

Bond Case Briefs

Municipal Finance Law Since 1971

U.S. States Beg, Borrow and Cut to Close Massive Budget Gaps.

- **Eleven states haven't passed a budget for the new fiscal year**
- **States race to pass budgets in face of worst crisis in decades**

It's crunch time for U.S. states as they face their worst fiscal crisis in decades brought on by the Covid-19 pandemic that's decimated tax collections.

Eleven states have yet to enact a budget for the fiscal year that begins Wednesday. And for those that have, they've been forced to slash spending, lay off workers and count on billions of dollars in potential federal aid that remains bogged down in Washington.

"The biggest theme that we are seeing across state budgets is uncertainty," said Eric Kim, senior director of public finance at Fitch Ratings.

The financial crisis amid the pandemic is forcing states and cities to make tough choices even as they seek help from Washington. Moody's Analytics has projected that state and local governments will need at least \$500 billion in additional federal aid over the next two years to avoid major economic damage. While House Democrats passed a stimulus measure that would provide some \$1 trillion of aid to governments, the rescue has stalled in the Republican-led Senate.

Thirty-five states have enacted a full-year budget for fiscal 2021, including two — Virginia and Wyoming — that have authorized two-year budgets for both fiscal 2021 and fiscal 2022. Forty-six states operate on a fiscal year that begins July 1. New York starts its year on April 1, while Texas begins on Sept. 1, and Alabama and Michigan start on Oct. 1.

For those states that have yet to enact a full-year budget or temporary budget for fiscal 2021, some are awaiting their governors' signature, while others are holding off for updated economic and revenue estimates.

"Even with states that have enacted full-year budgets, this will be a banner year for mid-year adjustments," Kim said. "And that's because the revenue picture is constantly falling, and that's really going to be an unprecedented level of change for state budgets."

New Jersey opted to extend its fiscal year through Sept. 30, with lawmakers approving a temporary \$7.7 billion spending plan intended to buy the state more time to close the massive budget shortfall caused by business closings and record unemployment. It cuts or shifts \$5 billion in expenses.

Vermont also expects to enact a three-month temporary budget, and Massachusetts signed a temporary one-month budget for July. Kentucky, which normally operates on a two-year budget, passed a one-year spending plan, citing pandemic uncertainties.

The budget that Illinois enacted earlier this month allows the state to borrow up to \$5 billion from the Federal Reserve that could be repaid with anticipated federal aid. The state has already

borrowed \$1.2 billion from the Municipal Liquidity Facility program to help pay down bills. Illinois's spending plan is "precariously balanced," according to S&P Global Ratings.

California Governor Gavin Newsom Monday signed a \$133.9 billion budget that defers almost \$13 billion in payments and borrows another \$9 billion internally to help fill a deficit expected to reach \$54 billion over two years. The spending plan is intended to avoid steep cuts in the hope that Washington will send additional aid by October.

Most states aren't depending on federal aid in their budgets, but they're "strongly advocating for it," Kim said.

"They are trying to position themselves that if they get the revenue," he said. "then they have a sense of the kinds of cuts they can roll back."

Bloomberg Politics

By Emmy Lucas

June 30, 2020, 11:02 AM PDT

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com