



For Tax Day 2020, 6 Charts on State Taxes and Spending

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Tax Day, which is July 15 this year due to COVID-19, marks an opportunity to look at the pandemic's impact on state budgets and consider the crucial role that state tax and spending choices play in people's lives — such as helping keep residents healthy, providing basic shelter and quality schools, and reducing barriers that block some people, particularly people of color and other historically excluded groups, from enjoying the nation's full promise.

State and local tax revenues have crashed in recent months due to massive layoffs, business shutdowns, and social distancing measures to fight the virus. Policymakers also face unexpected costs including emergency public health measures, such as ventilators and increased hospital capacity. We estimate that state budget shortfalls will total about \$555 billion over fiscal years 2020 to 2022, a sharper drop than even the worst years of the Great Recession of a decade ago — *not including* the added costs to fight COVID-19. Because states must balance their budgets even in recessions, they must fill those shortfalls through some combination of budget cuts, revenue increases, and one-time funds, including reserves and federal aid.

COVID-19 State Budget Shortfalls Could Be Largest on Record

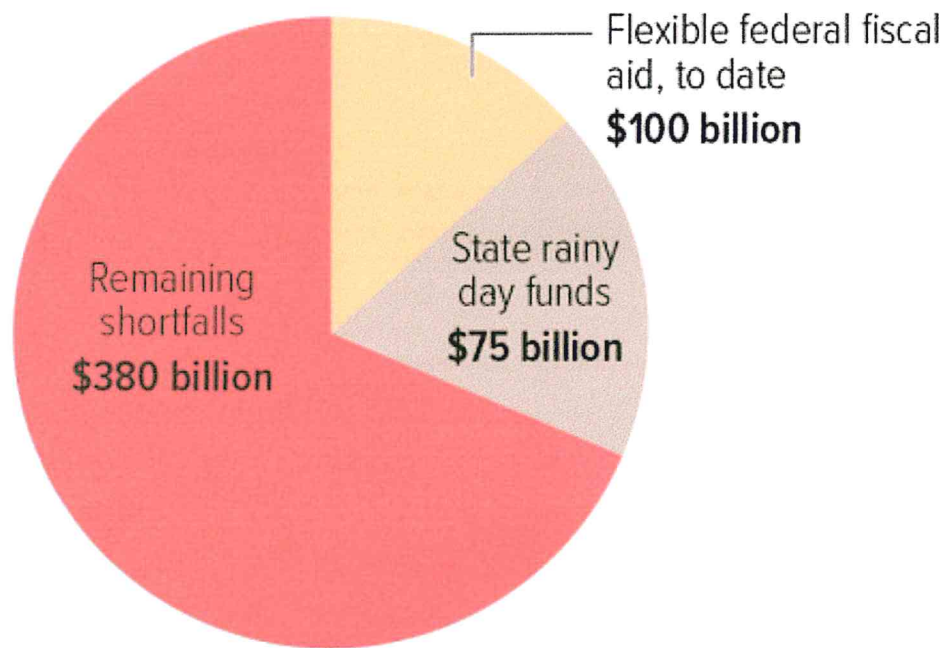
Total state budget shortfall in each fiscal year, in billions of 2020 dollars



* Estimated based on CBPP calculations
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

At the start of this fiscal crisis, federal policymakers provided some initial aid to state and local governments. The Families First Coronavirus Response Act of March included about \$40 billion in federal matching funds for Medicaid, while the CARES Act, also of March, included \$30 billion for education plus \$150 billion in direct grants. Yet the scope of the crisis far exceeds these initial lifelines. Due to overly restrictive and sometimes conflicting guidelines on using the funds, states can only use about \$100 billion of the federal aid to offset revenue shortfalls and limit cuts in services. States can (and should) further limit the damage by drawing down their “rainy day” reserves, but even if they spent them completely, enormous shortfalls would remain.

Federal Aid to Date and State Rainy Day Funds Won't Close Large State Shortfalls



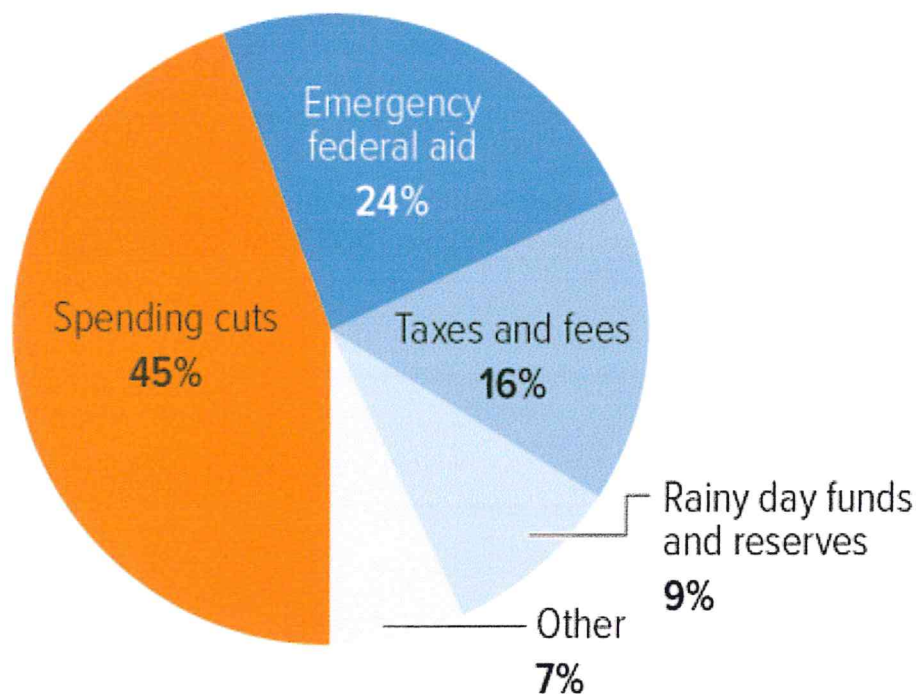
Note: Flexible federal fiscal aid refers to aid through the Families First Act and the CARES Act.

Source: CBPP calculations

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In the Great Recession, states relied disproportionately on budget cuts to close their shortfalls, and they'll almost certainly follow a similar path without more federal aid. State and local governments are already starting to cut services and furlough or lay off teachers, emergency responders, and other public workers. Many of those job losses will become permanent if federal policymakers don't step in.

States Relied Most on Spending Cuts to Balance Their Budgets During the Great Recession



Source: CBPP calculations. Figure covers state fiscal years 2008-12.

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More than half of state spending nationwide goes to education and health care, so cuts due to COVID-19 will surely harm these services significantly. Large cuts there would cause both immediate and lasting harm, especially for children, working families, and at-risk groups. When schools are adequately funded, they can better implement reforms — like expanding early learning and reducing class sizes — that improve educational and earnings outcomes, especially for children of color and those in economically struggling communities. State support for health services, whether for affordable health coverage through Medicaid and the Children's Health Insurance Program, mental health or other services, or support for local public health departments, helps keep people safe and healthy. States and localities also help support other public investments that promote people's health indirectly, such as affordable housing and safe drinking water.