

State Fiscal Fact Sheet February 2021

Recent state revenue indicators offered a reason to feel hopeful about the future, but we must not allow those indicators to deny the realities of the present. **Revenue alone offers an incomplete picture of state fiscal health.**

- J.P. Morgan recently acknowledged just that, saying: “...many states are still seeing budget gaps, given higher COVID-19 expenditures...”, despite improved revenue numbers.
- When [Politifact examined](#) state revenue numbers, they found that “state revenues fell no matter how you look at it. The depth of the decline varies depending on the time period examined. From March through December 2020, aggregate state revenues dropped 1.6% from the same period a year earlier. For the full year, overall state revenues fell 0.12%. California was an outlier, with tax receipts rising 3.5%, while Florida saw a drop of 7.9% ,Texas and West Virginia a drop of 6.8%.”
- The [Wall Street Journal recently](#) investigated state budgets and reported “policy analysts estimate state and local revenue losses due to the coronavirus pandemic will total about \$300 billion through fiscal year 2022, though that doesn’t include rising expenses.”
- According to the [National Association of State Budget Officers](#) (NASBO), more than one-third of states took action to reduce spending during FY20 due to revenue shortfalls. These budget reduction actions, in the midst of a public health crisis that also demanded new spending actions, were severe cuts in many cases. States were forced to lay off critical state employees, slash education spending and cancel critical new policies.
- NASBO also [reports](#) that 31 states have reduced spending for FY21 compared to previous year and planned spending. These cuts fell largely on K-12 education, but other sectors such as higher education and transportation also will suffer. States are absorbing these spending cuts while also grappling with unprecedented increased demand for state support from individuals, families and small businesses.
- [Medicaid enrollment](#) grew by nearly 6 million nationally since the start of the COVID-19 pandemic. Experts agree the increased costs due to this increase in enrollment have not yet been fully realized and will likely hit state budgets in 2021.
- Many states have established small business support grant programs targeted to hardest-hit industries like hotels, restaurants, bars and gyms.
- States have spent down their Unemployment Trust Funds and some have already tapped their rainy day funds. Both of these funds are key to state fiscal stability

and will have to be replenished. At least 14 states used CRF dollars to replenish depleted UI trust funds and 21 states have borrowed an estimated \$40 billion from the federal government to replenish their UI trust funds.

- Some states are struggling to balance sluggish revenue with increased demand for state support programs.
- Federal assistance provided in 2020 was key to preventing even more devastating state budgetary decisions. However, on average 97% of those CRF dollars are already allocated and are therefore unavailable to support ongoing COVID-19 costs.
- Structuring this critical aid as [loan programs](#) would only increase the likelihood that these states face budget shortfalls going forward. Most economists agree that the economic recovery will take place over several years, and it would be shortsighted to add federal loan repayment on these fragile state budgets. State balanced budget requirements prohibit state governments from carrying debt into new fiscal years, increasing the pressure to repay.
- In early 2021, more than 120 American economists [released a letter](#) urging additional COVID-19 stimulus. Among other things, this group says that “...absence of aid to state and local governments have severely blunted the impact of the (CARES) legislation.”
- State economic recovery is integral to national economic recovery. [Financial Times reports](#) that “... Oxford Economics have warned that the moves to curtail spending could weigh on the broader U.S. recovery. State and local government spending accounts for about a tenth of U.S. economic output, the research group said.”
- Treasury Secretary Janet Yellen [reiterated the key economic role](#) states play during her Senate confirmation hearing earlier this month. Yellen said that job losses and revenue declines for state governments created a “tremendous drag on the economy” while the nation was recovering from the 2008 recession and warned that would be the case again in 2021 and beyond.
- [J.P. Morgan agrees with this judgement](#), estimating that from 2008 to 2012, budgetary decisions made by state and local governments “slowed economic growth by an average 0.26 points each year.”
- Standard & Poor’s [recently estimated](#) that additional stimulus “lowers our estimated risk of recession over the next 12 months to 20- to 25%.”
- Deeper spending cuts would devastate not only state economies but would also act as a drag on national economic recovery. Continued federal support to states is vital if the United States is going to achieve full economic recovery on an expedited timeline.
- As the \$150 billion from the CARES act is basically gone, additional direct and flexible support is needed to help states with both revenue loss and extraordinary costs from battling COVID and providing services to individuals, families and small businesses in need.

Below are perspectives from the National Conference of State Legislatures on what federal COVID relief dollars were used for and what new federal funds could do:

- Kentucky—If the federal government provided more flexible federal fiscal assistance to states, Kentucky would use it for unemployment system improvements and aid, behavioral health programs, as well as small business relief, rental assistance and help for small landlords. Additional federal funds would be used to sustain the programs and assistance put in place with CRF funds the state received from the CARES Act.
- Washington—If the federal government provided more flexible federal fiscal assistance to states, Washington would use the funds for unemployment insurance, continuation of small business grants, rental assistance and help for small landlords as well as childcare. Washington just appropriated \$2.2 billion of its CRF funds for housing, schools, vaccines and small businesses, and has next to nothing left. It is estimated that Washington needs an additional \$2 billion to continue assistance.
- Virginia—All CRF money from the CARES Act has been allocated, but some portion of that has not yet been “triggered.” This is the age-old distinction between allocated and spent. Real world challenges include flexibility.
- Nevada—The dollars would help support health care and mental health caseloads that we know will increase as families deal with surviving the pandemic and the long-term impact to their mental health. Funding would help kids catch up lost ground in the virtual world with summer school and evening classes and tutors. A significant number of workers on the Las Vegas Strip will lose their health care this spring and will be eligible for Medicaid, so Medicaid enrollment in Nevada will increase.
- Rhode Island—Fiscal Year 2022 will be challenging even with additional federal assistance. The state is surviving with one-time funding so unless revenues recover well beyond expectations, the state will need to look at all spending reduction and revenue options if necessary.
- Louisiana—Continuing unemployment claims are still almost 5 times higher than they were prior to the pandemic and the state has totally exhausted a \$1 billion unemployment trust fund. The state was able to maximize of the use of approximately \$1 billion of the \$150 billion in federal CARES funds (\$1.8 for Louisiana) to prevent significant budget cuts in FY 20 and FY 21. Approximately \$537 million was used for public safety, \$300 million for healthcare and \$100 million for education for eligible COVID expenses. Additionally, \$530 million went to local governments, \$275 million to small businesses, and \$50 million for payments for hazardous workers. The state currently faces a budget shortfall of \$962 million (10% of general fund) for FY 22.
- Alaska—Additional federal aid would help the state continue to provide small business assistance and state grants.

¹ J.P. Morgan-North America Fixed Income Strategy, Municipal Markets Weekly. January 29, 2021