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Some States Much Better Prepared Than Others for Recession.

As the widely expected recession sparked by the COVID-19 pandemic takes hold, the impact in some states will be unnecessarily harsh — especially if the recession is relatively deep — due to the state’s failure to adopt policies that support families and communities during a downturn, our review of state policies in four key areas finds. More specifically, people in states with inadequate budget reserves, weak unemployment insurance systems, relatively inaccessible Medicaid programs, and/or expensive higher education systems are particularly likely to struggle during the recession if they lose their jobs or enter the recession looking for work with few family resources to support them. Mississippi is the most poorly prepared. It’s the only state that ranks in the bottom ten across all four categories, while Florida, Louisiana, New Hampshire, and South Dakota rank among the worst in three categories. That said, every state likely will face significant budget gaps in the coming months, even those best prepared for the downturn, and will need aggressive help from the federal government.

The pressures on state finances from the COVID-19 pandemic and resulting likely recession are mounting and will quickly become severe. Sales taxes, which make up a third of state revenues, are rapidly collapsing as restaurants and stores across the country close their doors and lay off their workers. Data are not yet available on the full scope of this collapse, but there is little doubt it is drastic, perhaps unprecedented. Income taxes, which make up another third of state revenues, also will decline sharply as mass layoffs rapidly push down people’s income and therefore their income taxes. Plus, the steep drop in the stock market means that wealthy people will soon begin reporting massive capital losses on their quarterly tax returns, further reducing state revenue.

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