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Fitch: Coronavirus Upending U.S. States' 2021 Budgets

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Fitch Ratings-London-05 August 2020: U.S. states are generally well positioned to address the economic and revenue volatility emerging from the coronavirus pandemic although the fiscal resilience they built following the Great Recession will be put to the test, according to Fitch Ratings in a new report.

State governments have seen a steep drop in state tax revenues since the onset of the pandemic a few months ago. And with the new fiscal year now in effect for 46 states, Fitch expects most, if not all, budgets will be substantially revised over the next several months, representing an unprecedented lack of clarity facing state fiscal managers.

"Many states are facing significant revenue gaps in fiscal 2021," said Senior Director Karen Krop. "As a result, many states will need to take additional steps to achieve budgetary balance, which may include non-recurring actions and even deficit borrowing, which historically has rarely been used by states."

Two states long on Fitch's "States to Watch" list, Illinois and New Jersey, are both considering sizable deficit financing to address the fiscal implications of the downturn caused by the coronavirus. "Illinois' adopted fiscal 2021 budget serves as a fiscal placeholder with answers to key questions around federal actions, state expense management and voter sentiment expected over the next several months," said Krop. "New Jersey's response to pandemic-related budgetary disruptions has been swift, although the outlines for the state's budget through fiscal 2021 remain a work in progress."

What has worked in states' favor as a whole is that they took advantage of the long expansion after the Great Recession to build their fiscal resilience, bring structural balance to operations, add to reserves and reduce budgetary liabilities. Because of these actions, they are relatively well-positioned to address the current downturn. Additional federal aid could mitigate deep spending cuts or sharp revenue increases that could have material economic implications and prolong the recovery. That said, a pivotal factor over the next several months will be how long the fallout of the pandemic lasts with coronavirus outbreaks surging across much of the country.

"Pandemic Upends U.S. State 2021 Budgets" is available at 'fitchratings.com'

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