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States Continue to Face Large Shortfalls Due to COVID-19 Effects.

The restoration of a portion of the jobs lost as a result of COVID-19, as reflected in the Labor Department's recent jobs report for May, was welcome news. Nevertheless, the economy remains in a deep recession, and state and local governments have been hit particularly hard. We now project that the state budget shortfalls expected from COVID-19's economic fallout will total a cumulative $615 billion over the current state fiscal year (which ends on June 30 in most states), the new state fiscal year that starts on July 1, and the subsequent state fiscal year. This figure is for state shortfalls only and does not include the additional shortfalls that local and tribal governments and the U.S. territories face.

The private-sector job market performed somewhat better in May than many economists had expected, and this has led to some improvement in the outlook for the period ahead. That, in turn, has somewhat moderated the size of the shortfalls states face now and in the coming years. But states remain in dire straits; in just three months, state and local governments have furloughed or laid off more than 1.5 million workers[1] — twice as many as in all of the Great Recession. While some of those workers, such as school bus drivers and college security staff, are often furloughed during the summer, many of these and other workers will lose their jobs permanently in the coming weeks as states cut spending to balance their budgets, unless the federal government provides substantially more aid.

Our new shortfall figure, which is based on the Federal Reserve Board's summary of economic projections from last week[2] and the Congressional Budget Office's (CBO) May projections,[3] is lower than our estimate of three weeks ago but higher than our projection of early May.[4]

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Center on Budget and Policty Priorities

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