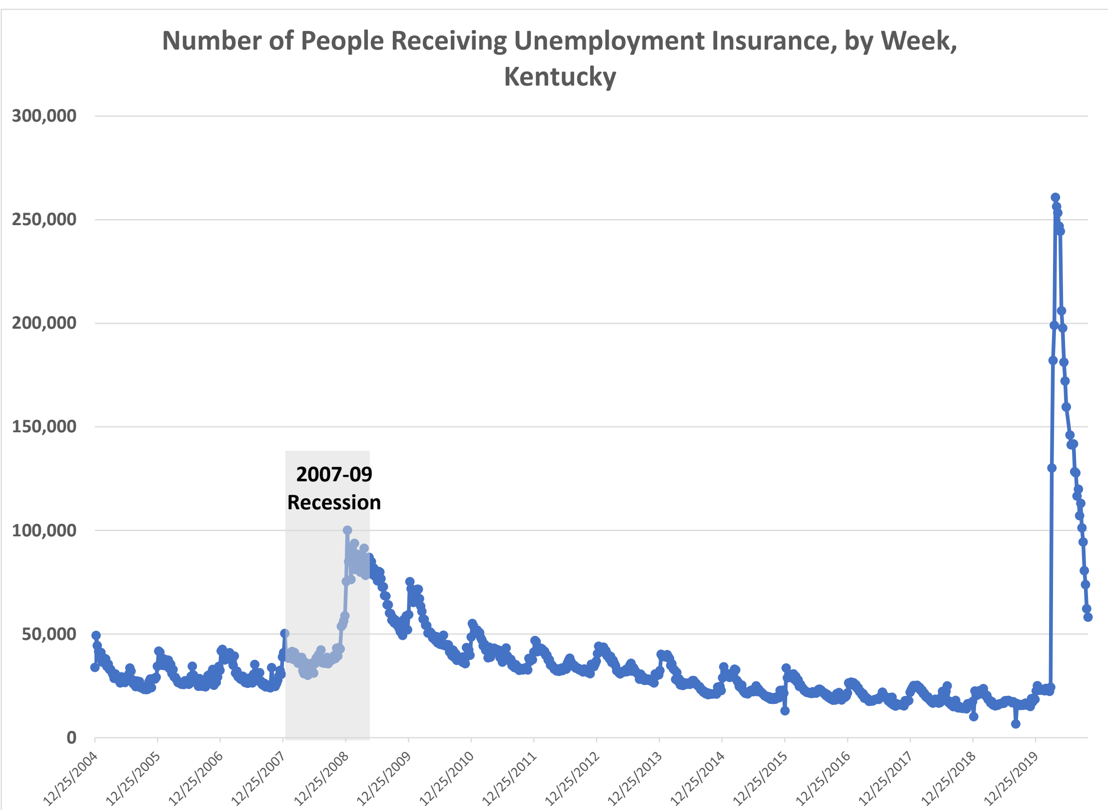
1/1/2019
1/1/2020


Number of People Receiving Unemployment Insurance, by Week, Kentucky
300,000
250,000
200,000
150,000
100,000
50,000
0
2007-09
Recession
12/25/2004
12/25/2005
12/25/2006
12/25/2007
12/25/2008
12/25/2009
12/25/2010
12/25/2011
12/25/2012
12/25/2013
12/25/2014
12/25/2015
12/25/2016
12/25/2017
12/25/2018
12/25/2019

Business Closures – too early to determine scope

There is substantial national news about permanent business closures due to Covid fears and public policies. Many businesses in low-margin industries simply could not sustain three months without revenues. I expect to find that many small retail stores in Kentucky will close forever. Clothing, furniture, and appliance stores were ordered closed in mid-March. Meanwhile, national big box chains - like Walmart, Target, Meijer, Home Depot, and Lowes – were allowed to remain open and sell clothing, furniture and appliances. Gyms, restaurants, boutiques, hotels, have all been mentioned in media reports as vulnerable to closure, though there is no reliable regional data available yet on the scope. By the end of the calendar year, we will have good information on the decline in operating business establishments. The Quarterly Census of Employment and Wages, based on unemployment insurance filings by employers, provides a count of business establishments by industry and county, as well as the number of employees and their wages. However, there is an eight-month lag in collecting and reporting those data.

CARES Act - Federal Dollar Flows to Kentucky

In March, Congress passed the CARES Act to mitigate many of the consequences of federal and state economic restrictions related to Covid-19. There are many pieces, with a total price tag of $2.2 trillion[3]. Here I consider the largest components, in terms of federal dollars hitting Kentucky in 2020. The federal unemployment benefit supplement of $600 per week brought around $2 billion to Kentucky workers. The IRS economic impact payments to households amounted to $4 billion. And the Paycheck Protection Program provided over $5 billion in forgivable loans to qualifying Kentucky businesses, some of which will need to be repaid. There are other programs as well. Kentucky state government received $1.4 billion in relief funds, and Louisville-Jefferson County directly received $170 million, provided as grants so long as the expenditures were related to the pandemic. And health care providers in Kentucky received grants totaling $1.3 billion.

Thus, there has been an infusion of over $13 billion in federal funds to Kentucky over five months. For perspective, consider that the earned income of Kentuckians in a year is about $150 billion. Total Social Security benefits to Kentuckians are about $15 billion per year. Below, I provide some details on the largest tranches of federal dollars flowing in as part of the federal response to the pandemic.

Unemployment Insurance Benefits. The average state UI benefit is around $350 per week. The federal government added a flat $600 per week to state benefits (for up to 39 weeks), under a temporary program called the Federal Pandemic Unemployment Compensation (FPUC). Another component of the CARES Act, called the Pandemic Unemployment Assistance (PUA) provides for unemployment benefits to self-employed, gig workers, and others not covered by regular state UI programs[4]. These people receive both the state benefit and the federal $600 supplement, paid for by the federal government. And, finally, the Pandemic Emergency Unemployment Compensation (PEUC) program provides up to 13 additional weeks of benefits to individuals who have exhausted their regular unemployment compensation, and funded 100 percent by the federal government.

We now have good data on continuing UI claims by week in Kentucky. There have been over 3.7 million claim-weeks between late March and the end of August, and 3.1 million claim-weeks through July 25 when the federal supplement expired. Multiplying claimant-weeks times weekly benefits yields a reasonable estimate of the total UI outlays. Thus, the federal supplement, will amount to about $2 billion. Under the CARES Act, these federal dollars will not

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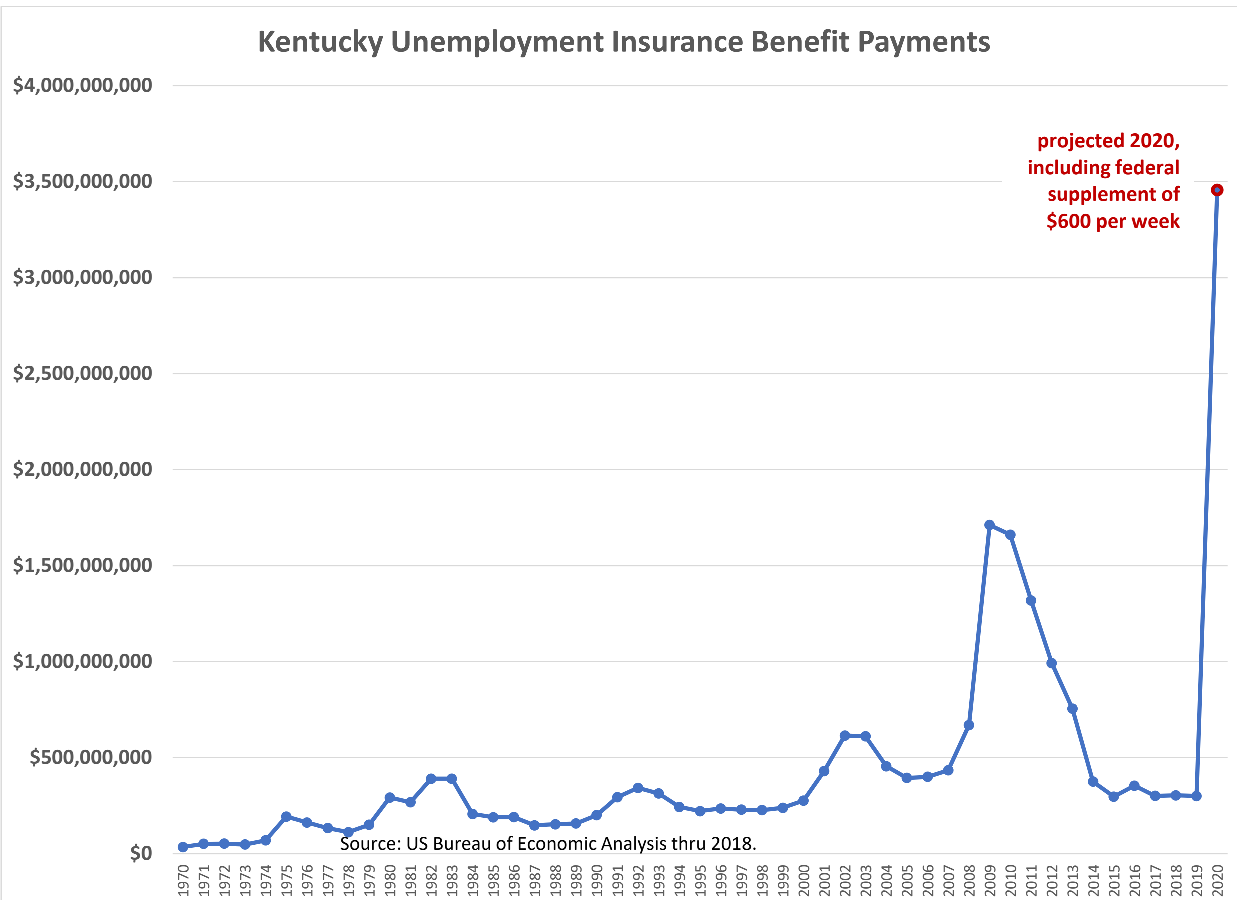
[3] For a good summary, see https://en.wikipedia.org/wiki/CARES_Act .The Act includes $300 billion in direct payments to households, $260 billion in expanded unemployment benefits (as well as training funds), $669 billion in forgivable loans for small businesses, $500 billion in loans to large corporations (like airlines), $340 billion to state and local governments (including educational institutions and transit), and $180 billion to hospitals and other medical industries (including protective equipment, testing supplies, training).

[4] See, for PEUC https://wdr.doleta.gov/directives/attach/UIPL/UIPL_17-20.pdf and for PUA https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20.pdf

need to be repaid (directly), and therefore amount to huge infusion of disposable income to Kentucky workers over four months. Kentucky's trust fund will pay out around $1.2 billion in Covid-related UI benefits, but these will need to be repaid through higher premiums on employers over the next few years. UI benefits are, however, subject to income taxation and, for example, the Kentucky General Fund received a $35 million bump in May and June receipts due to state income tax withholdings on UI payments to workers.

Another 57,000 Kentuckians were receiving federal benefits in July through the PUA program for self-employed, gig, and other workers that were not part of the state UI program[5].



[5] See 'Weekly Pandemic Claims' at https://oui.doleta.gov/unemploy/DataDashboard.asp

Economic Impact Payments. The IRS sent $266 billion in direct payments to households. There were 2.3 million Kentucky residents receiving payments, totaling $3.964 billion, or 1.49 percent of the national total[6]. The average payment to a Kentuckian was $1,714, slightly higher than the national average of $1,677. The amount of a payment was determined by household composition and prior year's income. Those with very high incomes were not eligible, and thus low-income Kentucky received a disproportionate amount of the EIP funds[7]. The payments are not subject to income taxation. To put payments in perspective, Kentuckians had $196.7 billion in personal income in 2019, of which $149.3 billion was earned (not transfer payments). So, the IRS payments amounted to 2.0 percent of personal income, and 2.7 percent of earned income.

Paycheck Protection Program. Congress approved $521 billion in forgivable loans to qualifying businesses. As of early July, 6,438 Kentucky organizations had received $5.23 billion in PPP loans. This represents one percent of the awards and loan amounts nationally[8].

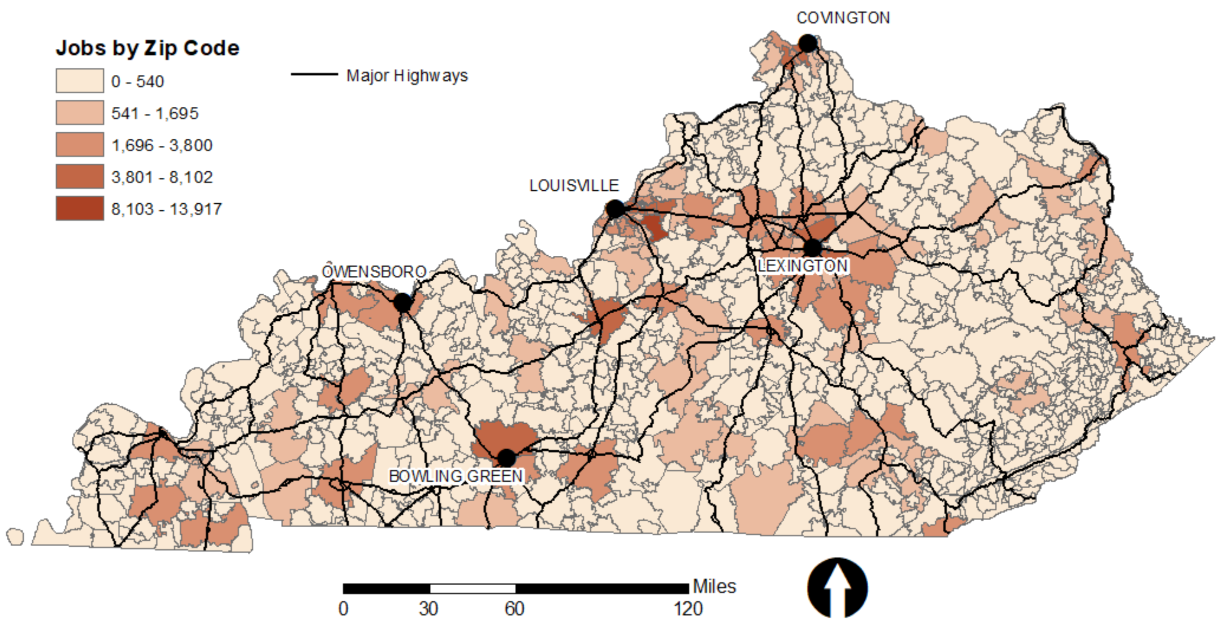
As part of their applications, business must state how many jobs they are retaining because of the loans. Across all recipients, the businesses claimed to retain 360,000 Kentucky jobs. The program restricted loans to 'small' businesses, those with less than 500 jobs. Consequently, all the 'jobs retained' entries in the SBA database are 500 or less. The map shows jobs claimed by zip code for approved applicants. Clearly, the organizations were concentrated in the most urbanized areas. Four out of five of the top zip codes are in Jefferson County The top zip is 40299, with 13,900 jobs, and which includes the Bluegrass Industrial Park in Jeffersontown; followed by 40202, which is downtown Louisville.

[6] See www.irs.gov/newsroom/irs-statement-on-economic-impact-payments-by-state

[7] See www.irs.gov/coronavirus/economic-impact-payment-information-center#eligibility

[8] See www.sba.gov/document/technote-paycheck-protection-program-report-through-june-30-2020 , and www.courier-journal.com/story/news/politics/2020/07/07/coronavirus-kentucky-state-businesses-get-5-billion-ppp-loans/5387233002/

Jobs Linked to Paycheck Protection Loans Approved for Kentucky Organizations



**Source: US Small Business Administration, downloaded July 8, 2020*
www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program
** 6,438 organizations were approved for loans. Zip Codes reported for loans covering 315,000 of 360,000 jobs*

Those claiming to retain the maximum of 500 jobs are primarily in the food service, facilities management, entertainment, and parochial education industries: BB St. Louis (Wendy's Louisville), Columbia Hospitality, Corporate Cleaning Systems, CP Crestview, CPB Foods, CSC Holdings, Diocese of Covington, Facilities Management Services, Frantz Building Services, Heritage Assets, Home of the Innocents, Hometown Convenience, JRS Restaurant Corporation, Kentuckiana Curb, Kentucky Kingdom, Kentucky Staffing Solutions, Lifeskills Health Services, MA & CFM Enterprises, Masonic Homes of Kentucky, Montgomery Eastside, Mountain Plus Services, Rafferty's, Rhino Energy, Roman Catholic Diocese of Lexington, STC Consolidated, Superior Maintenance, Sussex Holdings, The Broadhurst Group, UP Properties, V-Soft Consulting, US Opco One, and Wendy's of Bowling Green.

The table on the next page organizes the job data by industrial code. Not all applicants provided an industrial code, but those that did accounted for 75 percent of the jobs claimed. One can see a clear pattern. Restaurants easily top the list of approved applicants, associated with 33,000 jobs in Kentucky. They are followed by new car dealers, physicians' offices, religious organizations, contractors, nursing homes, hotels, schools and legal offices.

While the huge federal dollar flow into Kentucky is undeniable, the net economic impact is less certain, for at least three reasons. First, we do not know how many of the reported retained jobs were actually at risk due to the shutdown, as no doubt many businesses were simply seeking liquidity in the face of great uncertainty about the length of the shutdown and the severity of the recession. They may simply return the money unused. Second, we will not know until 2021 how many businesses had their loans forgiven versus those that had to pay the money back with interest (of one percent). Third, some businesses will use the funds to temporarily keep workers on the job, but furlough them after the loan money runs out if economic conditions remain poor; thus, the PPP program simply delays the unemployment for a few months.

Top 50 Industries in Terms of Jobs Linked to PPP in Kentucky

NAICS Code	Industry Description	Jobs
722513	Limited-Service Restaurants	17,381
722511	Full-Service Restaurants	15,935
441110	New Car Dealers	10,801
621111	Offices of Physicians (except Mental Health Specialists)	7,157
813110	Religious Organizations	6,729
238210	Electrical Contractors and Other Wiring Installation Contractors	5,788
623110	Nursing Care Facilities (Skilled Nursing Facilities)	5,526
238220	Plumbing, Heating, and Air-Conditioning Contractors	4,738
236220	Commercial and Institutional Building Construction	4,432
721110	Hotels (except Casino Hotels) and Motels	4,360
611110	Elementary and Secondary Schools	2,954
541110	Offices of Lawyers	2,741
621610	Home Health Care Services	2,739
238990	All Other Specialty Trade Contractors	2,309
484110	General Freight Trucking, Local	1,959
561612	Security Guards and Patrol Services	1,907
541990	All Other Professional, Scientific, and Technical Services	1,863
624410	Child Day Care Services	1,818
446110	Pharmacies and Drug Stores	1,798
484121	General Freight Trucking, Long-Distance, Truckload	1,792
624120	Services for the Elderly and Persons with Disabilities	1,743
541330	Engineering Services	1,705
561320	Temporary Help Services	1,703
237310	Highway, Street, and Bridge Construction	1,702
447110	Gasoline Stations with Convenience Stores	1,569
561311	Employment Placement Agencies	1,519
624190	Other Individual and Family Services	1,493
713940	Fitness and Recreational Sports Centers	1,478
236210	Industrial Building Construction	1,442
212111	Bituminous Coal and Lignite Surface Mining	1,427
531312	Nonresidential Property Managers	1,374
453998	All Other Miscellaneous Store Retailers (except Tobacco Stores)	1,363
561730	Landscaping Services	1,359
237990	Other Heavy and Civil Engineering Construction	1,335
623312	Assisted Living Facilities for the Elderly	1,331
621210	Offices of Dentists	1,306
332999	All Other Miscellaneous Fabricated Metal Product Manufacturing	1,265
238910	Site Preparation Contractors	1,264
112920	Horses and Other Equine Production	1,238
445110	Supermarkets and Other Grocery (except Convenience) Stores	1,228
323111	Commercial Printing (except Screen and Books)	1,210
541940	Veterinary Services	1,122
621420	Outpatient Mental Health and Substance Abuse Centers	1,107
326199	All Other Plastics Product Manufacturing	1,098
332710	Machine Shops	1,095
561720	Janitorial Services	1,083
238310	Drywall and Insulation Contractors	1,071
238160	Roofing Contractors	1,052
238120	Structural Steel and Precast Concrete Contractors	1,047
212112	Bituminous Coal Underground Mining	1,039
	Subtotal	144,495
	Total, all industries reporting industry code	271,001
	Total, all organizatins receiving PPP loans	359,886

Source: US Small Business Administratin, downloaded July 8,2020. www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program

State and Local Government Revenues

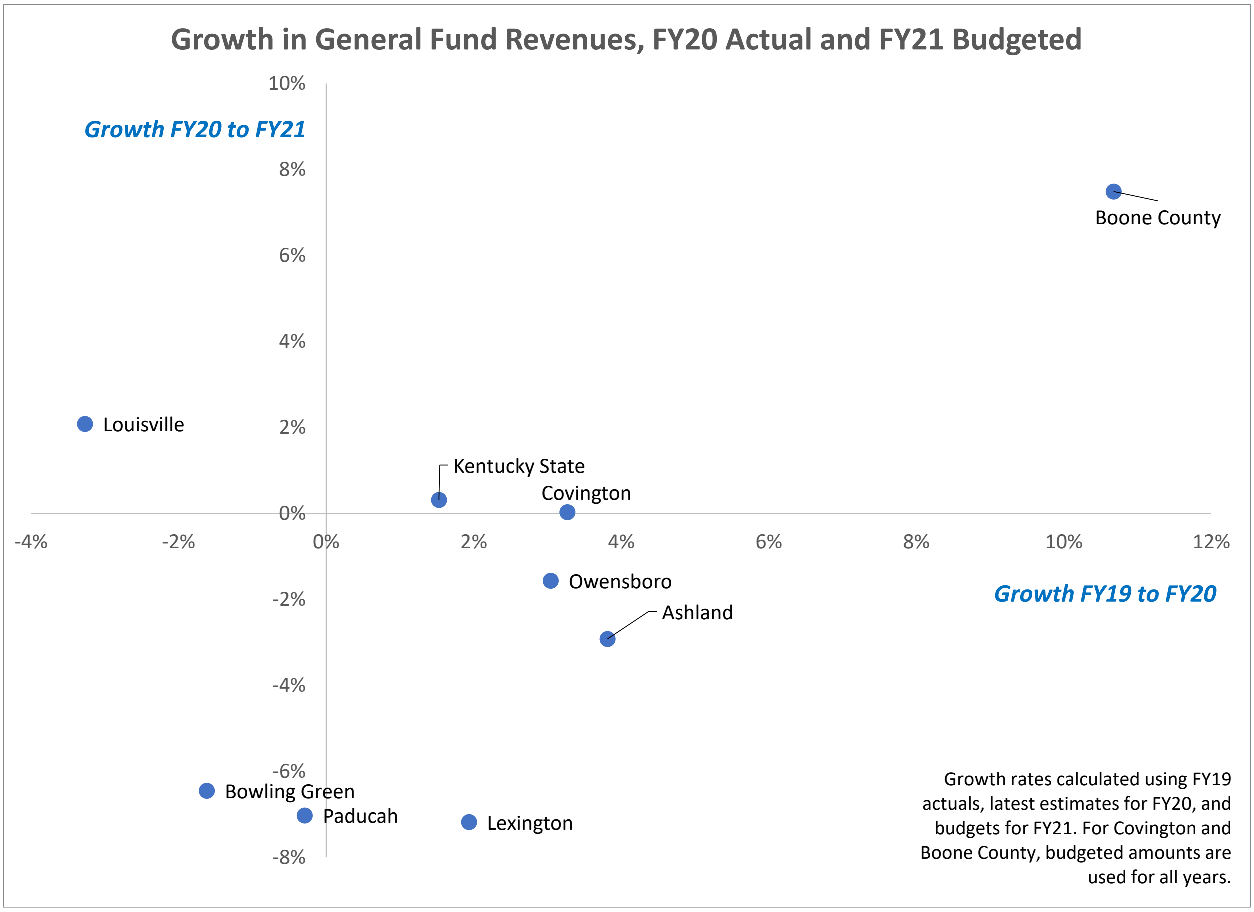
Tax and other receipts to Kentucky state and local governments fell somewhat during the Spring, as Covid-policies induced a national recession. Because there is no precedent for such an abrupt, government-imposed, shutdown of much of the economy, fiscal analysts had to get creative in forecasting FY20 and FY21 revenues. It is likely that budgets will be reviewed more frequently than normal over the rest of 2020, and authorized expenditures revised up or down as the outlook changes.

I obtained General Fund revenues and major tax components for eight large local governments, plus state government, for the last three fiscal years (all on a July to June basis). Some details from around the state are provided below. While not comprehensive, the fiscal data do point to some defensible conclusions.

The economic news was ominous during the Spring, with Kentucky posting the highest proportion of workers filing for unemployment benefits of any state. This and the various government mandates to close stores and cancel events led to widespread fear among fiscal analysts that major tax revenues would plummet. But the predicted severe loss of tax revenue in Fiscal Year 2019-2020 simply did not occur. In retrospect, there were several causes.

1. While the virus-related shutdowns began in March, tax receipts were growing strongly up to that point in the fiscal year. Moreover, tax payments lag economic activity, so that the expected drop in occupational and net profits taxes at the local level, and income and sales taxes at the state level, did not really show up until May. At that point, the fiscal year was already ten months old.
2. The unprecedented unemployment levels in the Spring were primarily concentrated in industries relying on part-time, low-pay, occupations. Thus, the job losses were much worse than the payroll losses. Most of the important tax receipts are related to payroll growth, not jobs.
3. Property tax receipts provided stability to all governments' General Funds, growing steadily throughout. Also, insurance premiums taxes, a major source of revenues to municipal governments, proved to be insensitive to the economic downturn.
4. There were also some mitigating factors. For example, Kentucky state government received a windfall in individual income tax receipts due to withholdings from the huge unemployment insurance payments, including the $600 weekly federal supplement. State government also received sales taxes on the Spring-spike in online retail shopping. State and local governments were able to use some of their rainy day funds to balance their FY20 budgets, as well as some payments from the $1.5 billion federal relief payments to Kentucky governments for Covid-related expenses.

5. Beginning in March, local and state governments watched expenses carefully for the remainder of the fiscal year. This did not help the revenue picture, but did help governments handle necessary expenditures. Kentucky state government actually increased its rainy day fund.



<u>Budgets for FY21</u> were enacted earlier in the summer, based on recent experience and tax revenue forecasts for the next twelve months. In general, the governments were cautious in their outlooks, given the ubiquitous uncertainty about the virus, the economy, and future public policies. A common theme is that budgets would need to be reviewed regularly throughout this fiscal year, as revenue forecasts evolve due to new information. As one can see from the chart, Bowling Green and Paducah were the only two governments to report General Fund revenue declines in both FY20 and FY21. Kentucky state government and Boone County report expected revenue growth in both fiscal years.

Kentucky State Government

One can see in the table that state government was able to post slight growth in its General Fund in the fiscal year that ended in June, and has enacted a budget for FY21 showing also a very slight growth. Corporate income taxes were the only major component that had a significant decline in the FY20.

Kentucky State Government, Major Revenue Sources			
	FY19 actual	**FY20.actual**	**FY21 budget**
General Fund Total	$11,392,700,000	$11,566,600,000	$11,603,136,800
growth		*1.5%*	*0.3%*
Individual Income Tax	$4,544,676,175	$4,765,200,000	$4,770,900,000
Sales and Use Tax	$3,937,610,039	$3,934,600,000	$4,190,500,000
Corp. Inc. & LLET	$762,681,723	$488,400,000	$545,900,000
Property Tax	$647,009,309	$632,400,000	$671,700,000

Source: page 8 of FY21 budget document,https://osbd.ky.gov/Publications/Pages/Budget-Documents.aspx , updated with FY20 actuals from powerpoint by State Budget Director, "Financial Outlook Revised", August 19, 2020.

Louisville-Jefferson County

Louisville estimates a 3.3 percent decline in General Fund revenues for FY20, and slight growth for FY21. Part of this is due to the timing of net profits receipts, which were delayed in line with the postponement of the federal corporate income tax filing deadline from April to July. One can see that employee withholdings actually grew in FY20, again due to the strong start to the fiscal year and the fact that so many of the job losses were in lower-paid occupations. As of this writing, employee withholdings (occupational tax receipts) and insurance premium taxes are up so far in FY21, and net profits receipts are flat.

Louisville-Jefferson County, Major Revenue Sources			
	FY19 actual	**FY20.estimate**	**FY21 budget**
General Fund Total	$656,443,530	$634,971,000	$648,200,700
growth		*-3.3%*	*2.1%*
Employee Withholding	$293,612,070	$301,920,000	$290,300,000
Net Profits	$68,130,306	$44,620,000	$55,700,000
Insurance Premiums Tax	$64,238,545	$65,750,000	$64,720,000
Property Tax	$170,599,787	$173,453,900	$180,880,000

Source: pages 64-65 of FY21 budget document, https://louisvilleky.gov/sites/default/files/management_budget/fy21/2020-2021_louisville_metro_approved_executive_budget.pdf . FY20 estimates are as of June 15.

Lexington-Fayette County

Lexington was also able to weather the storm in FY20, due to the five factors listed above, but is anticipating a rough revenue picture for FY21. In fact, Lexington has the most pessimistic revenue forecast of the nine governments analyzed here, due to significant revenue declines expected for employee withholdings and net profits.

Lexington-Fayette County, Major Revenue Sources			
	FY19 actual	**FY20.estimate**	**FY21 budget**
General Fund Total	$369,363,720	$376,514,300	$349,493,779
growth		*1.9%*	*-7.2%*
Employee Withholding	$200,985,809	$207,282,370	$185,951,110
Net Profits	$43,584,527	$43,507,074	$36,110,870
Insurance Premiums Tax	$34,086,330	$35,830,662	$34,830,660
Property Tax	$25,221,927	$26,022,000	$26,975,990

Source: page 3 of FY21 budget docutment, www.lexingtonky.gov/sites/default/files/organization-page/2020-06/FY%202021%20CAB%5B1%5D.pdf

Bowling Green

Revenue estimates for Bowling Green are negative for both FY20 and FY21. One can see that employee withholdings fell significantly in FY20. Their latest budget document says the City is being conservative in its outlook for the current fiscal year, a theme we detect at all the governments surveyed here.

City of Bowling Green, Major Revenue Sources			
	FY19 actual	**FY20.estimate**	**FY21 budget**
General Fund Total	$72,707,503	$71,528,417	$66,916,000
growth		*-1.6%*	*-6.4%*
Employee Withholding	$45,000,000	$41,766,000	$35,395,500
Net Profits	$8,600,000	$9,175,000	$8,009,775
Insurance Premiums Tax	$4,500,000	$4,663,000	$4,500,000
Property Tax	$13,800,000	$14,132,000	$14,475,000
Source: Page65,66, 79, 83 and text, City of Bowling Green Annual Operating Budget 2020/2021, www.bgky.org/files/udp998uT.pdf			

Boone County

We could only find budgeted revenues for Boone County fiscal court the last three fiscal years. Nevertheless, the budgets show steady growth each year. Because the County collects occupational taxes on a quarterly, rather than a monthly, basis the fiscal impact of the Covid-related downturn will not be evident until September. The County does report that its property tax base rose by over $1 billion this last year. (County governments do not levy an insurance premiums tax).

Boone County, Major Revenue Sources			
	FY19 budget	**FY20.budget**	**FY21 budget**
General Fund Total	$50,959,105	$56,398,246	$60,620,341
growth		*10.7%*	*7.5%*
Employee Withholding	$26,400,000	$28,500,000	$25,890,000
Net Profits	$1,250,000	$1,250,000	$1,305,000
Insurance Premiums Tax			
Property Tax	$11,000,000	$11,250,000	$11,600,000
Source: www.boonecountyky.org/departments/finance/fiscal_court_budget.aspx			

Owensboro

The City of Owensboro has been fairly immune from the Covid-related economic downturn. Revenues in FY20 were up or flat in every major category. The City adopted a cautious budget for FY21, given the lingering uncertainties about health and economic issues.

Owensboro, Major Revenue Sources			
	FY19 actual	**FY20.estimate**	**FY21 budget**
General Fund Total	$58,307,385	$60,081,196	$59,141,075
growth		*3.0%*	*-1.6%*
Employee Withholding	$18,754,225	$19,455,071	$18,364,560
Net Profits	$4,247,292	$4,191,949	$3,644,000
Insurance Premiums Tax	$5,941,195	$6,671,813	$6,615,500
Property Tax	$11,064,301	$11,393,759	$12,051,531
Source: spreadsheet from Owensboro City Manager.			

Covington

We could only locate budgeted, not actual, revenues for the City of Covington. But, given the FY21 budgeted figures below, apparently the City has come through the downturn fairly well. Revenues are projected to be constant compared to the FY20 budget, with growth in property taxes just offsetting slight declines in employee withholdings, net profits, and insurance premium taxes. We will update the table when the City releases actual receipt data for FY19 and FY20.

City of Covington, Major Revenue Sources			
	FY19 budget	**FY20.budget**	**FY21 budget**
General Fund Total	$54,184,082	$55,955,000	$55,971,932
growth		*3.3%*	*0.0%*
Employee Withholding	$26,608,000	$27,406,240	$26,563,662
Net Profits	$3,582,000	$3,724,182	$3,677,630
Insurance Premiums Tax	$7,313,000	$7,605,520	$7,510,451
Property Tax	$7,629,000	$7,781,580	$8,015,027
Source: www.covingtonky.gov/forms-documents/view/annual-city-budget-2020-2021			

Paducah

The City of Paducah ended up with FY20 revenues almost identical to those for FY19, for reasons outlined at the beginning of this report. All four major tax sources posted either very slight increases or declines. Like other governments, it has adopted a cautious budget for FY21.

City of Paducah, Major Revenue Sources			
	FY19 actual	**FY20.estimate**	**FY21 budget**
General Fund Total	$37,019,731	$36,911,620	$34,318,580
growth		*-0.3%*	*-7.0%*
Employee Withholding	$16,349,044	$16,620,000	$14,400,000
Net Profits	$4,367,410	$4,590,000	$3,800,000
Insurance Premiums Tax	$4,486,038	$4,400,000	$4,800,000
Property Tax	$7,390,284	$7,143,000	$7,292,000

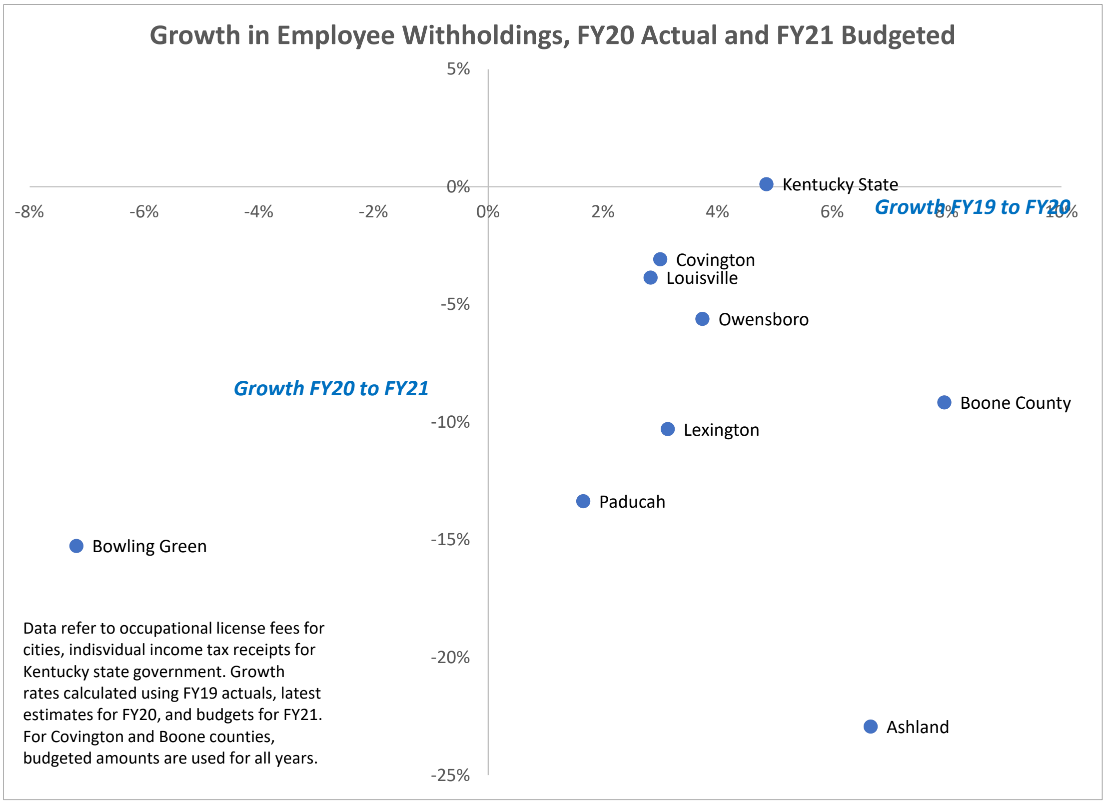
Source: http://paducahky.gov/sites/default/files/FY2021-Budget-Book-Final.pdf

Ashland

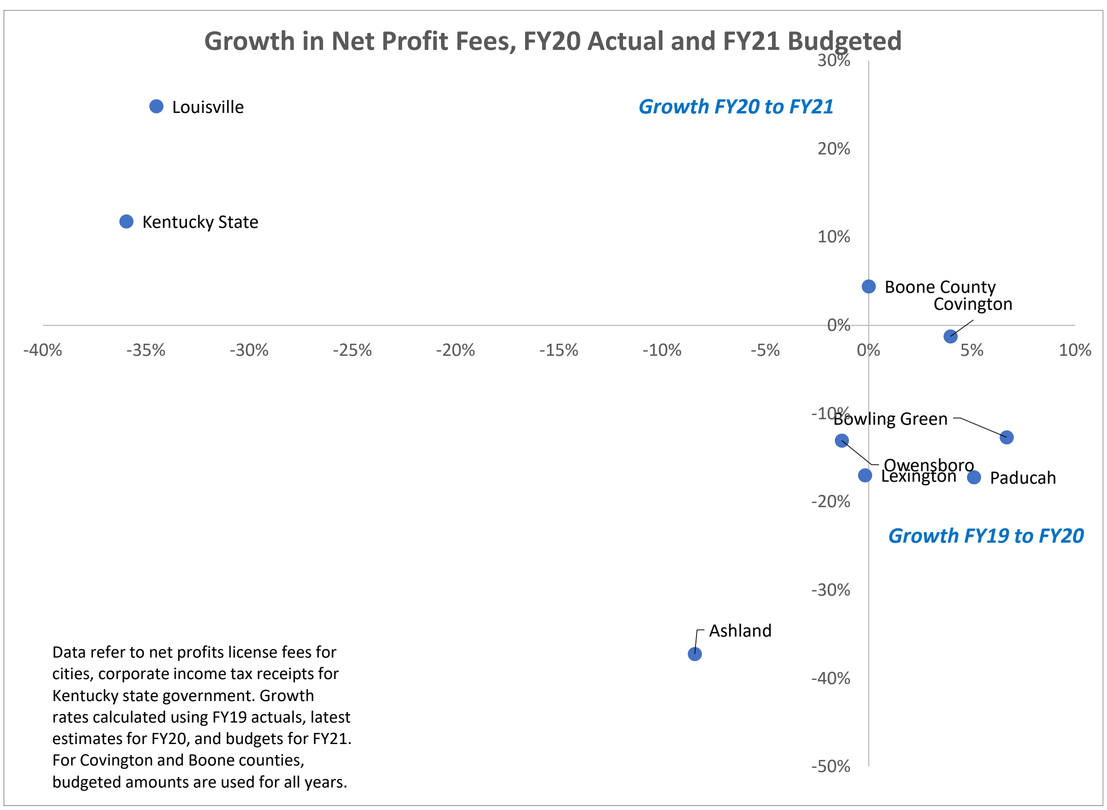
The City of Ashland is expected to show modest growth in General Fund revenues for FY20, but a decline in FY21. Employee withholdings actually grew last fiscal year, and net profit fees were stable, unlike in most other jurisdictions covered here.

City of Ashland, Major Revenue Sources			
	FY19 actual	**FY20 actual**	**FY21 budget**
General Fund Total	$24,307,546	$25,234,176	$24,497,021
growth		*3.8%*	*-2.9%*
Employee Withholding	$9,786,427	$10,439,092	$8,045,460
Net Profits	$1,543,470	$1,413,424	$887,097
Insurance Premiums Tax	$4,084,582	$4,188,278	$4,002,300
Property Tax	$3,549,367	$3,549,367	$5,226,106

Source: Final Budget Report FY21.pdf . Actual property tax receipts were not available for FY20, so I made them the same as FY19, and adjusted the General Fund total to account for the missing entry.



Growth in Employee Withholdings, FY20 Actual and FY21 Budgeted
5%
0%
-5%
-10%
-15%
-20%
-25%
-8%
-6%
-4%
-2%
0%
2%
4%
6%
8%
10%
Growth FY19 to FY20
Growth FY20 to FY21
Kentucky State
Covington
Louisville
Owensboro
Boone County
Lexington
Paducah
Bowling Green
Ashland
Data refer to occupational license fees for cities, indisvidual income tax receipts for Kentucky state government. Growth rates calculated using FY19 actuals, latest estimates for FY20, and budgets for FY21. For Covington and Boone counties, budgeted amounts are used for all years.



Growth in Net Profit Fees, FY20 Actual and FY21 Budgeted
30%
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-40%
-35%
-30%
-25%
-20%
-15%
-10%
-5%
0%
5%
10%
Growth FY20 to FY21
Growth FY19 to FY20
Louisville
Kentucky State
Boone County
Covington
Bowling Green
Owensboro
Lexington
Paducah
Ashland
Data refer to net profits license fees for cities, corporate income tax receipts for Kentucky state government. Growth rates calculated using FY19 actuals, latest estimates for FY20, and budgets for FY21. For Covington and Boone counties, budgeted amounts are used for all years.