

MUNICIPAL FISCAL HEALTH DURING THE COVID-19 PANDEMIC: FEDERAL ASSISTANCE AND LOCAL ACTIONS

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ABSTRACT

The COVID-19 pandemic has created unprecedented challenges for public health and local economies. Despite the initial revenue shocks, with the federal stimulus funds from the American Rescue Plan Act of 2021 and increases in local property tax and other taxes, most California cities are projected to recover from the pandemic-related revenue losses. Based on data from over 450 California cities, this paper examines the impact of the pandemic on municipal fiscal health using quantitative methods. The study contributes to the public finance literature regarding fiscal federalism and has practical implications for local public managers in maintaining their cities' fiscal health.

Keywords: Fiscal health, pandemic, fiscal federalism, federal assistance

INTRODUCTION

The COVID-19 pandemic has created unprecedented challenges for public health and local economies. In addition to federal and state government responses in the United States, many municipalities took their own actions to lead their communities through the crisis. Despite the initial revenue shocks, with federal financial assistance and increases in local property tax revenues and other taxes, most California cities are projected to recover from the pandemic-related revenue losses. Using data from 482 California cities, this paper examines the impact of the COVID-19 pandemic on municipal fiscal health. Specifically, the research questions are: (1) Did federal aid help municipalities maintain their fiscal health during the pandemic? (2) Did local COVID-19 responses lead to different fiscal outcomes?

Current research does not adequately capture the full range of COVID-19's impact on the fiscal health of municipal governments. This study intends to fill the gap by examining the impacts of the American Rescue Plan Act (ARPA) and local COVID-19 responses on the fiscal health of California municipalities in terms of ARPA funding allocations, economic and fiscal stability measures, and tax performance.

LITERATURE REVIEW

In the United States, the burden of countercyclical policy falls on the federal government according to the institutional arrangement. However, in practice, recessionary aid for state and local governments has been enacted on an ad hoc basis (Clemens & Veuger, 2020). On one hand, federal financial assistance had positive effects on state governments' fiscal health by slowing down the negative impact of the pandemic on states' ability to meet their financial obligations. On the other hand, some scholars argued that despite unprecedented levels of federal financial assistance for state and local governments, the federal government has not yet pursued a policy of general-purpose "automatic stabilization" of state

and local finance and the legacy of “fend for yourself” federalism was still present (López-Santana & Rocco, 2021). The difference in the amounts received and the variances among cities in the timing, use, and reporting of federal COVID-19 funding can have varying impacts on municipal fiscal health. The pandemic and the amount and distribution of federal funding are largely out of the cities’ control. Thus, we follow Levine et al. (2014)’s definition and consider fiscal health “an adaptive process of strategic decision making requiring knowledge of a variety of functions, services, and tools” (p. 2). That is, the policy and administrative actions municipal governments take during the time of crisis are expected to affect their fiscal health.

METHODS

Data came from three primary sources: (1) fiscal data were collected from the California State Auditor’s website for fiscal years 2019-2022; (2) demographic and economic data were collected from the 2010 and 2020 United States Census; and (3) local COVID-19 response data were collected from the National Leagues of Cities (NLC)’ COVID-19 Local Action Tracker. The sample includes all 482 California cities. Both quantitative and qualitative methods were used in the analysis.

FINDINGS

Regression analyses reveal that federal financial assistance has a supplemental revenue impact on municipalities and the distribution of federal funding helps improve income inequality among municipalities. Spatial correlation analysis demonstrates that the distribution of per capita ARPA funding exhibits a pattern of spatial dependence among cities. In addition, the qualitative analysis shows that local policy and administrative actions play a crucial role in maintaining fiscal health, especially actions aimed at business economic stability, city fiscal stability, and individual/family economic stability.

CONCLUSION

This study contributes to the public finance literature regarding fiscal federalism as the findings demonstrated the significant impact of the federal government on stabilizing the national economy and income redistribution to fiscally more stressed local governments and areas with high-income inequality. The study also has practical implications for local public managers and policymakers. Local actions matter. Local governments should pay attention to their community needs and implement more local policies to stimulate the local economy and local engagement.

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