

EDITOR’S NOTE: *As our state and nation continue to confront the COVID-19 pandemic, state fiscal and federal policies will play key roles in ensuring the physical and economic health of Nebraska and its residents. OpenSky Policy Institute staff will be continuously analyzing state and federal policies that impact Nebraskans during this national emergency. This analysis is part of that effort. [You can access more of our pandemic-response policy analysis here](#). We also remind you that OpenSky staff are working remotely during the pandemic response. [Remote contact information for staff members can be found here](#).*

Nebraska, along with the rest of the United States, is entering a period of previously unforeseen economic contraction and uncertainty caused by the COVID-19 crisis. The impact on states is going to be significant, with job losses at record levels resulting in not only decreased state revenues, but also increased state spending as people turn to support programs like [unemployment insurance](#) and [Medicaid](#).

In recognition of the fiscal toll this all will have on states, the federal government put together a \$2 trillion aid package, known as the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), of which the state of Nebraska is expected to receive about \$1.4 billion.¹ This equates to about 30% of Nebraska’s FY 21 general fund budget.² While this will help ease the fiscal burden, it’s also likely to be insufficient to offset the damage -- the full magnitude of which we may not know for months or even years.

CARES Act state provisions

The CARES Act contains a number of policies to provide states with fiscal relief for their response to the COVID-19 pandemic, including:

- \$500 billion for a lending fund for businesses, cities and states.
- \$150 billion for the Coronavirus Relief Fund, which provides state and some local governments direct fiscal relief for certain responses to the COVID-19 pandemic.
- \$45 billion for the Disaster Relief Fund, which provides for immediate needs of state and local governments to protect citizens and aids the response and recovery from COVID-19.
- \$31 billion for the Education Stabilization Fund, which provides support for elementary and secondary education and higher education.
- \$25 billion for transit systems.
- \$4.3 billion for Center for Disease Control and Prevention support of federal, state and local public health agencies.
- \$400 million for security election grants to prepare for the 2020 election in the midst of COVID-19.

[Read more about what is the CARES Act here.](#)

¹ According to DAS, Nebraska will receive \$1.573 billion in total funding from the Families First Coronavirus Act (FFCRA), HR 6074, and the CARES Act for COVID-19-related funding. To obtain the CARES Act total for the state, we subtracted both the FFCRA and HR 6074 dollars from the total, along with the \$166 million slated to go directly to Douglas County. Nebraska Department of Administrative Services, “Funding Provided to Nebraska Government for COVID-19,” accessed at <https://budget.nebraska.gov/assets/COVID-19/StateofNebraskaCovid-19andContacts.pdf> on April 20, 2020.

² FY 21 GF appropriations = \$4.729b of which \$1.56b - \$0.166b was divided into (the state’s CARES Act funding, less Douglas County’s portion).

Economic impact will be massive, but exactly how large remains to be seen

State revenues will be impacted significantly by widespread pandemic-related shutdowns and job losses not only for the current year, but likely several years into the future. Nationally, [Moody's analytics estimates state revenues will decline by at least 10%, with most falling by 15% to 25%](#), even when accounting for the federal stimulus.³ Under Moody's best case scenario, Nebraska would see a roughly \$500 million drop in receipts in FY 21 alone. As a result, state governors are asking for upwards of \$500 billion in federal aid to states -- on top of CARES Act funding -- to help shore up state finances because of the impact of COVID-19.⁴

In a prior brief, we [compared what a downturn in Nebraska similar to the Great Recession would look like today](#) and the results were bleak, even with revenues decreasing less than 5% -- well below Moody's estimates for the current situation. National forecasters, however, have started to say that the pandemic could create a downturn that is much more significant than the Great Recession. Several models project that even with the CARES stimulus funds,⁵ the U.S. economy could experience an annualized decline by as much as 40% in just the second quarter,⁶ which would be the largest quarterly plunge since World War II.⁷

Unemployment claims likely to account for a lot of stimulus dollars

There will be a significant need for CARES Act dollars to shore up state institutions hit the hardest by the COVID-19 crisis, like unemployment insurance programs. Nebraska's system is experiencing an unprecedented spike in claims: in just the first four weeks of the pandemic, nearly 84,000 Nebraskans filed for unemployment,⁸ bringing total unemployment in Nebraska to an estimated 114,000 with an unemployment rate of

³ National Conference of State Legislatures, "COVID-19: Fiscal and Economic Issues," accessed at https://readytalk.webcasts.com/starthere.jsp?ei=1294001&tp_key=f22e395e39 on April 8, 2020.

⁴ State of Maryland, Office of Governor Larry Hogan, "Governor Hogan Statement Regarding Fiscal Relief for the States," accessed at <https://governor.maryland.gov/2020/04/13/governor-hogan-statement-regarding-fiscal-relief-for-the-states/> on April 14, 2020.

⁵ Christopher Rugaber, "Record 16.8 Million Have Sought U.S. Jobless Aid During Coronavirus Pandemic," *Lincoln Journal Star*, April 9, 2020, accessed at https://journalstar.com/10-percent-of-us-labor-force-out-of-work-as-6-6-million-file-for/article_5e4e4263-3912-5f7e-8a7a-69e9ec2e52d6.html#utm_source=journalstar.com&utm_campaign=%2Fnewsletter-templates%2Fbreaking&utm_medium=PostUp&utm_content=910b77ccfedac2464feb33ac3fd4f8bb1be6273b on April 10, 2020.

⁶ Patti Domm, "JPMorgan now sees economy contracting by 40% in second quarter, and unemployment reaching 20%," CNBC, April 9, 2020, updated April 10, 2020, accessed at <https://www.cnbc.com/2020/04/09/jpmorgan-now-sees-economy-contracting-by-40percent-and-unemployment-reaching-20percent.html> on April 16, 2020.

⁷ Jeff Cox, "Goldman says downturn will be 4 times worse than housing crisis, followed by 'unprecedented' recovery," CNBC, April 14, 2020, accessed at <https://www.cnbc.com/2020/04/14/goldman-downturn-will-be-four-times-worse-than-the-financial-crisis.html> on April 20, 2020.

⁸ Martha Stoddard, "Jobless Numbers Continue to Climb in Nebraska; more than 16,000 file claims," *Omaha World Herald*, April 16, 2020, accessed at https://www.omaha.com/money/jobless-numbers-continue-to-climb-in-nebraska-more-than-16-000-file-claims/article_249affd8-26e9-5091-a5df-87143ec7b4f5.html on April 20, 2020.

nearly 11%.⁹ The Economic Policy Institute has estimated unemployment in Nebraska will reach 15.1% in July, peaking at over 157,000 unemployed in the state.¹⁰ For context, unemployment in the aftermath of the Great Recession peaked at 48,000 claims in January 2010.¹¹

Nebraska is fortunate to have a well-funded unemployment trust fund, with \$456 million at the start of 2020.¹² However, prior to the crisis, the state's program was only reaching 10% of those eligible¹³ and so the unprecedented spike in claims could easily overwhelm the fund.¹⁴ At the fund's balance at the beginning of 2020, it could only sustain maximum benefits for all currently unemployed Nebraskans and those who have applied in the wake of COVID-19 for just over 9 weeks, although it's important to note that not all in Nebraska who have applied for UI earn enough to qualify for maximum benefits.¹⁵ If, however, more workers become eligible for unemployment or the pandemic extends for several months or longer, as some experts have discussed, a considerable portion of CARES Act funding may be needed just to shore up our UI fund and help out-of-work Nebraskans survive the pandemic.

State savings account might not be sufficient to weather the pandemic

Adding to Nebraska's precarious financial situation is a Cash Reserve Fund that is well below the recommended level. Going into FY 21 amidst the COVID-19 crisis, the fund will sit at just over 7% of revenues -- less than half the 16% level recommended by the Legislative Fiscal Office -- assuming no money is deposited into the fund this year as

⁹ We do not have labor force data for April yet, so to obtain this estimate, we added the unemployment from February (prior to the spike in UI claims due to COVID-19) to the new UI claims since COVID-19 and divided that into the labor force data from March. Nebraska Statewide Seasonally Adjusted Unemployment, accessed at <https://data.bls.gov/cgi-bin/surveymost?la> on April 21, 2020.

¹⁰ These numbers assume no change in the labor force and project more than 127,000 Nebraskans will be unemployed in July from COVID-19 alone. Economic Policy Institute, "Nearly 20 million workers will likely be laid off or furloughed by July: Updated state numbers project further job losses due to the coronavirus," accessed at <https://www.epi.org/blog/nearly-20-million-jobs-lost-by-july-due-to-the-coronavirus/> on April 21, 2020.

¹¹ U.S. Congress, Joint Economic Committee, "Economic Snapshot: Nebraska," June 2014, accessed at https://www.jec.senate.gov/public/_cache/files/7fd8c8ae-9ea7-41a2-9be7-7fabe7f2f39b/ne.pdf on April 20, 2020. Note: the Great Recession officially lasted from December 2007 to June 2009, but Nebraska's unemployment peaked later. See U.S. Federal Reserve, "The Great Recession: December 2007-June 2009," accessed at https://www.federalreservehistory.org/essays/great_recession_of_200709 on April 20, 2020.

¹² U.S. Department of Labor, Employment & Training Administration, "State Unemployment Insurance: Trust Fund Solvency Report," 2020, accessed at <https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2020.pdf> on April 17, 2020.

¹³ Michael Leachman and Jennifer Sullivan, "Some States Much Better Prepared Than Others for Recession," Center on Budget and Policy Priorities, March 20, 2020, accessed at <https://www.cbpp.org/research/state-budget-and-tax/some-states-much-better-prepared-than-others-for-recession> on April 20, 2020.

¹⁴ Nebraska Department of Labor, "Labor Commissioner Announces Unemployment Insurance Updates," accessed at <https://dol.nebraska.gov/PressRelease/Details/146> on April 20, 2020.

¹⁵ Calculated by multiplying the number of unemployment insurance claims in the last four weeks plus the baseline unemployment rate in Nebraska in February by the maximum benefit amount and dividing the result into the UI trust fund balance.

was originally projected.¹⁶ If the state loses 10% of revenues in the remaining months of this fiscal year and 10% in the next, which would be reflective of Moody's minimum projection, it would equate to roughly \$592 million in revenue losses,¹⁷ \$220 million more than the projected \$372 million Cash Reserve Fund balance for FY 21.¹⁸ Given this, it's not difficult to imagine a scenario in which the state's current cash reserve proves insufficient to prevent cuts to services Nebraskans need amid the pandemic, or tax increases.

COVID-19 starting to impact other state services as well

Other institutions are already seeing the fiscal effects of COVID-19, including the University of Nebraska, which expects a \$50 million shortfall.¹⁹ The university system is expected to receive about \$31.6 million in CARES funding through the Education Stabilization Fund, though half is required to be awarded to students for emergency financial aid grants.²⁰

Hospitals are also facing existential threats, although not necessarily from being overwhelmed by COVID-19 patients. Instead, some hospitals are losing revenue as they cancel or postpone elective surgeries and outpatient services to free up beds and resources for a potential influx of COVID-19 patients.²¹ A substantial amount of state and federal dollars may be needed to help our state's hospitals weather the crisis.

¹⁶ Nebraska Legislature, "State of Nebraska FY2019-20/FY2020-21 Biennial Budget As Enacted in the 106th Legislature First Session," August 2019, accessed at <https://nebraskalegislature.gov/pdf/reports/fiscal/2019budget.pdf> on April 20, 2020.

¹⁷ Based on a 10% reduction in the final quarter of FY 20 general fund revenues and 10% of the entire FY 21 general fund revenues. Nebraska Legislature, "State of Nebraska FY2019-20/FY2020-21 Biennial Budget As Enacted in the 106th Legislature First Session," August 2019, accessed at <https://nebraskalegislature.gov/pdf/reports/fiscal/2019budget.pdf> on April 20, 2020.

¹⁸ This CRF balance assumes no transfer into the fund from excess receipts in FY 20 and the capital construction transfer already authorized by the legislature in the amount of \$55 million slated for FY 21. Nebraska Legislature, "State of Nebraska FY2019-20/FY2020-21 Biennial Budget As Enacted in the 106th Legislature First Session," August 2019, accessed at <https://nebraskalegislature.gov/pdf/reports/fiscal/2019budget.pdf> on April 20, 2020.

¹⁹ Chris Dunker, "NU anticipates \$50 million hit from economic fallout of coronavirus," *Lincoln Journal Star*, April 14, 2020, updated April 18, 2020, accessed at https://journalstar.com/news/local/education/nu-anticipates-50-million-hit-from-economic-fallout-of-coronavirus/article_6cee985e-f194-5a67-8e90-5d49afd14501.html#utm_source=journalstar.com&utm_campaign=%2Fnewsletter-templates%2Fnews-alert&utm_medium=PostUp&utm_content=d512d32d38754e91ff751746ca2c97a7eddefda0 on April 20, 2020.

²⁰ State of Nebraska, "Allocations for Section 18004(a)(1) of the CARES Act to Nebraska Institutions," accessed at https://ccpe.nebraska.gov/sites/ccpe.nebraska.gov/files/ART_CARES%20Act%20Allocation%204-9-20.pdf on April 20, 2020.

²¹ JoAnne Young, "For Nebraska rural hospitals, virus isn't the only threat," *Lincoln Journal Star*, April 18, 2020, accessed at https://journalstar.com/lifestyles/health-med-fit/health-for-nebraska-rural-hospitals-virus-isnt-the-only-threat/article_e38eeb16-c34a-5fec-9550-d277349727f2.html#utm_source=journalstar.com&utm_campaign=%2Fnewsletter-templates%2Fnews-alert&utm_medium=PostUp&utm_content=2b2531735f944260c667ec4550475c5ba6ef3798 on April 20, 2020; see also Diane Arnos and Fredric Blavin, "To Weather COVID-19, Rural Hospitals Might Need More Support," Urban Institute, April 6, 2020, accessed at <https://www.urban.org/urban-wire/weather-covid-19-rural-hospitals-might-need-more-support> on April 20, 2020.

History also has shown that enrollment in programs like Medicaid and the Children’s Health Insurance Program (CHIP) increase during economic downturns and so those programs are likely to see their resources strained, as well.²² As such, a substantial investment of CARES Act funding may be required to provide needed support to Nebraskans through these programs, particularly if the pandemic carries on for several months or longer.

Conclusion

While the CARES Act will provide substantial and important support to Nebraska and other states during the pandemic, the needs created by COVID-19 are likely to exceed the aid provided in the CARES Act -- and perhaps considerably so. The way state leaders make use of the federal aid we do receive will play a vital role in determining how well Nebraska and its residents weather this crisis.

²² Robert A. Moffitt, “The Great Recession and the Social Safety Net,” April 6, 2016, accessed at <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4822557/> on April 20, 2020.