Center on Budget and Policy Priorities

SPECIAL SERIES STATE BUDGET WATCH

States Grappling With Hit to Tax Collections

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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. Due to the economy's rapid decline, official state revenue projections generally do not yet fully reflect the unprecedented fiscal impact of the coronavirus pandemic. In many cases, states do not even know how much their revenues have *already* fallen, in part because they've extended deadlines for filing sales and income tax payments that otherwise would have been due in recent months. Executive and legislative fiscal offices in many states are analyzing new economic projections and producing initial estimates of the damage before state legislatures meet in regular or special sessions to address shortfalls. Some states have released initial or preliminary estimates. (See Table 1.)

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Early Estimates Show Substantial Shortfalls for 2020, 2021

CBPP estimates that state budget shortfalls will ultimately reach almost 10 percent in the 2020 fiscal year (which ended on June 30 in most states) and over 20 percent in the current fiscal year (2021) based on recent economic projections.

States' initial revenue projections give a first look at some of the damage the pandemic-induced downturn could cause to state budgets, though they do not show states' increased costs from fighting the virus and from rising demand for state services. The wide range of projected revenue impacts reflects the uncertainty that states face, and the variety of methods states are using to begin to assess the damage. (In some cases, states are still relying on data available *before* the crisis.)

Most states have just begun a new fiscal year that will extend through June 2021. State revenue estimators are likely proceeding cautiously with these initial estimates, because of the consequences the revenue declines will have as states work to balance their budgets. Policymakers will want to be more certain about the scale of expected revenue drops before making large and harmful budget cuts. Current economic forecasts strongly suggest, however, that as the full scale of the downturn becomes clearer, revenue projections will fall further. In addition, gas taxes, vehicle registration fees, and other revenues that are deposited into separate funds (like transportation funds) are also declining.

States faced an immediate crisis in fiscal year 2020, which just ended. The full extent of the 2020 shortfalls won't be known for a few weeks but the pandemic took a toll on revenues. To balance their budgets — as required — states made cuts, tapped reserves, or found enough revenue to close these shortfalls in just three months, an extremely short period to find such large amounts of revenue. For example, for the fiscal year that just ended:

- Kansas estimated an $816 million drop in revenues.
- Arizona expected revenues to drop by $864 million.
- Arkansas expected $353 million less in revenue, with $193 million due to the income tax filing extension to July 15 and the remainder due to lower collections.

State estimates show that revenues for the current fiscal year, which began on July 1 for most states, could fall as much as or more than they did in the worst year of the Great Recession and remain depressed in following years. New York and Colorado, for example, project revenue drops of 17 percent or more if the recession is deep.

- California expects revenues to decline by $32 billion in 2021 alone, according to the Department of Finance. The revenue declines in fiscal years 2020 and 2021, combined with COVID-19 costs and increased need for other state services, far outstripped the balance in the state's substantial rainy day fund.
- New York's tax revenues will fall by $13 billion in 2021 and by $16 billion in 2022, according to the state's Division of Budget.
- Colorado's revenues could drop by as much as $2.6 billion in 2021 and $1.7 billion in 2022, according to the Legislative Council.

Another group of states face a double threat. States with a high concentration of oil-related industries are seeing a decline in economic activity and tax collections due to plunging oil prices on top of COVID-19-related effects and the recession. For example, Alaska is projecting an $882 million decline in revenues in the current fiscal year, and New Mexico could see a $2 billion drop.

States are drawing on their rainy day funds and other budget reserves to address these shortfalls but, as in the last recession, those reserves will be far from adequate. And states will worsen the recession if they respond to this fiscal crisis by laying off employees, scaling back government contracts for businesses, and cutting public services and other forms of spending.

Damaging cuts have already begun. In Georgia, policymakers approved a 10 percent cut for 2021, including a nearly $1 billion cut for K-12 public schools and cuts to programs for children and adults with developmental disabilities, among others. Maryland's governor has proposed nearly $1.5 billion in cuts; some have already taken effect, including large cuts to colleges and universities. Florida's governor vetoed $1 billion in spending that lawmakers approved before the crisis and ordered agencies to look for up to 6 percent more in cuts. The state also cut money for community colleges and services related to behavioral health, including opioid and other substance use treatment services, crisis intervention services, and services for people experiencing homelessness.

Given the economy's rapid decline and the extraordinary damage being done to state, tribal, and local budgets, federal policymakers will need to provide more help to states and families affected by the crisis.

Tracking Estimated State Revenue Shortfalls

We've collected the preliminary estimated revenue declines we're aware of in the table below. We'll update this list as states continue to revise their revenue estimates for the upcoming fiscal year. In all cases these are *preliminary* estimates that will be updated as more is known about the impact of the COVID-19 pandemic on the economy and tax collections.

TABLE 1

COVID-19 Pandemic Expected to Cause Sharp Revenue Drops in States

Preliminary Estimates of Declines in General Fund Tax Revenues

State	Fiscal Year	Decline	Decline as percent of pre-COVID-19 revenue projections
Alaska	2020	$612 million	11 percent
Alaska	2021	$882 million	15 percent
Alaska	2022	$797 million	14 percent
Arizona	2020	$864 million	8 percent
Arizona	2021	$873 million	7 percent
Arizona	2022	$663 million	5 percent
Arkansas	2020	$353 million	6 percent
Arkansas	2020	$113 million	2 percent
Arkansas	2021	$206 million	3 percent
California	2020	$9.7 billion	7 percent

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California	2021	$26 billion–$32.2 billion	17–21 percent
Colorado	2020	$968 million	7 percent
Colorado	2021	$2.6 billion	20 percent
Colorado	2022	$1.7 billion	12 percent
Connecticut	2020	$942 million	5 percent
Connecticut	2021	$2.2 billion	11 percent
Connecticut	2022	$2.3 billion	12 percent
Delaware	2020	$246 million	5 percent
Delaware	2021	$283 million	6 percent
Delaware	2022	$396 million	8 percent
Florida	2020	$1.9 billion	6 percent
Georgia*	2021	$2.5 billion	9 percent
Hawai‘i	2020	$792 million	11 percent
Hawai‘i	2021	$1.9 billion	24 percent
Hawai‘i	2022	$1.4 billion	18 percent
Idaho	2021	$349–$585 million	9–14 percent
Illinois	2020	$2.7 billion	7 percent
Illinois	2021	$4.6 billion	12 percent
Indiana	2020	$1.4 billion	8 percent
Indiana*	2021	$2.0 billion	12 percent
Iowa	2020	$150 million	2 percent
Iowa	2021	$360 million	4 percent

Kansas	2020	$816 million	11 percent
Kansas	2021	$549 million	7 percent
Kentucky	2020	$585 million	5 percent
Kentucky half year*	2021	$718 million–$1.1 billion	12–19 percent
Louisiana	2020	$293 million	3 percent
Louisiana	2021	$970 million	10 percent
Maryland	2020	$925 million–$1.1 billion	5–6 percent
Maryland	2021	$2.1–$2.6 billion	11–14 percent
Maryland	2022	$2.6–$4.0 billion	13–20 percent
Massachusetts	2020	$3.8–$4.5 billion	13–15 percent
Massachusetts	2021	$4.2–$7.2 billion	14–23 percent
Michigan	2020	$3.2 billion	13 percent
Michigan	2021	$3 billion	12 percent
Michigan	2022	$2.1 billion	8 percent
Minnesota	2020	$610 million	3 percent
Minnesota	2021	$3 billion	12 percent
Mississippi	2020	$344 million	6 percent
Mississippi	2021	$275 million	5 percent
Missouri	2020	$864 million	9 percent
Missouri	2021	$1 billion	10 percent

Montana*	2021	$380 million	15 percent
Nevada	2020	$509 million	12 percent
Nevada	2021	$1.2 billion	26 percent
New Jersey	2020	$2.8 billion	7 percent
New Jersey	2021	$7.3 billion	18 percent
New Hampshire	2020	$125–$199 million	5–8 percent
New Hampshire	2021	$229–$395 million	9–15 percent
New Mexico	2020	$439 million	6 percent
New Mexico	2021	$2 billion	25 percent
New Mexico	2022	$1.7 billion	22 percent
New York*	2021	$13.3 billion	15 percent
New York*	2022	$16 billion	17 percent
North Carolina	2020	$1.6 billion	7 percent
North Carolina	2021	$2.6 billion	10 percent
Ohio	2021	$2.3 billion	9 percent
Oklahoma	2020	$447 million	7 percent
Oklahoma	2021	$1.4 billion	16 percent
Oregon	2020	$630 million	6 percent
Oregon	2021	$1.3 billion	12 percent
Oregon	2022	$1.7 billion	14 percent
Pennsylvania	2020	$3.5 billion	10 percent
Pennsylvania	2021	$1.2 billion	3 percent

Puerto Rico	2020	$900 million	8 percent
Rhode Island	2020	$281 million	7 percent
Rhode Island	2021	$516 million	12 percent
South Carolina	2020	$507 million	5 percent
South Carolina	2021	$702 million	7 percent
Tennessee	2020	$654 million	5 percent
Tennessee	2021	$1.4 billion	10 percent
Texas	2020	$4.4 billion	8 percent
Texas	2021	$8.8 billion	15 percent
Utah	2020	$93 million	1 percent
Utah	2021	$757 million	9 percent
Vermont*	2020	$41 million	3 percent
Vermont	2021	$218 million	14 percent
Virginia	2020	$236 million	1 percent
Virginia	2021	$1 billion	4 percent
Virginia	2022	$1 billion	4 percent
Washington	2020	$1.1 billion	4 percent
Washington	2021	$3.4 billion	13 percent
Washington	2022	$2.3 billion	8 percent
Washington, D.C.	2020	$722 million	9 percent
Washington, D.C.	2021	$774 million	9 percent
Washington, D.C.	2022	$606 million	7 percent