Governors’ Advisors Energy Policy Institute
August 20 - 25, 2020
National Governors Association
Center for Best Practices
Virtual Meeting Housekeeping

▶ For Technical Support:

Please chat or contact Tonya Smith (tsmith@nga.org) if you have any technical questions or call/text at (202) 834-0022.
Today’s Virtual Meeting: Zoom Controls

The Zoom menu bar appears at the bottom of the Zoom window once the meeting begins.

If you don’t see the menu bar, move your mouse slightly and the bar will appear.
Step 3: View List of Participants
Step 4: Raise Your Hand
Welcome & Day 1 Recap

Jessica Rackley, Program Director, National Governors Association
NGA’s Energy Team

Emma Cimino
Senior Policy Analyst

Jessica Rackley
Program Director

Dan Lauf
Program Director
NGA’s Energy Team

Matt Rogotzke
Policy Analyst

Timothy Schoonhoven
Policy Analyst

Alyse Taylor-Anyikire
Senior Policy Analyst
Upcoming Opportunity: Electric Vehicle Grid Integration

• NGA will be hosting a virtual national workshop on EVs and grid integration issues on Sept. 16-18, 2020

• This workshop and a forthcoming policy paper will focus on state strategies to advance EV adoption and prepare the electric grid

• Topics covered during this workshop include:
  • Vehicle-grid-integration
  • Siting charging infrastructure
  • Regulatory considerations

• Please contact Matt, mrogotzke@nga.org
Opening Questions & Polling

Question (please use the hand raising or the chat feature via zoom)

• What is the most interesting new talent/skill/interest that you’ve gained during the pandemic? Or
• Where would you like to travel to/take your next vacation once you feel comfortable traveling again?
Incorporating Equity into Energy Policy

Speakers:
Carmelita Miller, Energy Equity Legal Counsel, Greenlining Institute
Chandra Farley, Just Energy Director, Partnership for Southern Equity

Moderated by:
Matt Rogotzke, Policy Analyst, National Governors Association
Trivia!

• Name one of the two states that does not have counties.
Answer:

- Alaska – called Boroughs
- Louisiana – called Parishes
Energy Goals and Budget Holes

Speakers:
Kathryn White, National Association of State Budget Officers
Commissioner Katie Dykes, Connecticut Department of Energy and Environmental Protection

Moderated by:
Emma Cimino, Senior Policy Analyst, National Governors Association
Energy Goals and Budget Holes: Current State Fiscal Conditions

National Governors Association
Energy Policy Institute (EPI)
Economic and Fiscal Outlook – Before & After COVID-19
Finished FY 2019 with revenue surpluses

Rainy day funds at highest levels

FY 2021 governors’ proposed budgets called for another year of modest spending growth

States were focused on investing in key priorities

Cautionary tale: preparing for the next downturn

Long-term challenges: pensions and retiree health liabilities; infrastructure and transportation demands
All sources of revenue being impacted by COVID-19
*Personal income, sales, corporate income, gaming, motor fuel*

COVID-19 is impacting states in different ways and magnitudes
*E.g. oil producing states; tourism; manufacturing*

States are facing both increased spending demands and significant revenue declines

States took steps to balance fiscal 2020 and fiscal 2021 budgets, with some states still waiting to finalize full-year fiscal 2021 budgets

More mid-year actions are expected in fiscal 2021

Different than other recessions – public health emergency and sharp economic declines

What is the current fiscal environment for states?

*(August 2020)*
Revenue Outlook for States
Revenue Sources in the General Fund

Percentage

Fiscal 2019

Source: NASBO Fiscal Survey of States
Revenue declines during Great Recession (From fiscal 2008 to fiscal 2010)

-11.6%  
Total general fund revenue

-6.8%  
Sales Tax

-14.7%  
Personal Income Tax

-24.1%  
Corporate Income Tax

-7.8%  
Gaming Tax

-8.2%  
All Other Revenue
Steep Declines During the Great Recession and a Sluggish Recovery Led Revenues to Lag Behind Real Fiscal 2008 Levels for a Decade

Fiscal 2020 figure is estimated (pre-COVID-19). Fiscal 2021 figure is based on governors’ recommended budgets (pre-COVID-19). Percentages shown represent total annual general fund spending growth.

*Beginning with the Fall 2019 Fiscal Survey edition, Massachusetts now excludes federal reimbursements in its general fund spending and revenue totals. NASBO has adjusted prior 50-state totals from the Fiscal Survey to remove Massachusetts’ federal reimbursement amounts (as reported in the state’s Comprehensive Annual Financial Report, or CAFR) for comparison purposes.
42 States Saw Revenue Collections Meeting or Exceeding Fiscal 2020 Budget Projections Prior to the COVID-19 Crisis

A few states reporting collections below projections incorporated early impacts of COVID-19 on their tax collections.

*Fiscal 2020 figures were estimated based predominantly on pre-COVID-19 data. A few states that reported collections coming in lower than projections incorporated some early COVID-19 impacts on their tax collections.

Source: Spring 2020 Fiscal Survey of States
Impact of COVID-19 on State Revenues

States have been releasing updated revenue forecasts – many projecting multi-billion-dollar revenue declines over the next few years

» This is not expected to be just a one- or two-year problem for state revenues.

These projections are a moving target, surrounded by a lot of uncertainty

» Huge and uncertain variables in forecasts related to the virus, and when a treatment or vaccine will be available.

» Tax deadline shift also complicates the forecasting process.

The worst is likely still to come for state tax revenues, as the full economic impacts of the pandemic are felt

» Federal stimulus measures (checks to individuals, enhanced UI benefits, PPP, etc.) have been propping up the economy and state revenues, but only temporarily.

» Most states were seeing revenues coming in ahead of projections for fiscal 2020 before the pandemic, which provided some immediate cushion

» 2020 tax returns mostly based on 2019 economy, which was strong
How States Address Budget Shortfalls
Ways to address budget shortfalls

1. **Budget cuts**
   - Can include targeted cuts, across the board, personnel, etc.

2. **Rainy day funds and reserves**
   - Size of shortfalls greater than amount in rainy day funds
   - Try not to drain immediately

3. **Increased taxes**
   - Typically not first option and amount less than budget cuts

4. **Federal aid**
   - Was very helpful during Great Recession
   - This time: question of how flexible and how much
Strategies Used to Manage Budgets, Fiscal 2010

- 35 states TARGETED CUTS
- 25 states ACROSS THE BOARD CUTS
- 24 states LAYOFFS
- 16 states FURLoughs
- 9 states SALARY REDUCTIONS
- 13 states CUTS TO STATE EMPLOYEE BENEFITS
- 19 states REDUCE LOCAL AID
- 14 states REORGANIZE AGENCIES
- 13 states RAINY DAY FUND
- 19 states USER FEES
What are states doing so far to manage fiscal 2020 and 2021 budgets?

- Across the Board or Targeted Cuts
- Personnel Actions
- One-time Measures
- Rainy Day Fund Transfers

State Budget Actions in Response to COVID-19 Pandemic and Economic Crisis

NASBO Resource: State Budget Actions in Response to COVID-19 (Last Updated: July 1, 2020)
General Funds Expenditures

By Function

Estimated Fiscal 2019

Source: NASBO State Expenditure Report
What makes this downturn different?

- States knew the economic consequences of closing down nonessential businesses, but the public health crisis left few good options.
- Ripple effect through all areas of government, from reduced transportation revenues to the closing of courts and effect on fee/fine/forfeiture revenues.
- Added expenses from addressing the COVID-19 pandemic.
  - Budgetary pressures from increased Medicaid caseloads, increased unemployment insurance filings.
- Many more pressing demands on governors in a very short timespan
Outlook for States
States will continue to respond to increased spending demands from the coronavirus

Adjusting revenue forecasts for fiscal 2021 while examining potential impact on fiscal 2022

Fiscal 2021 budgets will continue be revised

Budget instructions are being issued for fiscal 2022, with some calling for cuts up to 15 percent

Uncertainty around additional federal aid and how flexible
• States will still need to make cuts even with more aid

States will likely face impact of COVID-19 for many years to come

Outlook for states
FY 2021 and beyond
Kathryn Vesey White
Director of Budget Process Studies
kwhite@nasbo.org

National Association of State Budget Officers | NASBO
Energy Goals and Budget Holes

Commissioner Katie Dykes, Connecticut Department of Energy and Environmental Protection
Trivia!

• Which state lays claim to the most consecutive days above 120°F?
Answer:

California; 43 days in Death Valley, from July 6 through August 17, 1917.
State Strategies to Leverage Federal Dollars

Speakers:
Joseph Aldy, Harvard Kennedy School of Government
Jennifer DeCesaro, Senior Advisor, U.S. Department of Energy

Moderator:
Jessica Rackley, Program Director, National Governors Association
Lessons from the 2009 Recovery Act Clean Energy Package

Joseph E. Aldy
Harvard Kennedy School

NGA Energy Policy Institute
August 21, 2020
Lessons from ARRA 2009

• Topline Design Considerations
• Impacts of Clean Energy Package
• Lessons from ARRA 2009
• State Government Considerations
Topline Design Considerations
Two Policy Objectives: 2009 ARRA

- Economic Stimulus
  - Timely: when output gap is large
  - Targeted: maximize bang for the buck
  - Temporary: ?

- Clean Energy / Climate
  - Target investments that reduce CO2 emissions
Instrument Choice

- Automatic policy tools
  - Tax credits
  - Formula-based grant programs
  - Move fast, targeting uncertain

- Discretionary policy tools
  - Loan guarantees, grant programs
  - Move slower, could tailor to marginal investment
  - Role of politics
Statutory Authorities

• Use of existing statutory authorities
  ▪ Legislation focused on appropriations, not authorities
  ▪ Existing programs well understood → move faster

• Create new authorities
  ▪ In 2009, two major energy bills (2005, 2007) provided a number of new authorities to use
  ▪ No major energy legislation since 2009!
ARRA Clean Energy Package Design
### Array of Policy Tools to Spend $90+ Billion on Clean Energy

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Example</th>
<th>Score (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-shared grants</td>
<td>Smart grid grants</td>
<td>$3.4</td>
</tr>
<tr>
<td>State block grants</td>
<td>Energy Efficiency and Conservation Block Grants: state, local, and tribal programs</td>
<td>$2.8</td>
</tr>
<tr>
<td>Tax credits</td>
<td>Tax filers could claim 30% of the cost of energy efficiency investments up to a maximum of $1500</td>
<td>$2.0</td>
</tr>
<tr>
<td>Subsidized bonds</td>
<td>Clean Renewable Energy Bonds provide bondholders with a tax credit in lieu of interest</td>
<td>$1.6</td>
</tr>
<tr>
<td>Loan guarantees</td>
<td>DOE Section 1705 program</td>
<td>$2.5*</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Advanced Research Projects Agency – Energy (ARPA-E)</td>
<td>$400</td>
</tr>
<tr>
<td>Federal infrastructure</td>
<td>GSA financed Federal facilities retrofits</td>
<td>$4.5</td>
</tr>
</tbody>
</table>
Successes

- Created 900,000 job-years
- Leveraged private sector spending
- Renewable power capacity growth
  - 2020 wind 4X 2008 level
  - 2020 solar 100X 2008 level

U.S. Wind (top) and Solar Capacity, 2000-2018 (utility sector)
Shortcomings

Poor Targeting
- “Cash 4 Appliances”: 90% of subsidy claimants would have purchased an EnergyStar refrigerator without subsidy

Non-Federal Partners Withdrew from Projects
- Carbon capture and storage
- High-speed rail

Slow Roll-Out
- DOE Loan Guarantee Program
Weatherization Assistance Program: Realized Energy Gains Fall Short of Engineering Potential

Lessons from ARRA 2009
Lessons from ARRA 2009

- Be opportunistic
- Target! Target! Target!
- Keep it simple
- Act, learn, act
- Stimulus in context of long-term policies, goals
State Government Considerations
State Energy Programs

- Existing programs – WAP, State Energy Program – could be increased in future recovery package

- Challenge of ramping up energy programs as states manage major budget shortfalls

- Working with federal government to manage reporting and compliance burdens

- Seek out private sector partners to amplify state government efforts
Federal Spending and State Policy

- States with ambitious goals could benefit from federal subsidies for clean energy
  - Federal renewable power tax credits could lower costs of state RPS goals
  - Federal energy efficiency tax credits could lower costs of state EERS goals
  - Federal EV tax credits could lower costs of state Zero Emission Vehicle goals

- Federal recovery efforts could enable more ambitious state policies
Thank You!

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State Strategies to Leverage Federal Dollars

Jennifer DeCesaro
Department of Energy, Office of Electricity

August 21, 2020
Find information about SEP and WAP funding for your state: https://www.energy.gov/eere/wipo/weatherization-and-intergovernmental-program-office-project-map
FEMA Building Resilient Infrastructure and Communities (BRIC)

Guiding Principles

- Support community capability and capacity building
- Enable large infrastructure projects
- Encourage and enable innovation
- Maintain flexibility
- Promote partnerships
- Provide consistency

Energy Development for Economic Recovery
Day 2 Recap and Discussion