Executive Summary

The impacts of the coronavirus on the health, social wellbeing, economy, and state government of Alabama are unprecedented.

To this date, millions of Alabamians have upended their lives to stop the spread of COVID-19. Over 1,000 have contracted the virus and some have succumbed to it.

The effects of social distancing on the economy of Alabama and, as a result, the state’s financial well-being are likely to be dramatic as well.

Budget-wise, Alabama could see a decrease of $1.3 billion in the Education Trust Fund budget if income and sales tax drop by 20%. The General Fund could also see its funding stream decrease by $400 million, assuming a 20% decrease in its revenue sources as well.

The teetering economy also increases pressure on the already-underfunded Retirement Systems of Alabama, which supposes as generous 8% annual return.

Additionally, legislative priorities for the year that had gained significant traction, including the approval of medical marijuana, a ban on transgender surgeries and therapies for minors, a statewide lottery, and more have been sidelined.
Introduction

In a matter of days, the threat of the coronavirus shifted from an abstract idea to a confirmed reality for millions of people across the United States. As initial cases in Washington and New York in those arriving home from foreign countries grew to community spread in Florida, California, and eventually Alabama, federal and state health officials faced difficult decisions concerning recommendations and orders that drastically impacted life for all Americans.

To this day, the coronavirus continues to spread across the nation and around the world, its ability to upend regular life unlike anything in recent history.

The potential detriment of COVID-19 on the health of millions of Americans is, of course, of utmost importance. It is, in fact, the sole reason we allow our lives to be upended. We care about our communities and seek to protect those most susceptible to the disease.

Even so, it is important to grasp the full impact of the coronavirus on our lives, and specifically on our home state of Alabama. This includes the health impacts, of course, but also the impacts to our social structures, our economy, and our state government. Detailing the full impact is our hope for this Guide.

Impact on Health

According to the World Health Organization (WHO), the coronavirus can affect people in different ways. COVID-19 is a respiratory illness, however, and most who are infected will have a fever, shortness of breath, and/or a dry cough. Other symptoms include aches and pains, sore throat, and, in some, diarrhea, nausea, or runny nose.

Most people, according to the WHO, will experience mild to moderate symptoms that do not require special treatment.

The death rate, currently thought to be around 1%, shows that COVID-19 is 10 times more deadly than the flu according to Dr. Anthony Fauci.¹

Those who are older or have pre-existing conditions such as high-blood pressure, heart disease, lung disease, cancer, or diabetes, tend to more often develop serious illness than younger people.

Unlike with the flu, no population has a built-up immunity to COVID-19. This is why it is so infectious and why governments have made such drastic measures to contain and stop the spread of the coronavirus.²

That said, competing models of infection and an ever-changing mitigation strategy have left much about the spread of the virus in question. Data from China has proven to be unreliable, and differences in infection rates in areas such as New York City, especially compared to Alabama, make determinations of the “peak” difficult to ascertain. Nationwide, President Trump has suggested that the peak infection rate will be mid-April.³ Alabama’s peak, however, will likely be later.⁴ Overall, however, projections change regularly and the true impact of the virus is largely unknown.

Current Statistics (updated April 2nd, 2020):⁵

- Total Confirmed Cases: 962,977
- Total Deaths: 49,180
- Total Confirmed US Cases: 216,798
- Total US Deaths: 5,153
- Total Confirmed Alabama Cases: 1,233⁶
- Total Confirmed Alabama Deaths: 17

Social Impact

When the first health recommendations regarding social distancing were voiced from the CDC, the White House, and local governments across the state and nation, social life in America became one of the earliest casualties. The gatherings that characterize and dominate so many of our lives–family gatherings, religious services, conferences, sports, concerts, et cetera–were immediately called into question. Some, such as the 2020 NCAA Basketball Tournaments, were cancelled outright. Others, such as gatherings of the local church, were forced to adjust to
online means of community and growth. These impacts were immediately felt and, to this day, residents continue to find creative ways to adjust social patterns of life as a result of the COVID-19 pandemic.

**Families**

One of the most significant impacts of the coronavirus is its effect on families. For many, school closures and work-at-home policies have forced nuclear families into spending increased time together. For those families with older adults or persons with pre-existing conditions, however, COVID-19 has resulted in isolation and loneliness as older family members are restricted from seeing relatives except through a window (in some documented cases) and those with preexisting conditions are kept away from family members even in the same home.  

**Churches and Religious Gatherings**

Apart from the impact of the coronavirus on families, perhaps the most significant social impact of the coronavirus in Alabama has been its impact on churches and religious gatherings. With 86% of Alabamians identifying as Christian according to Pew Research, millions across the state face a temporary new normal in which weekly rhythms of worship, small groups, and other gatherings are dramatically changed. Many have adjusted to online services, drive-through confession, or drive-in church. While human ingenuity and technology have made social distancing possible in religious communities, the long-term cost of cancelling in-person gatherings is difficult to ascertain.

**Entertainment and Recreation**

Another social impact of the coronavirus has been the cancellation or adjustment of entertainment and recreational activities. On March 11th, the NCAA announced that the March Madness Basketball Tournaments would be held without crowds. While that tournament was later cancelled completely, this announcement was the first in a series of entertainment and sports cancellations or postponements that, for many Americans, served as the first notice that COVID-19 would greatly impact their lives.

In the days following the NCAA’s announcement, almost all live events were cancelled or postponed. Most movie theaters have shut their doors as the global box office comes to a halt and shoots for television shows and films are delayed.

Personal recreation has been impacted as well. With most gyms closed, local sporting leagues games delayed, and schools closed to normal K-12 sports, residents across the state are adjusting to at-home workouts and, when they do venture outside, maintaining the recommended six-foot distance between themselves and others.

**Socioeconomic Impact**

Before we shift to discussing the economic impact of the coronavirus, it must be remembered that economics is not simply about dollars and cents. There are, in fact, human consequences to a faltering economy. Job losses, lack of regular income, and other economic changes can increase rates of depression, suicide, and perhaps even social unrest. Examining the economic impact is not a cold, heartless thing to do, but an important factor to consider when determining the best way forward in a global pandemic.

**Economic Impact**

There is much uncertainty as to what economic impacts Alabama and the nation may feel as a result of the COVID-19 pandemic. Many businesses have temporarily shut down. From March 22-23 alone, the Alabama Department of Labor reported 17,000 new unemployment claims were filed. Schools across the state are closed. At least 175 million Americans are being told to shelter in place, only leaving their homes for necessities such as medical appointments, food, and
The last week of March, in fact, saw over 6.6 million Americans file for unemployment. That is double the record set just the week before as the stock market and other economic indicators continue to signal a potential recession.

While the stock market shows the immediate impact on the financial markets, the short and long-term effects are hard to predict. The biggest factor in determining how much economic pain the state of Alabama and its residents feel is how long it takes for communities to get back to business as usual. If most aspects of life return to normal in a matter of weeks, the impact will be felt but there is hope that the state’s economy can quickly recover. If COVID-19 shutdowns persist for months, the hardships for individuals, businesses, and state and local governments will be more severe and long-lasting.

While the effects are hard to predict, we can at least consider how major disasters have affected the economic health of areas in the past. In 2001, for example, after the attacks of 9/11, New York City lost 143,000 jobs a month in the following three months. Assuming the impact to Alabama is similar over the next three months (an assumption, indeed), Alabama would lose 87,000 jobs every four weeks. This direct correlation may not come to fruition, but it does highlight the real effects that a crisis can have on local economies.

For state government, however, there are a number of impacts that will have to be confronted in the coming weeks and months. In addressing these trying issues, lawmakers must seek to ensure the health and safety of Alabamians while striving to minimize the economic impacts felt by the state.

Impact on Alabama Government

From short-term delays of the Legislative Session to the long-term impact of an underperforming economy on the state budgets, Alabama’s state government is not immune to the impact of the coronavirus. While these effects may not receive much attention in light of the more immediate impacts Alabamians are feeling, they are nonetheless significant.

Education Trust Fund

The main sources of revenue for the Education Trust Fund (ETF) are sales and income tax receipts. In 2019, an estimated $6.3 billion of $7.0 billion in ETF receipts came from these sources. State revenues for FY 2020 and beyond will almost certainly be impacted by the business closures associated with COVID-19. Depending on how much 2020 revenues fall below projections, both the ETF and General Fund budgets could be forced in proration, meaning cuts will be necessary to balance the budgets.

It is difficult to project with accuracy what the impact to the 2020 ETF budget may be. However, looking at a couple of scenarios may give the state an idea of the potential revenue shortfall. Considering income and sales tax receipts, if only those sources fall by 10%, revenues to the ETF would decrease by approximately $633 million for the current fiscal year (2020). If sales and income tax revenues fall by 20%, that would leave a gap of nearly $1.3 billion this year.
One caveat is that the 2020 impact on income tax receipts may be somewhat minimized since they are based on 2019 income. However, the state has already delayed the filing deadline until July 15, 2020. Despite the delay, those citizens with tax bills due may have a hard time paying them if the disruptions caused by COVID-19 persist.

Depending on the size of the FY 2020 shortfall, all or some of it could be filled through the ETF’s Rainy Day Account and/or rolling reserve fund. Exhausting those funds this year could make budgeting for FY 2021 even more difficult though.

Even greater uncertainty persists in terms of the FY 2021 ETF budget. Alabama law requires that the state legislature pass the ETF and General Fund budgets each year, but doing so under the current cloud of uncertainty is unlikely, meaning that a special session focused on the two state budgets will be forced to convene sometime prior to September 30.

Under a best-case scenario, Alabamians can hope that life will be back to normal by then and budget impacts will be minimal. Regardless, it is more important now than ever for lawmakers to be prudent and carefully prioritize taxpayer resources.

**Education Trust Fund**

**Potential Losses assuming 20% decline in revenue**

- 20% Potential Loss
- Remaining Budget

**General Fund**

**Potential Losses assuming 20% decline in revenue**

- 20% Potential Loss
- Remaining Budget

Fund gets the majority of its revenue from various tax receipts and investments, including: ABC Board receipts, ad valorem taxes, corporation taxes, insurance company taxes, sales and use taxes, and interest on the Alabama Trust Fund, among others.

A decline in some of these revenues is inevitable, though the General Fund may not be as significantly impacted as the ETF since it is not reliant on income tax receipts. If total General Fund revenues fall by 10%, that will mean a loss of over $200 million in 2020. A 20% loss would double that figure to over $400 million this year. Like the ETF, the General Fund also has a Rainy Day Account that could help ease some of the immediate economic impacts caused by COVID-19.

Under a more dire scenario, federal reserve officials have estimated that unemployment could reach as high as 30%. The impacts of such a high unemployment rate on Alabama income tax receipts could be several billion dollars in 2021.

Like the ETF, the status of the FY 2021 General Fund Budget is uncertain. The legislature will need more time to evaluate the impacts of COVID-19 before it can responsibly develop next year’s budget proposal.

**State Rainy Day Accounts**

As referenced previously in this guide, both the ETF and general fund have rainy day accounts that can be accessed in order to prevent proration.

The ETF Rainy Day Account is part of the Alabama
Trust Fund, which was created in 1985. Both the General Fund and ETF rainy day accounts were established in 2008 and are intended to provide additional General Fund and ETF funding if there is a revenue shortfall. The source of funding for each account is derived from Alabama’s oil and gas royalty revenues.

A maximum of 6.5% of the ETF’s previous year appropriation can be withdrawn from the fund in a given year, less any previously withdrawn amount that has not been repaid. This leaves the legislature with an estimated $430 million that could be available to offset proration in 2020. The state constitution requires that any funds withdrawn from the ETF Rainy Day Account must be repaid within six years.

The ETF also has a rolling reserve fund (created in 2013) that can be used to help prevent proration. An amount up to 1% of the previous fiscal year’s Education Trust Fund appropriations is transferred from the ending balance of the Education Trust Fund (assuming there is a surplus) to the reserve fund annually until the Fund reaches 7.5% of the previous year’s appropriation. There could be as much as $300 million available, assuming no funds have been withdrawn since 2015.

The State General Fund also has a rainy day account that may be utilized to prevent proration. State law provides that up to 10% of the previous year’s general fund appropriation (less amounts not repaid) may be withdrawn from the account if the governor orders proration. The state has 10 years to pay back money taken from the General Fund Rainy Day account. Based on FY 2019 appropriations, the state could withdraw up to $200 million in 2020 for proration prevention.

The 2020 Legislative Session

If the budgets and a few other pieces of critical legislation are the only matters of business for the rest of this year, a number of other bills (many which are controversial and promised to command much media attention) are dead. This is a significant blow to supporters of these pieces of legislation. A few select examples of impacted legislation are listed below.

**SB165** – This bill would have legalized medical marijuana for use in the state of Alabama. Before the legislature left on Spring Break (and before the coronavirus had any real impact on Alabama), SB165 had received a favorable report from the Senate Judiciary Committee and, the day before break, passed the full Senate by a vote of 22-10.

**HB76** – This bill would have created a Tier III retirement program that offered state employees more benefits during retirement. Even though it would increase the state’s unfunded pension liability—which is already at an unsustainable level—the legislation passed the House by a vote of 103-0 on February 18th.

**SB282 and HB418** – These bills both aimed to legalize a state-sanctioned lottery within Alabama’s borders. Both would have required a vote of the people, scheduled for this November. These are not bills that should be considered essential in any understanding of the word.

**SB219 and HB303** – These bills would have banned transgender surgeries and hormone therapy on minors. Although an important step to end experimentation on the state’s children, it is unlikely that this would be deemed essential to government function.

**HB352, HB353, SB259, SB250** – These bills would lower taxes on Alabamians that were inadvertently raised as a result of the Tax Cuts and Jobs Act of 2017. These bills were never heard in committee in either legislative body, although support for them was widespread.

There are many other bills that will likely be on hold until the next legislative session, including attempts to eliminate the grocery tax, ban smoking in cars with minors, allow early voting, abolish the office of the State Auditor, and more. In fact, almost 950 bills and resolutions have been filed in the 2020 Legislative Session already. Only 84 have passed. For reference, in the 2019 Regular Session, 653 bills and resolutions passed.

**Retirement Systems of Alabama**

RSA, and in turn, Alabama taxpayers, could be particularly susceptible to the economic risks associated
with the COVID-19 epidemic.

RSA guarantees an eight percent average investment return over time. In an era of historically low interest rates, eight percent is a lofty goal to achieve under good economic circumstances.\(^2\) Given the current upheaval of the stock market, it is unlikely RSA will see positive growth this year. If COVID-19 sparks a longer-term recession, it may take longer for RSA investments to recover.

In 2018, the state contributed more than $1.2 billion towards employee retirement benefits.\(^2\) If RSA falls short of the 8% goal for an extended period, it could put taxpayers on the hook for tens of millions of additional dollars in retirement benefits.

RSA is already seeing a more immediate impact from the COVID-19 epidemic. RSA owns the 11 courses making up the Robert Trent Jones Golf Trail as well as eight associated resorts. As of March 13, 2020, RSA CEO David Bronner said that the golf and resort operations had not been impacted yet.\(^2\) However, since that time greater social distancing restrictions have been placed on Alabamians. People are being encouraged to stay home if possible, meaning less tourism dollars coming into the state.

In the short-term, this will certainly impact RSA’s bottom line. Over the long run though, RSA’s resorts and the Robert Trent Jones Golf Trail could fair better than its private counterparts. Since these resorts and golf courses are backed by taxpayers, RSA will be better equipped to weather the storm than small business owners who may be forced to close their independent golf course or event venue.

**State Employees Temporarily Sheltered**

Unlike the private sector, which feels the immediate

impact of an economic downturn, any government is one step behind in terms of falling revenues and layoffs. That said, the thousands of government employees are sheltered from the economic effects of, in some cases, their own decisions regarding the economic well-being of the state. Any federal direct payments being discussed will likely not take this into account, allocating tax dollars to those who have encountered no loss in income at similar levels to those who have been temporarily furloughed or permanently laid off.

Even so, this sheltering from the economic fallout is not permanent. If the economy falters long-term as a result of the coronavirus, agencies will face proration and potential layoffs as a result of Alabama’s balanced budget requirement. There is, as described earlier, a way to avoid full proration, however, through accessing the Education Trust and General Fund Rainy Day Accounts.

**Conclusion**

From our basic social interactions to the long-term health of our economy and the ability of the State Legislature to govern, the impact and reach of the coronavirus is massive. Living memory offers no similar occurrence. Even so, our leaders and decision makers need not dictate our collective future in a vacuum. Health officials, economists, elected officials, and others need to grasp the full impact of this national pandemic.

It is a difficult time. That is undeniable. It is in these difficult times that the ingenuity of Americans and Alabamians must be harnessed to arrive at a solution that prioritizes human life and the general social and economic welfare.

And there is a solution. Our job, empowered by a full picture of COVID-19’s impact, is to find it.

\(^1\) Ibid.


25 Ibid.

