

Summary: Fall 2020 Fiscal Survey of States



December 23, 2020

State Budgets Face Pandemic's Impacts and Uncertain Outlook

Most states enacted their budgets for fiscal 2021 in the midst of the largest public health crisis this country has faced in more than a century due to the COVID-19 pandemic. During 2020 legislative sessions, states faced rapidly deteriorating economic conditions and revenue outlooks, leading many states to cut general fund expenditures even as spending demands were on the rise. After nine consecutive years of spending and revenue growth following steep declines during the Great Recession, states saw revenue decline in fiscal 2020, and are expecting greater declines in fiscal 2021 based on the most current estimates reported in NASBO's *Fall 2020 Fiscal Survey of States*. In response to these revenue declines, states' enacted budgets for fiscal 2021 call for the first general fund spending decrease in more than a decade, a significant departure from the moderate increases proposed by governors just months earlier.

The pandemic's impact has been uneven across states, just as it has affected individuals, families and businesses across the country unevenly. The pandemic is hitting all states, but in differing ways and in differing magnitudes, depending on their economies, tax structures, virus transmission levels, and other factors. States that are particularly dependent on tourism and leisure industries, the energy sector, and other areas that have been disproportionately affected by the pandemic, as well as those states facing higher unemployment rates, are generally seeing larger impacts on their economies and tax revenues.

Rapidly evolving economic and public health conditions have presented extraordinary challenges and uncertainties for state budgeting in fiscal 2021, and continue to do so as states now develop their budgets for fiscal 2022. The fiscal 2021 data in this report represent a point in time – and differing points in time depending on when a state enacted its budget for fiscal 2021 and how often a state revises its revenue forecast. Some

states that adopted budgets before the COVID-19 crisis hit have had to meet in special session to revise spending downward in response to declining revenues, or plan to adjust their budgets during 2021 legislative sessions. Other states enacted budgets in May and June of 2020, when forecasts were predicting severe revenue declines of 20 percent or more, and have since seen improvement in collections compared to those earlier projections after the initial outbreak of COVID-19, thanks in large part to the federal stimulus package passed in the spring that helped temporarily prop up the economy and state tax revenues as well as other factors.

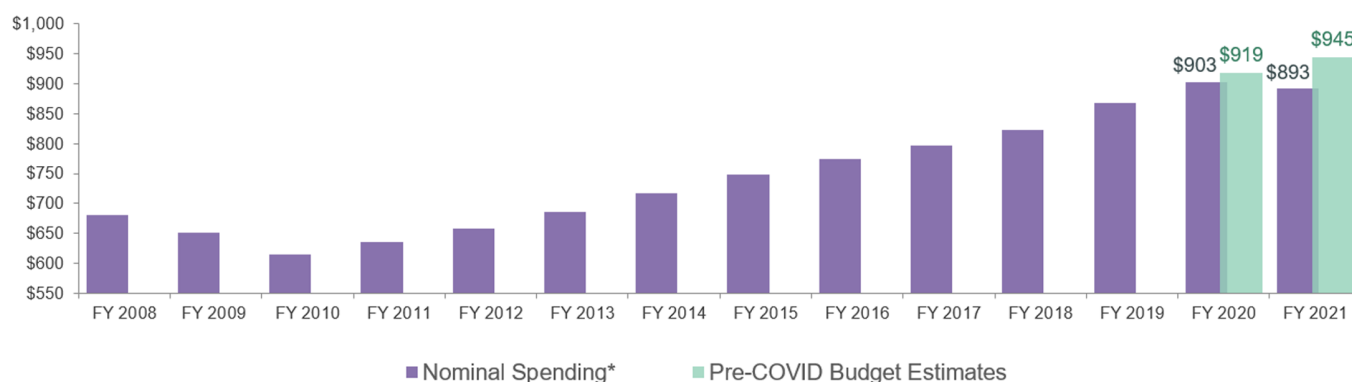
As the Fall 2020 Fiscal Survey of States went to print, most of that federal aid had expired or was about to expire, while COVID-19 cases surged across the country. After months of negotiations regarding additional federal stimulus, Congress reached agreement on another COVID-19 relief package as this report was releasing. While the package includes certain targeted funds to help states meet the most pressing expenditure needs of the moment, it excludes direct flexible aid to state and local governments, resulting in ongoing uncertainty and budget strain for states.

General Fund Spending Expected to Decline for First Time Since Great Recession

According to this survey, states' adopted spending plans for fiscal 2021 are projected to reduce general fund expenditures by 1.1 percent compared to preliminary actual fiscal 2020 levels, marking the first time states enacted a net spending decrease in more than a decade. (See **Figure 1**.) Compared to governors' budget proposals for fiscal 2021, released by most states just a few months earlier, states' enacted budgets show a 5.5 percent reduction in general fund spending, totaling \$52 billion less than governors' recommended budgets reported on in NASBO's Spring 2020 *Fiscal Survey of States*.

Figure 1.

General Fund Spending by Fiscal Year (In Billions)



*Fiscal 2021 nominal spending figure is based on states' original (or revised) enacted budgets, some of which pre-date COVID-19. Before the COVID-19 crisis, states were estimating general fund spending to total \$919 billion in fiscal 2020 and governors were recommending general fund spending totaling \$945 billion in fiscal 2021, as reported in NASBO's Spring 2020 Fiscal Survey of States.

It is important to note that states' enacted budgets, as reported in this survey, represent varying points in time, and some states' data for fiscal 2021 still reflect pre-COVID-19 budgets. These states either adopted biennial budgets for fiscal 2020 and fiscal 2021 during 2019 legislative sessions or enacted their fiscal 2021 spending plans early in the calendar year, based on a pre-pandemic revenue forecast. Some of these states have since made mid-year or post-enacted adjustments to their spending plans for fiscal 2021. However, other states are still planning to revise their fiscal 2021 budgets in 2021 legislative sessions. As such, fiscal 2021 state general fund spending projections continue to be a moving target. So far, ten states reported making net fiscal 2021 budget reductions post-enactment, though data were mostly collected in early fall 2020 and therefore early in the fiscal year, and budget adjustments for fiscal 2021 are ongoing.

Meanwhile, this report shows that preliminary actual general fund spending for fiscal 2020 came in at \$903.1 billion, a 4.0 percent annual increase but 1.7 percent below the level that states expected to spend prior to the COVID-19 crisis. While the pandemic and ensuing economic impacts hit late in the fiscal year, states still took steps to rein in spending for the remainder of the year, including targeted and across-the-board spending cuts, hiring freezes, furloughs, layoffs, and other strategies. Nineteen states reported making net budget reductions in the middle of fiscal 2020 due to a shortfall.

Enacted Budgets for Fiscal 2021 Are a Stark Departure from Governors' Proposals

States' enacted spending plans for fiscal 2021 reduce general fund appropriations across program areas by \$6.2 billion compared to fiscal 2020 enacted levels, in a stark contrast to the \$33.2 billion in increases proposed in governors' budgets for fiscal 2021 before the COVID-19 crisis. (See **Figure 2.**) States had to considerably adjust their spending plans in the spring and summer compared to what governors recommended in the winter due to a rapid transformation of state fiscal conditions, as large segments of the economy ground to a halt due to public health measures. Twenty-three states reported using targeted spending cuts and eight states used across-the-board cuts to balance their budgets for fiscal 2021. K-12 education saw the largest reduction, and higher education, transportation and all other government programs saw net decreases as well. Meanwhile, Medicaid and public assistance saw sizeable increases in spending, reflecting rising caseloads and spending pressure for health and human services as a result of the economic downturn. Some states that had already enacted budgets for fiscal 2021 before the pandemic revised those plans, with 10 states so far reporting net reductions post-enactment for the current fiscal year.

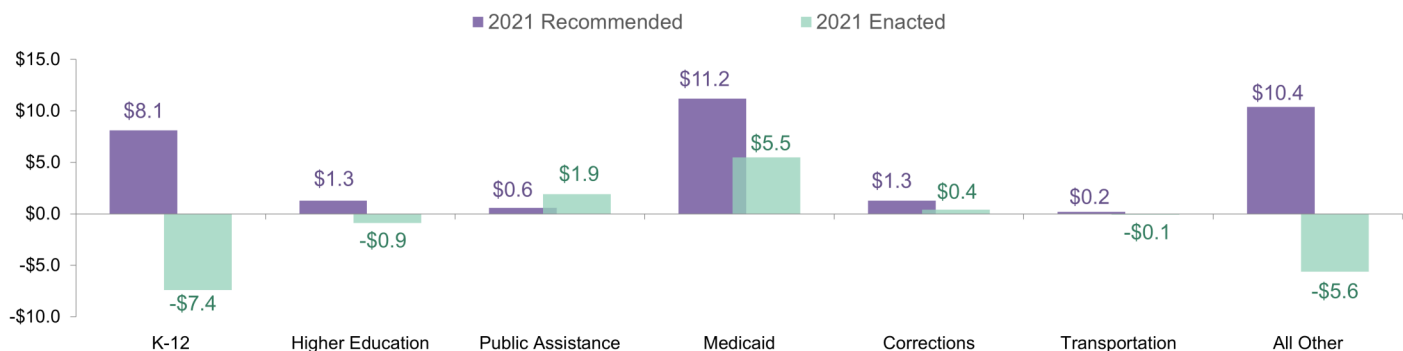
States Turn to Spending Cuts and Other Strategies to Address Budget Shortfalls

States reported strategies used to manage their budgets in the middle of fiscal 2020 and in enacting and/or revising their

Figure 2.

General Fund Appropriation Changes

By Program Area (In Billions)*



*Fiscal 2021 recommended and enacted spending changes are compared to enacted appropriation levels for fiscal 2020.

budgets for fiscal 2021. The most commonly used strategies by states to manage their budgets and address shortfalls included spending cuts (targeted and across the board), personnel actions (including hiring freezes, furloughs, layoffs, and salary reductions), and use of one-time measures (rainy day funds, other fund transfers, using prior-year balances, and deferrals). Only a few states have used revenue increases to help close gaps so far. Other strategies to reduce spending used by some states include reducing local aid and making Medicaid program changes. Some states also reported using federal assistance to offset some eligible general fund costs related to pandemic response and relief. (See **Figure 3.**)

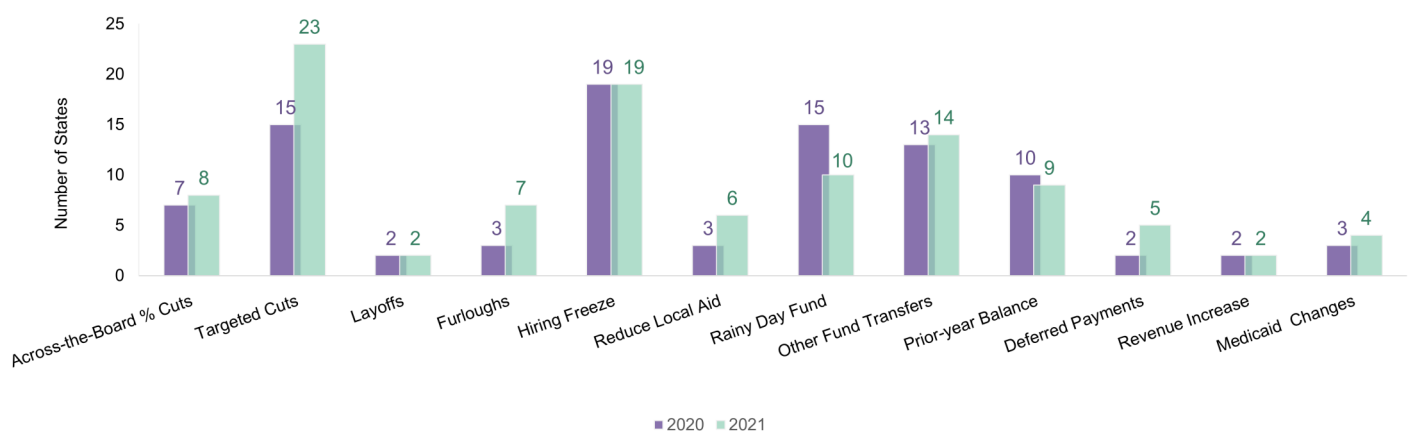
Nineteen States Made Mid-Year Cuts in Fiscal 2020, Early in the Crisis

Mid-year budget actions include any actions, whether legislative or executive (e.g., executive order, withholding of excess funds), that change the appropriated or authorized expenditure level compared to the original enacted budget. Unlike in recent years, where minimal mid-year budget actions served as a sign of strong and stable state fiscal conditions, in fiscal 2020, 19 states reported mid-year budget cuts due to a revenue shortfall (or projected shortfall) totaling \$6.0 billion; three additional states reported net mid-

Figure 3.

State Budget Management Strategies

Fiscal 2020 and Fiscal 2021



year spending decreases that were not due to a revenue shortfall. These net budget reductions occurred despite the fact that the crisis started late in the fiscal year for most states and even with some supplemental spending approved to respond to the public health emergency. This speaks to the severe, rapid impacts the COVID-19 crisis has had on state budgets, given that there is typically a lag between the start of an economic downturn and state fiscal stress necessitating budget cuts. By comparison, the Great Recession began about halfway through fiscal 2008 for most states, and 13 states reported making net mid-year budget cuts totaling \$5.2 billion that year. By fiscal 2009, 41 states had to make mid-year budget cuts totaling \$31.3 billion. In fiscal 2010, which started for nearly all states just after the Great Recession officially ended, most states had to make cuts in their enacted budgets, and still 39 states had to make further mid-year cuts that year totaling \$18.3 billion. (See **Figure 4**.)

General Fund Revenue Declined for the First Time Since the Great Recession

Fiscal 2020 general fund revenues declined 1.6 percent compared to fiscal 2019, or by as much as 2.9 percent when only counting the 45 states that operated on a July to June fiscal year. Thirty-five states reported general fund collections for fiscal 2020 came in below their budget projections, despite

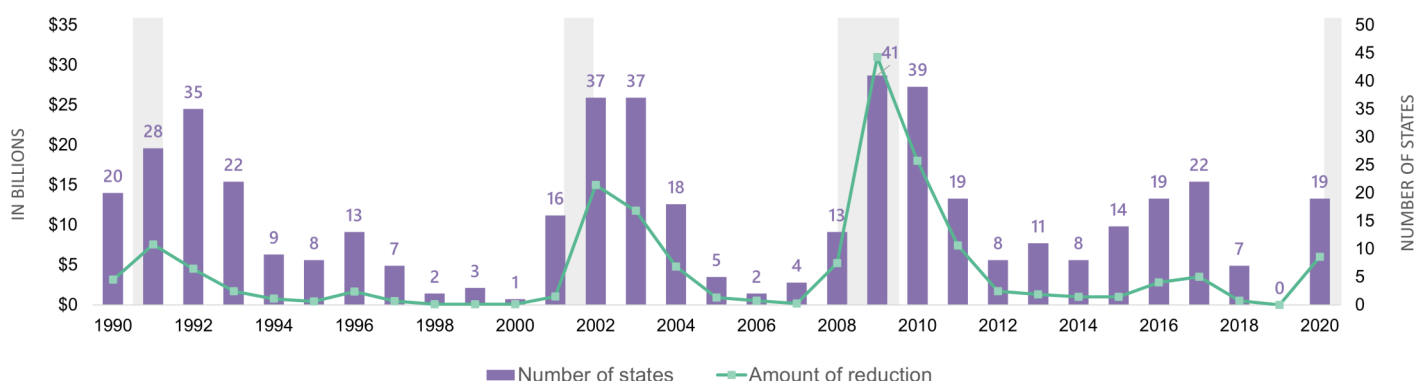
three strong quarters of growth prior to the COVID-19 crisis. Nineteen states recognized delayed payments due to the tax deadline change in fiscal 2021 instead of fiscal 2020, which contributed to some of these states missing their projections for fiscal 2020. Among states able to report on how collections are performing to date relative to their enacted budget forecasts for fiscal 2021, 14 states are seeing collections coming in lower than forecast, six states are on target, and 18 states are above forecast. (See **Figure 5**.) These reports were based on data collected very early in the fiscal year, and are largely a product of when a state's enacted budget forecast was adopted and whether they deferred revenue to fiscal 2021 due to the tax deadline shift.

Fiscal 2020 collections underperformed originally enacted budget projections for every revenue type tracked in this survey, including sales, personal income, corporate income, gaming and other revenues.

Fiscal 2021 Revenue Forecasted to See Sharper Declines

State general fund revenues, based on enacted (and some revised) budgets, were projected to decline 3.5 percent in fiscal 2021 compared to fiscal 2020 preliminary actual levels, which were already depressed by the COVID-19 recession.

Figure 4. Budget Cuts Made After The Budget Passed

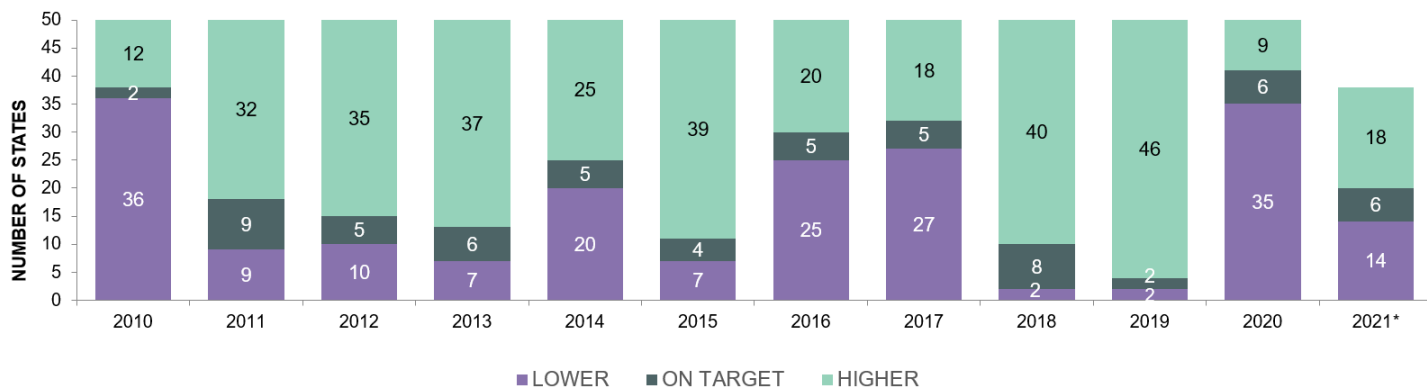


Gray boxes denote recessionary periods, based on a July-June fiscal year calendar that most states follow. Recession dates are as follows: Early 1990s recession (July 1990 to March 1991); Early 2000s recession (March 2001 to November 2001); Great Recession (December 2007 to June 2009); COVID-19 Recession (February 2020 - present).

Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions whether the reductions were made due, at least in part, to a revenue shortfall. Effective in FY2018 going forward, only states reporting mid-year budget cuts due to a revenue shortfall are included in the totals reported in this figure. Prior to FY2018, particularly in non-recessionary periods, states that reported mid-year cuts that were due to other reasons, such as a reduction in caseload, would have been included in the counts above.

Figure 5.

Budget Cuts Made After The Budget Passed



*Fiscal 2021 data were collected early in the fiscal year and are subject to change; not all states were able to report on collections compared to budget projections for the current fiscal year. Figures shown are not adjusted for impact of tax deadline shift, which deflated fiscal 2020 revenue collections for some states and inflated their fiscal 2021 projections (if the shift was accounted for in those projections). Some states' fiscal 2021 enacted budget projections pre-date COVID-19.

Some states have revised their fiscal 2021 revenue forecasts since budget enactment, and according to states' most current revenue forecasts at the time of data collection, general fund revenues are projected to decline 4.4 percent in fiscal 2021 compared to fiscal 2020.

Before the COVID-19 crisis, states were estimating year-over-year growth in four of the five general fund revenue categories tracked in this report in fiscal 2020, and were projecting increases in all five categories for fiscal 2021 based on governors' budget proposals. This survey shows a very

different revenue picture for fiscal 2020 and fiscal 2021, with all revenue categories seeing year-over-year declines in one or both years. (See **Figure 6**.)

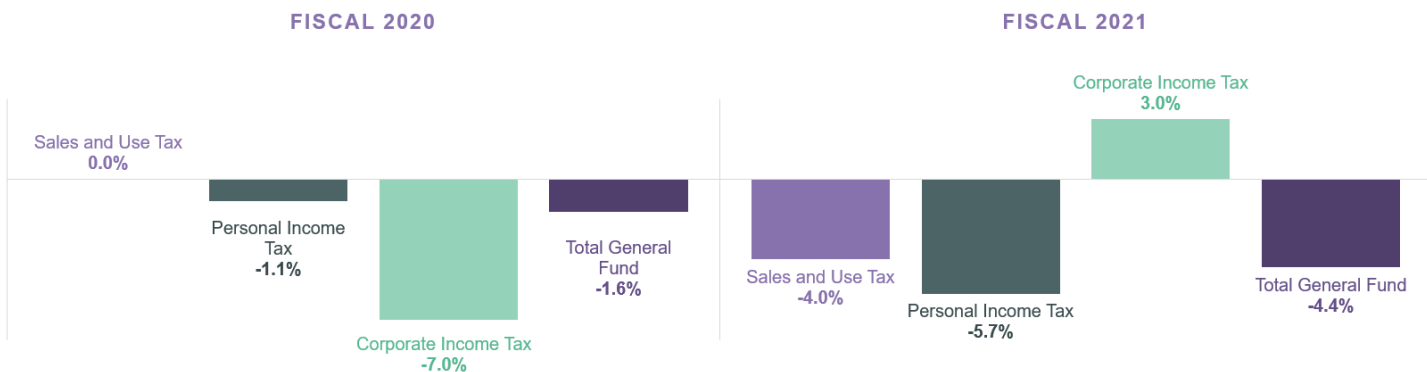
Current Revenue Estimates Compared to Pre-Pandemic Projections

Before the COVID-19 crisis hit, states were expecting general fund revenue growth of 2.9 percent in fiscal 2020 and 3.0 percent in fiscal 2021, with states estimating general fund revenues would total \$912 billion in fiscal 2020 and \$940

Figure 6.

Annual General Fund Revenue Percentage Change

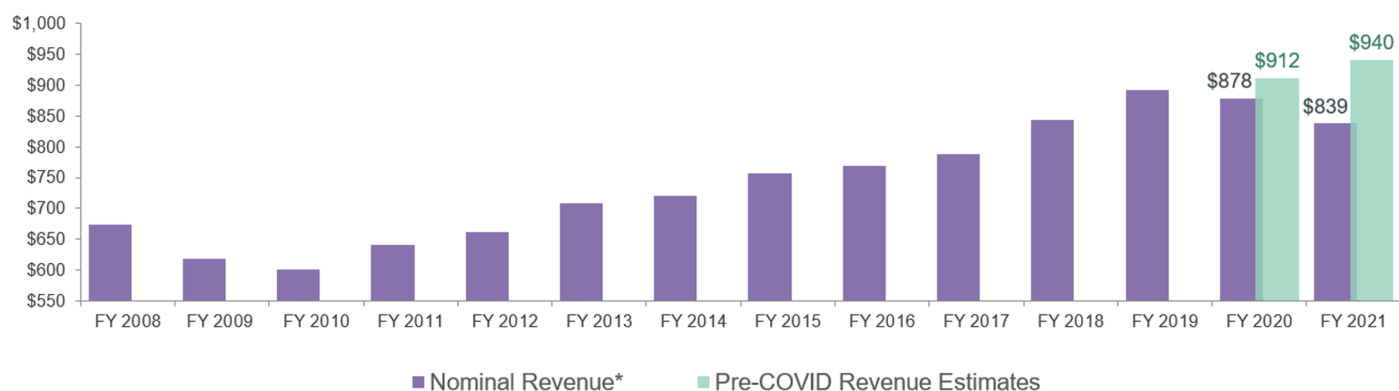
By Source*



Fiscal 2021 figures are based on states' most current revenue estimates as of the time of data collection, compared to preliminary actual revenues for fiscal 2020. Figures shown are not adjusted for impact of tax deadline shift, which deflated fiscal 2020 revenue collections for some states and inflated their fiscal 2021 projections (if the shift was accounted for in those projections). Some states' fiscal 2021 most current estimates pre-date COVID-19.

Figure 7.

General Fund Revenue by Fiscal Year (In Billions)



*Fiscal 2021 nominal revenue figure is based on states' most current revenue estimates as of the time of data collection. Figures shown are not adjusted for impact of tax deadline shift, which deflated fiscal 2020 revenue collections for some states and inflated their fiscal 2021 projections (if the shift was accounted for in those projections). A few states' fiscal 2021 most current estimates pre-date COVID-19. Before the COVID-19 crisis, states were estimating general fund revenue to total \$912 billion in fiscal 2020 and \$940 billion in fiscal 2021, as reported in NASBO's Spring 2020 Fiscal Survey of States, Table 18.

billion in fiscal 2021. Compared to those pre-COVID projections, preliminary actual fiscal 2020 general fund collections declined 3.8 percent and fiscal 2021 current estimates show a decline of 10.8 percent. This represents a \$135 billion projected general fund-only revenue loss over a roughly 15-month period (since the crisis began affecting state revenues around April 2020, which meant three months of impact in fiscal 2020 for the vast majority of states). (See **Figure 7.**) Such a steep revenue loss in just over a one-year period would be noteworthy, particularly since federal stimulus measures, including enhanced unemployment compensation, the Paycheck Protection Program, checks to individuals, and other measures, were in place that helped prop up the economy – and state revenues – during much of this time. The continuation of these federal assistance programs in the COVID-19 relief bill agreed to by Congress as this report was releasing is expected to help state revenues, but the support will be temporary and more limited compared to what was provided under the CARES Act. The state revenue outlook could also still worsen pending the trajectory of economic recovery, which has showed signs of slowing. State revenue collections, particularly from income taxes, usually lag economic downturns for various reasons as well.

It is important to keep in mind that states' revenue projections for fiscal 2021 reflect differing points in time and continue to be moving targets. As with general fund spending figures,

some states' most current formal revenue estimates reported in this survey do not yet account for the impacts of COVID-19. The revenue forecasting process for fiscal 2021 has been marked by significant uncertainty, complicated both by rapidly changing public health and economic conditions, as well as by states delaying their tax filing deadlines and a lack of clarity about additional federal aid.











Only a Few States Have Turned to Revenue Increases to Help Manage Budgets So Far

States' enacted budgets for fiscal 2021 included tax and fee changes that resulted in a net revenue increase of \$5.2 billion, with 11 states enacting net increases and 16 states enacting net decreases. The dollar amount of the net increase is driven almost entirely by corporate income tax changes approved in California, including temporarily suspending the use of net operating losses and putting a cap on business incentive tax credits. Compared to what states reported as proposed revenue changes in the Spring 2020 Fiscal Survey, which would have resulted in a net revenue increase of \$2.4 billion, enacted revenue changes looked rather different. In some states, governors had proposed tax changes that were not considered, given legislatures' focus on addressing the immediate public health and economic crisis wrought by the pandemic, coupled with some sessions having to end early due to health concerns. A few states enacted tax changes in

Figure 8.

Summary of Enacted State Revenue Changes

Fiscal 2021

Revenue Type	 Sales Tax	 Personal Income Tax	 Corporate Income Tax	 Cigarette/Tobacco Tax	 Motor Fuel Tax	 Alcohol Tax	 Gaming/Lottery Revenue	 Other Tax	 Fees	 All Revenue Changes
# of States Enacting Increases	7	3	4	2	0	0	1	6	3	11
# of States Enacting Decreases	5	12	5	2	0	0	0	3	1	16
Net Change (\$ in Millions)	+\$128	+\$250	+\$4,306	-\$77	\$0	\$0	+\$35	+\$462	+\$52	+\$5,156
Net Change – General Fund Only (\$ in Millions)	+\$102	-\$124	+\$4,306	-\$61	\$0	\$0	+\$35	-\$98	-\$21	+\$4,139

response to the crisis, including increases to help close budget shortfalls and decouple from certain provisions in the federal CARES Act. While proposed revenue changes in governors' budgets were expected to result in a \$588 million decline in general fund-only revenue, enacted revenue changes are expected to have a \$4.1 billion positive impact on general fund revenue. (See **Figure 8**.)

Overall, not many states so far have turned to tax and fee increases to address projected budget shortfalls. The longer the crisis continues, more states may resort to revenue changes as a budget balancing tool. With states facing consecutive years of general fund revenue declines in fiscal 2020 and fiscal 2021, it remains uncertain how long it will take for state budgets to recover. After the Great Recession, even though revenues began to grow again in fiscal 2011, it took until fiscal 2013 for state general fund revenue to surpass its fiscal 2008 levels without adjusting for inflation. States did not see revenue fully restored to fiscal 2008 levels until fiscal 2018 in inflation-adjusted terms.

Some States Begin to Drawdown Reserves to Help Close Budget Gaps

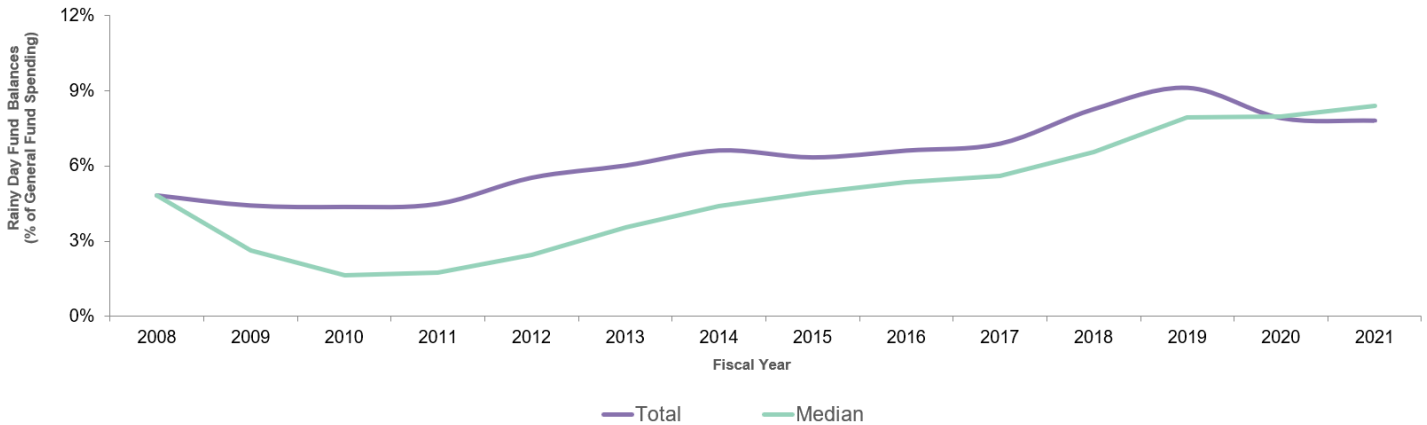
Before the COVID-19 crisis hit, state rainy day funds were at an all-time high, after a decade of rebuilding reserves following the Great Recession. Since fiscal 2010, the median rainy day

fund balance level as a percentage of general fund spending had grown from 1.6 percent to 7.9 percent in fiscal 2019, with rainy day fund balances totaling \$79.0 billion in fiscal 2019. As states cope with revenue declines and increased spending demands in the wake of COVID-19 impacts, these rainy day funds and other reserves are serving as a critical budget management tool for states, though in the aggregate they are not expected to be enough to cover expected budget shortfalls. Also, reserve levels vary by state, though overall, most individual state rainy day fund balances are more robust now than they were going into the last recession.

Facing in some cases substantial budget gaps as a result of the pandemic-induced public health and economic crisis, some states turned to their rainy day funds to close shortfalls in fiscal 2020. So far, some states have made use of their rainy day funds to address projected gaps in fiscal 2021 as well, either in their enacted or revised budgets. Total rainy day fund balances as a percentage of general fund spending declined from 9.1 percent in fiscal 2019 to 7.9 percent in fiscal 2020, though the median rainy day fund balance did not yet record a decline. (See **Figure 9**.) States have reported a \$12.2 billion projected decline in rainy day fund balances from fiscal 2019 to fiscal 2021, though it is important to note that usage of rainy day funds in fiscal 2021 is ongoing; balances reported in this survey are based on states' enacted budgets, some of

Figure 9.

Rainy Day Fund Balance as a Percentage of General Fund Expenditures



which pre-date COVID-19, and are therefore subject to change.

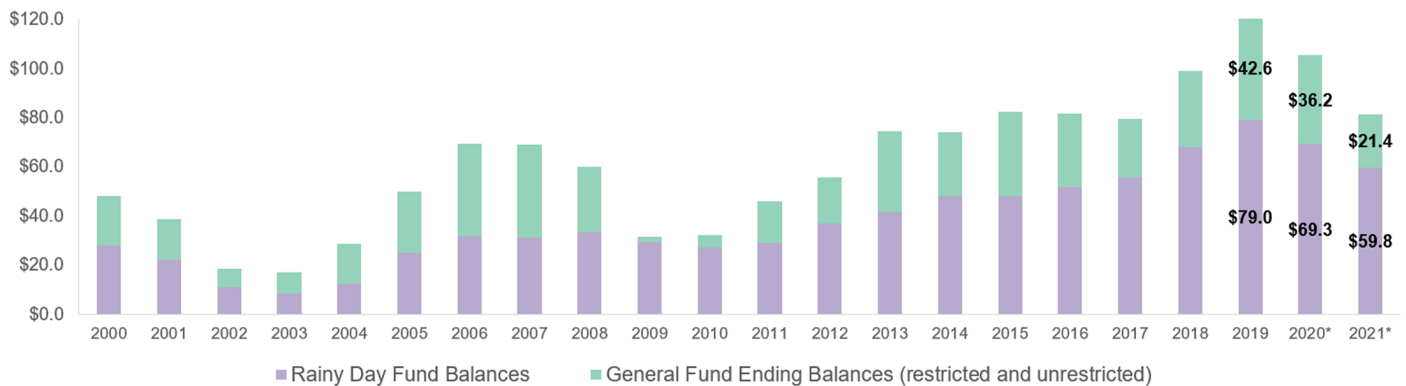
Total balances – states’ rainy day fund balances combined with general fund ending balances – also reached an all-time high in fiscal 2019. Some states started drawing down on their larger-than-expected ending balances in fiscal 2020 and fiscal 2021, including to help close budget shortfalls resulting from the pandemic. States have so far reported a \$33.3 billion

decline in total balances from fiscal 2019 to fiscal 2021, including the \$12.2 billion in rainy day fund balance declines. These figures exclude those states that were unable to provide comparable balance projections for fiscal 2021. The use of balances and reserves is widespread, with 30 states showing decreases in total balance levels from fiscal 2019 to fiscal 2021. Many states tend to draw down on their general fund ending balances before tapping their rainy day funds in a recession. (See **Figure 10.**)

Figure 10.

Total Balance Levels and Composition Over Time

(\$ in Billions)



*Fiscal 2021 figures are based on enacted budget projections, and exclude balance figures for Ohio, Oklahoma, Pennsylvania, and Wisconsin. Fiscal 2020 and fiscal 2021 rainy day fund balances exclude Georgia, but Georgia’s general fund ending balance for those years is included. Adjusting for these exclusions, rainy day fund balance levels are projected to decline \$12.2 billion and total balance levels are projected to decline \$33.3 billion from fiscal 2019 to fiscal 2021. In some states, rainy day fund balance is included in general fund ending balance; ending balance amounts above exclude rainy day fund balances in these states to avoid double-counting.

Without Direct Federal Aid to States, a Slower and More Uneven Recovery is Expected

States continue to face considerable uncertainty regarding their budget outlooks as they prepare for 2021 legislative sessions. Most states have been able to avoid severe budget cuts so far through the use of rainy day funds, federal assistance, and other one-time measures, but challenging budget choices lie ahead for states as they prepare to set their spending plans for fiscal 2022 (and fiscal 2023 for biennial states), as well as make adjustments to their budgets for fiscal 2021. State tax collections usually lag economic downturns, and the deepest spending reductions tend to follow even later, as was observed during the Great Recession. Looking ahead, a slowdown in jobs recovery and surging coronavirus caseloads are expected to strain many states' economies and budgets further. Even if state tax revenues begin to recover from substantial declines induced by the pandemic, rising spending demands from an uneven economic recovery that is

disproportionately affecting low-income families and individuals are expected to put added pressure on state budgets. While positive vaccine developments recently have offered some reason for optimism, the challenges that lie ahead for effective vaccine distribution and related steps to control spread of the coronavirus are also significant.

As this report was releasing, Congress had finally reached agreement on another COVID-19 relief package, which will help towards meeting some of these pressing needs. The measure will provide support to struggling individuals and businesses affected by the pandemic; an economic boost in the form of stimulus checks; additional resources for schools, transportation, rental assistance, and other specific programs; and more health care funding for states to cover COVID-19-related costs. While the newest federal package will offer some help to state budgets, its lack of direct flexible fiscal relief to state governments will require more spending cuts and/or tax increases at the state level, leading to a slower and more uneven economic recovery.

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