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S&P: States Demonstrate Resilience As Cash Falls Short

Key Takeaways

- We have seen a notable uptick in short-term borrowing by states and payment deferrals to address sudden shortfalls.
- A majority of states will likely have sufficient cash to weather revenue declines through fiscal 2021.
- Short-term borrowing can make sense when states lack the internal cash resources to meet current obligations and deficits are temporary.
- Cash shortfalls signal fiscal stress when they become structural challenges.

As the COVID-19 pandemic wreaks havoc on revenue, S&P Global Ratings has observed that states are grappling with how to manage cash flow. Early forecasts indicate that state revenue declines will likely surpass the 11.6% drop during the Great Recession, exceeding the 8.0% median state rainy day fund balance. Many states extended tax-filing deadlines to July from April to provide taxpayer relief, exacerbating cash-flow pressures. At the same time, they are absorbing significant unbudgeted pandemic-related costs. Although the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds help offset pandemic-related expenses, the federal government has yet to provide support to offset lost tax revenue.

Continue reading.

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