General Fund
Revenue Tracking
and Outlook

PRESENTATION TO THE REVENUE STABILIZATION AND TAX POLICY COMMITTEE, AUGUST 7, 2020

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Agenda

I. Economic indicators
II. Personal income tax
III. Gross receipts taxes
IV. Revenue tracking
V. Budget outlook
Economic Indicators
US real gross domestic product (RGDP) decreased at an annual rate of 32.9% in the second quarter of 2020.

- This is the sharpest economic contraction in US history.
- The decrease reflects declines in personal consumption expenditures, exports, private inventory investment, nonresidential fixed investment, residential fixed investment, and state and local government spending that were partly offset by an increase in federal government spending (bea.gov).

According to the Bureau of Economic Analysis (BEA), the decline in the second quarter of 2020 reflects the response to Covid-19 but not all economic effects can be quantified in the GDP estimate.

- The National Bureau of Economic Research (NBER) determined that the national economy peaked in 2019Q4 and began a national recession in 2020Q1.
New Mexico Economic Indicators - RGDP

- New Mexico RGDP experienced a 3.1% contraction in the first quarter of 2020.
  - This represents a decline in RGDP from $98 billion to $97.2 billion from 2019Q4 to 2020Q1.
  - Moody’s Analytics baseline forecast estimates a 29.4% contraction in the second quarter of 2020.
    - This represents a decline in RGDP from $97.2 billion to $89.1 billion from 2020Q1 to 2020Q2.
- Forecast estimates NM RGDP recovers to pre-Covid-19 levels in 2022
New Mexico Economic Indicators – Unemployment Rates

- The national unemployment rate peaked in April at 14.7% and has declined down to 11.1% in June.
- The New Mexico unemployment rate peaked in April at 11.9% and has declined down to 8.3% in June.
- The Bureau of Labor Statistics has stated that the unemployment rates have been underreported due to individuals misclassifying themselves. Since April, this error has become less of an issue.
- For both the nation and the state, the unemployment rates do not decline below 6% until the end of the 2022.

Source: bls.gov, seasonally adjusted
New Mexico UI claims were relatively stable prior to Covid-19.

Initial claims increased sharply in mid-March and peaked by early April.

Initial claims decreased in May and June before beginning to increase again in early July.

Continued claims have remained high since April.

The CARES Act created a new temporary federal program. The Federal Pandemic Unemployment Assistance program (PUA).

- The PUA provides UI benefits to individuals who normally would not qualify for UI benefits.
- PUA weekly continued claims have averaged 54,077 since May 2nd (not included in chart).
- The CARES Act created a new temporary federal program. The Federal Pandemic Unemployment Assistance program (PUA).
- The CARES Act also created the Pandemic Emergency Unemployment Compensation (PEUC), it is temporary program available to individuals whose regular employment benefits have expired.
Job losses occurred at a rapid pace.
- Over 100 thousand jobs in three months
- From February to April New Mexico lost over 104 thousand jobs.
- From April to June New Mexico gained just over 32 thousand jobs.
- In June, on a year-over-year basis, New Mexico is down 61,300 jobs or 7.2%.
- The July baseline forecast is slightly better in the near term than the June baseline.
- Recovery depends on national trends:
  - Epidemiological path of virus.
  - When and if a vaccine is available
  - Consumer and Business Confidence returning.
  - Fiscal Policy - Federal Stimulus
  - Monetary Policy - Fed continued support
Year-over-year total non-farm employment declined 7.2% or 61,300 jobs in June.

Since the pandemic began most sectors have been negatively impacted.

In June, the most severe employment declines occurred in the following sectors.

- Leisure & Hospitality
- Mining

Sectors which gained jobs were Federal Government and Construction.

- Census employment
- Continued construction projects
By June, the state had regained about 75% of lost retail jobs and about 40% of lost leisure and hospitality jobs, but job recovery appears to have stalled in July.
NYMEX WTI Futures March vs. August

- NYMEX futures indicate oil traders positions and where they expect oil prices to be headed in the near term.
- NYMEX futures expectations have changed since March.
- In March, NYMEX futures indicated WTI prices would end 2020 at just over $31/barrel.
- In August, NYMEX futures indicate WTI prices are estimated to end the calendar year at just over $41/barrel.
- There is currently a $8 to $10 upward revision in oil traders expectations for WTI prices compared to expectations in March.
- Stronger than anticipated oil price recovery is driven by OPEC+ cuts, inventory drawdowns, and upticks in global oil demand.

Source: CME Group
New Mexico Oil Prices

- New Mexico oil prices are tracking higher than the CREG’s June consensus forecast.
- Updated estimates for weighted WTI futures with New Mexico differentials illustrate oil prices closing the 2020 calendar year at just under $40/barrel.
- The estimates also show weighted WTI oil prices closing FY21 at just over $40/barrel.
- CREG oil price estimates incorporate different assumptions, weights, and inputs from Moody’s Analytics and Global insight.
- Oil prices are inherently volatile. Oil prices are dependent on demand recovery, OPEC+ decisions, inventory builds/drawdowns.
As New Mexico Oil Prices declined – Rigs followed

- In 2015, NM rigs peaked at 101 rigs before declining to 36 rigs by the end of the year.
- In 2016, NM rigs peaked 34 rigs before declining to 13 rigs within three months.
- In 2020, NM rig counts initially declined at a faster rate than the decline experienced in 2015 but not quite as fast as decline in 2016.
- In 2020, NM rig counts peaked at 117 rigs in March and have declined to 49 rigs by the end of July.
- It is unlikely we will see substantial increases in rig counts while oil is in the low $40s/barrel.
On March 8th Saudi Arabia initiated an oil price war with Russia. The price war impacted the oil market with a supply side shock. WTI Prices declined from $41.14/barrel to $31.05/barrel. This represented a 24.5% drop in WTI prices. As Covid-19 containment measures were implemented in March, the oil market began to experience a demand side shock. The price of oil collapsed further through April. Rig counts substantially declined. NM Rigs peaked during a week in March at 117 rigs. Rigs have declined to 49 rigs at the end July. This represents a 58% decline in NM rigs.
New Mexico oil production in April and May is on par with the CREG’s June consensus forecast.

New Mexico oil production is slowing beginning in April.

In May 2020, on year-over-year basis, NM oil production declined by 7.2% compared to the same month in 2019.
New Mexico gas production began to decline in February.

Natural gas transportation and processing deductions jumped in March and April, and net prices fell below $1/mcf.
Personal Income Taxes
Personal Income Tax (PIT) – FY20 revenue impacted by current economic conditions and administrative action

- Administration Action
  - Federal extension of Tax Year 2019 Filing from April 15 to July 15
  - New Mexico automatic extension
  - Legislative action to waive penalty and interest if tax liability paid by April 15, 2021
  - Great uncertainty to forecast refunds and final settlements due to taxpayer behavior
Current tracking shows strength in withholding compared to the forecast...

- Stronger-than-expected withholding accounts for most of the strength in PIT revenues compared to the consensus forecast
- Forecasted drop in employment/wages and salaries not as deep as expected
  - Majority of jobs lost were in low-wage sectors
  - Decline in unemployment May and June
- Companies with CARES ACT–Paycheck Projection Program (PPP) loans
  - Approximately 250,000 jobs in New Mexico (Source: U.S. Department of the Treasury)
...but the full quarter for withholding will tell the complete story

- Full quarter informs full economic activity
- Monthly filers tend to be larger and more stable, whereas smaller businesses tend to file quarterly
  - Between 5,000 and 7,000 filers who meet lower threshold of Withholding and GRT requirements for quarterly or semi-annual filing
  - These filers will show up in June data, unless those payments are delayed
  - Assume majority of these taxpayers less likely to have received CARES – PPP loans
- Prior to the pandemic, withholding showed three quarters of 8% growth year-over-year, but current tracking shows the final quarter of FY20 with no growth above the same quarter in FY19
Uncertainty in the PIT outlook

- Businesses previously supported by PPP loans may struggle to stay open or retain employees if sales do not return to prior levels.

- Recovery for local businesses and hourly employment began slowing in June and shows early signs of decline in July.
  - Continuing claims for unemployment benefits remain high; uptick in initial claims in July.
  - Increases in self-employed and gig workers claiming unemployment benefits could be an early sign of reduced final and estimated payments.

- Possible increase in eligibility for WFTC and other low-income credits.

![Graph showing Working Families Tax Credit (WFTC) Annual Historical Recipients & Credit Amount](source: TRD)

![Graph showing US local businesses & hourly employment % difference from Jan 2020, 7-day average](source: Homebase)
Gross Receipts Taxes
April and May economic activity declined less than expected...

Matched Taxable Gross Receipts (MTGR)

Sources: Taxation and Revenue Department, RP-500 (author’s calculations)
...supported by ongoing construction projects and federal stimulus programs

- Large declines in leisure and hospitality, mining, manufacturing, and wholesale trade
- Continued growth in construction, retail, and other services
  - Construction boosted by ongoing projects that continued despite the pandemic
  - Retail and other services boosted by online sales
- Federal stimulus likely propped up consumer spending
  - Paycheck Protection Program
  - Unemployment benefits for self-employed and independent contractors
  - One-time $1,200 stimulus checks
  - Extra $600/week unemployment benefit

### Matched Taxable Gross Receipts by Industry - April and May 2020

<table>
<thead>
<tr>
<th>Industry</th>
<th>April</th>
<th>May</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MTGR</td>
<td>Percent</td>
<td>MTGR</td>
</tr>
<tr>
<td></td>
<td>Growth</td>
<td>Growth</td>
<td>Growth</td>
</tr>
<tr>
<td>Mining, Quarrying, and Oil and Gas Extraction</td>
<td>-$91,247,605</td>
<td>-15.4%</td>
<td>$195,385,900</td>
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<tr>
<td>Leisure and Hospitality Services</td>
<td>-$161,585,586</td>
<td>-40.0%</td>
<td>$158,943,426</td>
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<tr>
<td>Utilities</td>
<td>-$12,091,941</td>
<td>-5.5%</td>
<td>$31,546,806</td>
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<tr>
<td>Construction</td>
<td>$211,250,729</td>
<td>32.4%</td>
<td>$131,492,399</td>
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<tr>
<td>Manufacturing</td>
<td>-$61,361,529</td>
<td>-30.3%</td>
<td>-$39,750,688</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>-$51,909,747</td>
<td>-19.6%</td>
<td>$136,549,801</td>
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<tr>
<td>Retail Trade</td>
<td>$29,324,131</td>
<td>2.6%</td>
<td>$172,775,214</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>$8,363,599</td>
<td>9.9%</td>
<td>-$33,438,308</td>
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<tr>
<td>Information</td>
<td>$23,345,229</td>
<td>10.8%</td>
<td>$45,326,818</td>
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<tr>
<td>Real Estate and Rental and Leasing</td>
<td>-$14,634,016</td>
<td>-9.6%</td>
<td>-$34,796,193</td>
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<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>-$2,267,563</td>
<td>-0.4%</td>
<td>$14,254,986</td>
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<tr>
<td>Administrative/Support &amp; Waste Management/Remediation</td>
<td>-$24,683,626</td>
<td>-67.6%</td>
<td>$108,184,457</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>-$9,724,018</td>
<td>-3.5%</td>
<td>-$21,629,788</td>
</tr>
<tr>
<td>Other Industries</td>
<td>$9,853,037</td>
<td>14.5%</td>
<td>$31,229,497</td>
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<tr>
<td>Total</td>
<td>-$337,368,906</td>
<td>-6.0%</td>
<td>-$85,683,927</td>
</tr>
</tbody>
</table>

Note: compared to same month in 2019

Source: Taxation and Revenue Department, RP-500 (author’s calculations)
Other Economic Supports

- **SBA Paycheck Protection Program**
  - Forgivably loans as incentive to keep workers on payroll
  - New Mexico companies received 21,924 loans totaling $2.2 billion (as of June 30th)
  - At least partially supported about one-quarter of the workforce (about 250 thousand jobs) and helped keep businesses open

- **Economic Injury Disaster Loan Program (EIDL)**
  - Covers array of capital and normal operating expenses
  - New Mexico businesses received 9,650 loans totaling $566 million

- **SIC’s New Mexico Recovery Fund - $100 Million**

- **NMFAs Essential Services Working Capital Program**

- **Economic Development Department Initiatives**
  - No-Interest LEDA Loans
  - COVID-19 Emergency Loan Guarantee Program

- **SIC/NMFA Small Business Recovery Loans passed in the 2020 special session - $400 Million**

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### SBA Paycheck Protection Program

<table>
<thead>
<tr>
<th>Type of Company</th>
<th>% Awarded Under $150K</th>
<th>% Awarded $150K Plus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Mining</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.2%</td>
<td>0.53%</td>
</tr>
<tr>
<td>Construction</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Information</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Real Estate and Rental and Leasing</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Management of Companies and Enterprises</td>
<td>0.1%</td>
<td>0%</td>
</tr>
<tr>
<td>Administrative</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Educational Services</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Health Care</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>Public Admin</td>
<td>0.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Unclassified</td>
<td>1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Blank</td>
<td>2%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Source: New Mexico Economic Development Department, Presentation to the Legislative Finance Committee July 15, 2020
In-state retail declined with the stay-at-home order, but online sales increased.

- Five counties still experienced declines over 20% in May (Harding, Santa Fe, Lea, Eddy, Hidalgo)

Sources: Taxation and Revenue Department, RP-500 (author’s calculations)
Leisure and hospitality industries experienced the largest declines in economic activity.

- Fifteen counties experienced over 50% declines in arts, entertainment and recreation in May
  - Eight counties experienced declines over 75% (Torrance, McKinley, Rio Arriba, Eddy, Lincoln, Doña Ana, Santa Fe, Lea)

- Sixteen counties experienced over 20% declines in accommodation and food services in May
  - Six counties experienced declines over 40% (De Baca, Santa Fe, Taos, Eddy, Socorro, Los Alamos)

Sources: Taxation and Revenue Department, RP-500 (author’s calculations)
In-state “other services” also saw significant declines in April with some recovery in May.

- Category captures repair and maintenance services, personal care services (e.g. salons, barbershops, etc.), laundry services, civic and religious organizations
- Ten counties experienced declines over 20% in May
  - Grant, Cibola, Colfax, Catron, Lea, Santa Fe, Taos, Los Alamos, Bernalillo

Sources: Taxation and Revenue Department, RP-500 (author’s calculations, excludes out-of-state receipts)
Low oil prices and falling rig counts fueled a sharp decline in gross receipts in Eddy and Lea counties in April and May, with continued declines expected in June and July.

Sources: Baker Hughes; Taxation and Revenue Department, RP-500 (author’s calculations)
Matched Total Gross Receipts YoY Growth By County

- Selected counties MTGR percent change on YoY basis in May:
  - Dona Ana flat at 0.9%
  - Bernalillo down 6.8%
  - Santa Fe down 18%
  - San Juan down 7.7%
  - Eddy down 11.4%
  - Lea down 34%

- There are a few temporary construction projects offsetting the MTGR declines in:
  - Roosevelt up 326%
  - Torrance up 290%
  - Luna up 269%

Sources: Taxation and Revenue Department, RP-500 (DFA calculations)
A long road ahead....

- People are starting to return to their old jobs, but there is still a long way to go.
- Four in 10 lost jobs may never return.
- Many businesses will permanently close.
- Jobs in retail, warehouses, factories, and transportation face long-term endangerment.
- The virus path is the leading economic indicator of this recession.
- Federal response is critical, particularly support for unemployed workers and state and local governments.
...and the Future is Uncertain

- Business uncertainty makes companies avoid big decisions and delay hiring, and leads to layoffs and furloughs; the longer this crisis lasts the more likely temporary layoffs become permanent.

- Too early to know whether/how people and businesses will return to their old patterns
  - How long will it take for consumers to feel comfortable traveling, or attending a conference or concert?
  - How many people will continue to work from home? How would continued teleworking shape consumer spending patterns in the long-run?

- Long-term megatrends in jobs likely to continue (e.g. shorter supply chains, automation, teleworking, shift to online sales, healthcare for an aging population, etc.)

- Small businesses unable to borrow will be replaced by larger businesses better positioned to weather the storm

- Will New Mexico see delayed effects on the economy, particularly if current federal supports change or expire?

Sources: UNM Bureau of Business and Economic Research, FOR-UNM July 2020
June Forecast Recap and General Fund Revenue Tracking
June 2020 Consensus Recurring Revenue Outlook & Stress Test

<table>
<thead>
<tr>
<th>Consensus Baseline</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2019 Consensus*</td>
<td>$7,776.4</td>
<td>$7,870.5</td>
<td>$7,925.6</td>
</tr>
<tr>
<td>June 2020 Adjustments</td>
<td>($439.0)</td>
<td>($1,979.0)</td>
<td>($1,705.0)</td>
</tr>
<tr>
<td><strong>June 2020 Consensus</strong></td>
<td>$7,337.5</td>
<td>$5,891.5</td>
<td>$6,220.5</td>
</tr>
</tbody>
</table>

Annual Percent Change: -8.4% -19.7% 5.6%

*2020 legislation adjusted

- Following the June 2020 Special Session:
  - FY20 ending general fund reserves estimated at $1.5 billion (21%)
  - FY21 reserves estimated at $818 million (11%)
    - Assumed $750 million in federal funding to backfill lost revenue
  - FY22 recurring revenue projected to be $991 million below FY21 recurring appropriations (-14%)

- **Stress-Testing**: Optimistic and pessimistic scenarios based on depth and duration of economic decline and alternative oil price/production assumptions

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**General Fund Recurring Revenue Sensitivity Analysis (in millions)**

<table>
<thead>
<tr>
<th>Revenue Scenarios, Difference from Baseline Forecast</th>
<th>Optimistic</th>
<th>Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY20</td>
<td>FY21</td>
<td>FY22</td>
</tr>
<tr>
<td>Severance Taxes</td>
<td>$0</td>
<td>$111</td>
</tr>
<tr>
<td>Federal Mineral Leasing</td>
<td>$12</td>
<td>$147</td>
</tr>
<tr>
<td>Gross Receipts Taxes</td>
<td>$39</td>
<td>$124</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>$46</td>
<td>$164</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>$71</td>
<td>$44</td>
</tr>
<tr>
<td><strong>Total Difference from Baseline</strong></td>
<td>$168</td>
<td>$590</td>
</tr>
<tr>
<td>Difference from Dec 2019 est.</td>
<td>-$271</td>
<td>-$1,389</td>
</tr>
</tbody>
</table>

Note: dollars in millions
FY20 revenues currently tracking about $315 million to $360 million above the June 2020 consensus estimate (legislation-adjusted)

**FY20 Revenue Tracking vs. Forecast**

- **Gross Receipts Tax**: $201.8
- **Compensating Tax**: $9.7
- **Selective Sales Taxes**: $26.7
- **Personal Income Tax**: $82.8
- **Corporate Income Tax**: ($5.4)
- **Mineral Production Taxes***: $0.9
- **Investment Income**: ($0.2)
- **Rents and Royalties**: $11.6
- **Other Recurring Revenue**: ($9.7)

*Mineral production taxes only include those distributed to the general fund

Source: LFC Revenue Tracking Report (July 30, 2020)

Note: Revenue tracking range based on estimates from LFC, the Taxation and Revenue Department, and the Department of Finance and Administration
The Good News

- Current data suggests FY20 general fund revenues may be on track for the ‘optimistic’ scenario of the June 2020 forecast
  - Employment in Q2-2020 did not fall as far as projected (loss of 100K jobs vs. 150K projection)
    - Unemployment lower in June than in April
  - Gross receipts and income tax collections fell less than expected in April and May
  - Federal fiscal policy softened the blow to businesses and unemployed workers
  - Permian basin more resilient to low oil prices than other US basins
    - Significant declines in drilling activity, but still less than other basins
  - Oil prices tracking higher than expected in the baseline forecast

![General Fund Recurring Revenues and Appropriations](image-url)
Reasons for Caution

- Recent uptick in transmission rate of the virus and potential for resurgence in the fall
- Economic growth showing signs of slowing down
- Businesses may not be able to sustain reduced capacity operations
  - Payroll employment supported by the federal paycheck protection program may not be sustainable once funding expires
- BLS employment surveys tend to undercount employment losses
- New Mexico employment still expected to take years to recover
- Consumer spending may have been propped up by additional unemployment insurance, which expired at the end of July
- Oil prices dependent on oil demand recovery and OPEC+ production cuts
- Capital markets dependent on federal reserve actions; large amounts of corporate debt
- What will happen with federal stimulus?
Budget Outlook
Moving Forward
2020 Special Session was held on June 18th to address anticipated shortfalls in revenue for fiscal years 2020 and 2021

FY20 revenue was adjusted downward by $439 million,
- Addressed by non-recurring revenue of $94 million, reductions in one-time spending and usage of operating reserves

FY21 revenue was adjusted downward by $1.98 billion;
- addressed by targeted sanding from 1 to 4%,
- elimination of 4% salary increases for state employees
- usage of $750 million of CRF funding for those agencies providing coronavirus response

FY21 Adjusted General Fund recurring budget is $7,207.8 a reduction of $413.6 in recurring spending
New Mexico Budget Outlook

- FY20
  - FY20 revenue tracking above the CREG’s June 2020 Forecast by $315 million to $360 million.
  - FY20 reversions are currently estimated at $92 million.
  - Revenue tracking is higher than expected for FY20 means ending reserves will be stronger

- FY21
  - New Mexico entering FY21 with higher than expected revenue and reserves means the state has added resources in FY21
  - FY21 will still be a challenging year for New Mexico.

- Fed stimulus update
  - Fourth round of a federal stimulus is currently being negotiated.
  - Many details may change by the time agreement is reached.
  - Moody’s Analytics and UNM BBER have both stated Fed stimulus is key for national recovery.
  - Congress negotiating
    - Another round of stimulus checks.
    - Expansion of unemployment benefits at a reduced level.
    - This benefit was at $600/week maybe reduced to $200/week determined by formula rather than flat rate.
  - Change of language that allows some of the Corona Virus Relief (CRF) funds to be used by states for revenue shortfalls
    - States can use CRF appropriations 90 days after “state fiscal year 2021”
    - “Allows 25% of the CRF to be used for revenue replacement while requiring states to certify that 25% of CFR payments have been provided to local governments”