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Federal Aid Delay Will Mean Damaging State Cuts With Long-Term Impacts.

States need substantial federal aid — now — to stem the fiscal crisis caused by COVID-19 and the resulting recession. States' revenues are plummeting and their costs are rising and, as a result, they face budget shortfalls that could total more than $550 billion through fiscal year 2022. Without substantial federal aid, they likely will address these shortfalls by deeply cutting education, health care, and other critical program areas; laying off even more teachers and other workers than they already have; and canceling contracts with many businesses.

State are about to make damaging, permanent budget cuts. Due to COVID-19, state revenues fell sharply and their costs rose dramatically when states had only three months left in their last fiscal year (2020). To balance their budgets while waiting for federal aid and assessing the full extent of the recession's impact on their budgets, states used their traditional ways of addressing mid-budget shortfalls — tapping rainy day funds and other reserves, postponing projects, and furloughing workers. But many of these less-damaging budget fixes are no longer available for the current fiscal year.

States haven't finished shaping their current budgets. Many state budgets for the current, 2021 fiscal year (which started on July 1 in most states) depended on revenues that are now expected to be substantially lower and did not fully account for costs that have risen.

Continue reading.

Center on Budget and Policy Priorities

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