

When it Rains it Pours:

Are state rainy day
funds prepared for
pandemics *and*
climate change?



COVID-19 exposed many vulnerabilities of America's public health system.^{1,2} But rather than treating the pandemic as an outlier, state governments should look to the pandemic as a dry run for future climate disasters which are creating shelter-in-place conditions and shuttering economies much like COVID-19 has. More importantly, the effects of rising global temperatures are resulting in climate disasters which cost states billions of dollars each year. In the western United States, wildfires are claiming lives and destroying property, while in fossil fuel-producing states like Alaska, North Dakota, and Wyoming, the inevitable shifting away from coal is claiming jobs.³ COVID-19 has challenged state budgets resulting in a contraction of clean energy dollars. Yet, if smart leaders heed the lessons learned in this pandemic, they will be equipped to protect the health and resilience of their communities when disaster strikes again.

Fiscal Reserves Temporarily Stopped COVID-19's Storm Surge

At the close of 2019, state economies were running at full steam and rainy day funds were flush with cash as, “Forty-one states recorded increases in their rainy day funds, with 32 projecting increases in fiscal year 2020.”⁴ The Pew Research Center reported in early March 2020 that budget stabilization funds had increased for the ninth straight year, resulting in \$74.9 billion in fiscal year 2019.⁵ That was pre-COVID-19.

Well-planned and well-funded budget stabilizing efforts could not provide states with shelter from COVID-19, as the Center for Budget and Policy Priorities issued a sobering assessment.⁶ “COVID-19 has triggered a severe state budget crisis. While the full magnitude of this crisis is not yet clear, state revenues are declining precipitously and costs are rising sharply with many businesses closed and tens of millions of people newly unemployed.”

California’s 2020-21 budget was one of the first to project grim revenues for the year, with an expected decline of 18.8% in personal income tax collections and a 17.5% decline in sales and use tax (compared to the 2019-20 budget year). As states predict significant declines in revenue and prepare to deploy their rainy day funds, it is important to note that these resources are not without hurdles. Even when states deem it necessary to use these fiscal measures, they must repay rainy day funds within specified time periods. New York and nine other states have, “overly strict repayment rules [that] can prevent state leaders from using these funds, even at appropriate times.”⁷



What are Rainy Day funds?

Budget stabilization funds, or rainy day funds as they are more commonly known, make up half of the funding states have on hand for worst-case scenarios and serve as a “state’s first line of defense against the budget pressures caused by declining revenues and the rising need for public services during a downturn.”⁸ These funds provide a safeguard for states that want to avoid making deep cuts to important services like health care and education.⁹ These two sectors were especially vulnerable in 2020 as hospitals were completely overrun, while schools were deserted. By November, at least 17 states had tapped into their rainy day funds.

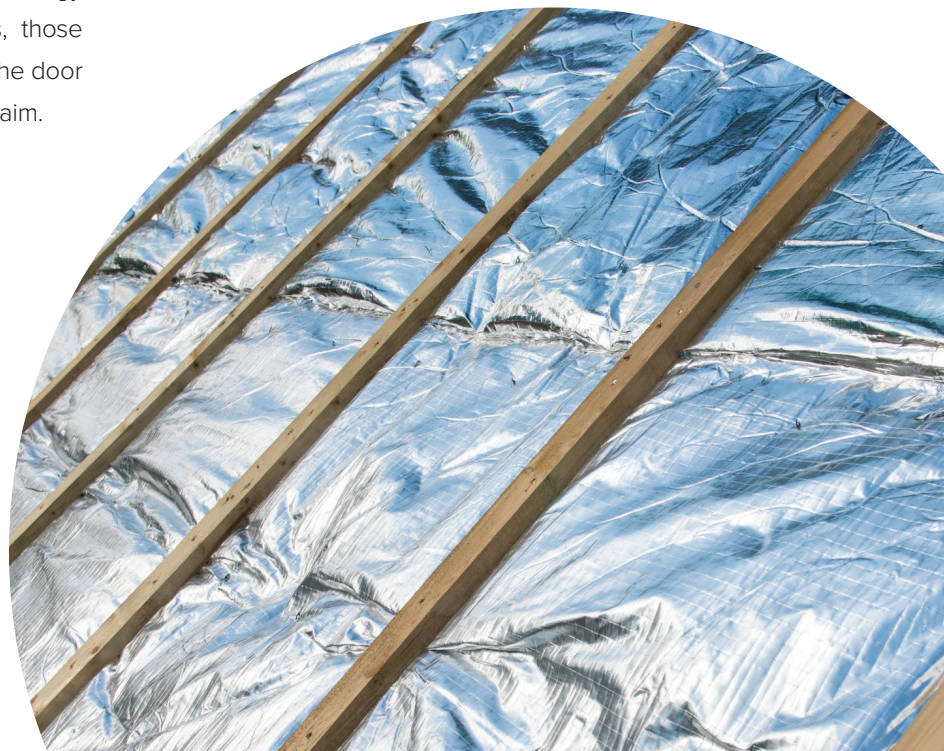
What's the Old Adage? In Case of Emergency Shift EE Dollars?

Energy efficiency programs are not typically funded through state general funds. But this has not stopped states and other entities from tapping-into or shifting program dollars funded by fees collected from utility customers during tough economic times.

In April of this year, the Office of the Ohio Consumers' Counsel (OCC), in a filing before the Ohio Public Utilities Commission, did not mince words when it recommended that commissioners redirect weatherization and home audit dollars.¹⁰ Because of COVID-19, the OCC argued that the best way to serve Ohio utility customers was **not through energy efficiency programs**, but through bill payment assistance. The OCC asked that the commission, "repurpose the remainder of 2020 weatherization and home audit programs costs for bill-payment assistance to help Ohio consumers [and] . . . Repurpose 2021 low-income weatherization costs to bill payment assistance for consumers who will sorely need it." This rate case was unique as it took place at a time when Ohioans were struggling financially.¹¹ But the fact that the OCC felt justified in arguing for the value of payment assistance over efficiency programs because, "even when energy efficiency programs save money for customers, those savings are not all achieved immediately," opens the door for future raiding based on that same evaluative claim.

A similar reallocation of funds occurred in Wisconsin in 2016 when Governor Scott Walker, state legislators, and Wisconsin's Public Service Commission, enabled a reallocation of Focus on Energy funding to expand broadband in rural areas of the state.¹² And this was not the first time. In the early 2000s, Wisconsin Governors Scott McCallum and Jim Doyle also raided Focus on Energy dollars to transfer nearly \$165 million in fees collected on utility customer bills to fund welfare-to-work programs and the salaries and benefits of prosecutors in district attorney's offices across the state.¹³

Similarly, energy efficiency sleight-of-hand also took place in 2015 in Illinois, as then-Governor Bruce Rauner proposed, "shifting \$175 million worth of energy programs from the Illinois Department of Commerce and Economic Opportunity into the state's general revenue fund."¹⁴



Deficits Are Equally Effective at Sinking Clean Energy Initiatives

In places like California and Hawaii, projected deficits forced legislators to rethink clean energy initiatives in 2020. This year, the pandemic claimed its first major climate casualty as California was forced to abandon a \$1 billion Climate Catalyst Fund intended to provide low interest loans for private and public environmental projects.¹⁵ In its 2020-21 budget, California had to draw down \$7.8 billion from its rainy day fund (in addition to pulling other levers) to balance the state's \$54.3 billion budget deficit.¹⁶ As the private sector looks to government for incentives for transportation electrification or green jobs, where will these dollars come from once state funds are tapped out?



On the opposite side of the country, New Jersey shifted \$16 million of its \$30 million Clean Energy Fund designed to meet the state's EV goal "to fund other Clean Energy programs because of the state budget crunch caused by the pandemic."¹⁷ This is important because staying the course is critical to meeting greenhouse gas reductions, a point not lost on Doug O'Malley, Director of Environment for the state of New Jersey, who pointed out the flaw in these types of fiscal maneuvers. "We should be careful about snuffing out those interests by raiding those funds . . . There is tremendous interest in the EV rebate program. It was spurring sales of EVs that hadn't existed before. The pandemic has shown what a world without so many gas-powered cars looked like. We need to continue that by making the EV rebate program a success."¹⁸

In other renewable-friendly states like Hawaii, policymakers are feeling the fiscal squeeze in different ways, as COVID-19 has put the brakes on legislative proposals on electric vehicle rebates and tax credits.¹⁹ Testimony to state legislators by members of the Department of Accounting and General Services revealed that free parking for electric vehicle owners costs taxpayers between \$240,000 – 360,000 a year. It is clear that under the fiscal threat of the coronavirus, House and Senate leadership are scrutinizing budgets line-by-line, instructing "legislative committees to not advance bills that might cost money."

Where is the Rain When You Need it? The Rising Costs of a Warming Planet

Utilities and program administrators already devote significant resources to fight rising global temperatures while climate disasters like hurricanes and wildfires place an additional burden on infrastructure. In the United States, between January and September of 2020, climate disasters accounted for approximately \$46.6 billion in damages,²⁰ and this does not include the estimated \$20 billion that is expected from the wildfires across the West.²¹ These are not coincidences nor isolated data points. In 2018, one event alone, the Camp Fire in California resulted in 86 lives lost at a cost of \$16.5 billion.²² That same year, the cost of the world-wide climate disasters reached nearly \$160 billion.²³ Data from the NOAA's National Centers for Environmental Information shows that in the last four decades, the number of climate events (and the costs associated with these) have increased exponentially. Between 1980-89, the cost of climate disasters totaled \$177.2 billion compared to \$807.3 billion in 2010-19.²⁴

While the cost of natural disasters is depleting state budgets, cuts to social programs are also taking their toll on people as utilities do the right thing by divesting from fossil-generated energy. As states abandon carbon economies, this creates an unanticipated death spiral for public coffers, most notably in states with heavy resource extraction sectors who depend on these investments to fund public services and replenish their budget stabilization funds.

Take Wyoming, for example, a state that was ranked number one for having the most cash in its rainy day fund at the end of fiscal year 2019. (It can fund the government for approximately 397 days). But a 25% decline in the coal fuel share for electric power generation between 2005 and 2020 translates into a nearly \$1.5 billion decline in coal revenues. This will have a direct effect on Wyoming's projected budget shortfall, in a state where it is estimated that the typical family of four is the recipient of nearly \$27,000 in services per year, but pays only around \$3,000 in taxes.²⁵

Alaska's rainy day fund is another example of eroding revenues. Its budget stabilization fund (the second-highest among states as a share of spending) recently hit a 20-year low as the state, "made withdrawals for six consecutive years to cover recurring shortfalls in oil-related revenue, which finances a substantial portion of its budget."²⁶



It is (already) Pouring

The COVID-19 pandemic has proven to be one of the most catastrophic public health events in recent history, and it comes at a time when some states are already bearing additional burdens that come with climate catastrophes. Let us not squander this transformational moment by using short-sighted measures to tackle existential problems.

So, what are some ways that states can batten down the hatches? Here are a few of our recommendations.

Invest in Transitional Fuel and Transitional Economy Plans:

Just transition programs are one way for regions of the country like Appalachia and Big Sky Country to, “support secure, family-sustaining jobs as global fossil reliance declines” argue researchers Bradley Handler, Matt Henry, and Morgan Bazilian in a recent piece in *The Conversation*.²⁷ Scholars agree, adding that the continual addition of renewable resources like wind and solar, combined with the low cost of gas, has resulted in the coal industry entering 2020, “as a shadow of what it used to be.”²⁸ In short, COVID-19 (and reduced demand) means hard times ahead for fossil fuel-producing states. So what does this look like to folks impacted? Cathy Kunkel a former energy analyst for the Institute for Energy Economics and Analysis and West Virginia congressional candidate said it best in a recent piece for *Forbes*. “We need to manage the transition. I certainly understand the frustrations — that livelihoods are vanishing. But if we refuse to change and keep saying, ‘no, no, no’ we will get run over by this train.”²²

Invest in Resilience and Equity:

Look to 2021 as the year of program offerings that keep people safe, healthy, and in their homes (equitably). Utilities and program administrators should pay close attention to programs that prioritize indoor air quality and provide relief and space for households to make longer term energy programs. Investments in Pay as You Save (PAYS) programs may provide mechanisms for low- and middle-income utility households to tap into resources,³⁰ especially in communities that have experienced systemic disinvestment as a result of decades of redlining and other unjust policies.³¹ If states must raid (or shift) energy efficiency dollars, why not redistribute those dollars within energy efficiency programs to households in greater need. Think of this as the Robin Hood model. We are not going to decarbonize the transportation sector without the help of EVs, but if there is one customer segment that could make do without incentives, it is EV buyers. Instead of shifting funding intended for EVs to non-climate programs, why not redirect funding to energy efficiency programs with a greater likelihood of impacting low- to moderate-income households.



Frame the Economic Costs of Climate Disasters vis-à-vis Other Investments:

To demonstrate the disproportionate cost of climate disasters relative to public investments, provide points of comparison like investments in job programs, infrastructure, loans and other economic assistance to reflect the impact to taxpayers. After Hurricane Andrew leveled cities and insurance funds in 1992, Florida taxpayers opted to create a state-run insurance company to insure properties. By 2012 it was estimated that Florida's taxpayers had assumed over \$511 billion in liabilities, and though they eventually scaled back the plan, taxpayers were directly on the hook for future climate disasters.³² Investments in energy efficiency programs, though costly in the short-run, pale in comparison to the cost of climate disasters.

Share your Findings (Often):

Whether at city council meetings or public utility commission hearings, it is important to state, reiterate, and restate the connections between clean energy programs and public (and fiscal) health. Sharing information like baseline rankings can help policymakers make the connection between regulation, investments, and the benefits and burdens on stakeholders. Inviting technical panelists to present also helps to cement partnerships and drive home important points. At an August Climate Council meeting for the City of Knoxville, Tennessee, a representative of AMERESCO, noted that “energy creation and energy savings can lead to avoided costs for Cities and residents alike.”³³ The presentation also featured guests from ORNL, representatives from the Tennessee Solar Energy Industries Association, architects, and members of other working groups.

Stay the Course:

If there is one thing we learned about COVID-19 and the Anthropause, “the . . . global slowing of modern human activities”, it is this: Time and a change in behavior (removing tens of thousands of cars from the road) can produce visible ecological results.³⁴ The analogy here being that allowing clean energy programs more runway, by avoiding raiding funds or cutting programs prematurely, may result in better data collection. After all, the avoided costs of electricity generation, “can occur over the long run, the short run, or both.”³⁵

