States Start Grappling With Hit to Tax Collections

Center on Budget and Policy Priorities

COVID-19 has triggered a severe state budget crisis. While the full magnitude of this crisis is not yet clear, state revenues are declining precipitously and costs are rising sharply with many businesses closed and tens of millions of people newly unemployed. Due to the economy's rapid decline, official state revenue projections generally do not yet fully reflect the unprecedented fiscal impact of the coronavirus pandemic. In many cases, states do not even know how much their revenues have *already* fallen, in part because they've extended deadlines for filing sales and income tax payments that otherwise would have been due in recent weeks. Executive and legislative fiscal offices in many states are analyzing new economic projections and producing initial estimates of the damage before state legislatures meet in regular or special sessions to address shortfalls. Some states have released initial or preliminary estimates. (See Table 1.)

Early Estimates Show Substantial Shortfalls for 2020, 2021

The Center estimates that state budget shortfalls will ultimately reach about 10 percent in the current fiscal year (which ends on June 30 in most states) and as much as 25 percent in fiscal year 2021 based on recent economic projections.

States' initial projections give a first look at some of the damage the pandemic-induced downturn could cause to state budgets. The wide range of projected impacts reflects the uncertainty that states face, and the variety of methods states are using to begin to assess the damage. (In some cases, states are still relying only on data available *before* the crisis.) As the full scale of the downturn becomes clearer, revenue projections will likely fall further.

Even the initial projections now available make clear that states face an immediate crisis in their current fiscal years. To balance their budgets — as they must — states will need to make cuts or find enough revenue to close these shortfalls in roughly the next ten weeks, an extremely short period to find such large amounts of revenue. For example, for the remainder of this fiscal year:

- Maryland projects a drop in revenues of up to $2.8 billion.
- Arkansas expects $353 million less in revenue, with $193 million due to the income tax filing extension to July 15 and the remainder due to lower collections.

Early state estimates show that revenues for the next fiscal year, which begins on July 1 for most states, could fall as much or more than they did in the worst year of the Great Recession. New York and Colorado, for example, project revenue drops of 17 percent or more if the recession is deep.

- New York's tax revenues will fall by between $9 billion and $15 billion in 2021, according to the state's Budget Director. Both the state Comptroller and the Budget Director project dramatic revenue declines; the Budget Director's projection is more pessimistic.
- Colorado's revenues could drop by as much as $2.4 billion in 2021 and be $4 billion short of the amount needed to fund the budget with modest growth in 2022, according to the University of Colorado.
- California expects a decline of several billion dollars in capital gains income alone in 2021 as a result of the stock market fall, according to the Legislative Analyst's Office.

Another group of states face a double threat. States with a high concentration of oil-related industries are seeing a decline in economic activity and tax collections due to plunging oil prices on top of COVID-19-related effects and the recession. For example, Alaska is projecting a $600 million decline in revenues in the coming fiscal year due to the oil price drop, and New Mexico could see a $1.5 to $2 billion drop.

States will first draw on their rainy day funds and other budget reserves to address these shortfalls but, as in the last recession, those reserves will be far from adequate. And states will worsen the recession if they respond to this fiscal crisis by laying off employees, scaling back government contracts for businesses, and cutting public services and other forms of spending.

There are already reports of the cuts to come. For example, Ohio's governor has asked state agencies to prepare estimates of how to cut their budgets by 20 percent. New Jersey's governor has proposed $1 billion in cuts. Given the economy's rapid decline and the extraordinary damage being done to state, tribal, and local budgets, federal policymakers will need to provide more help to states and families affected by the crisis.

Tracking Estimated State Revenue Shortfalls

We've collected the preliminary estimated revenue declines we're aware of in the table below. We'll update this list as states continue to revise their revenue estimates for the upcoming fiscal year. In all cases these are ***preliminary*** estimates that will be updated as more is known about the impact of the COVID-19 pandemic on the economy and tax collections.

TABLE 1

COVID-19 Pandemic Expected to Cause Sharp Revenue Drops in States

State	Amount	Percent of Pre-COVID-19 projections	Source	Date and Source
Preliminary Estimated General Fund Revenue Declines in Fiscal Year 2020				
Alaska	$612 million	11 percent	Department of Revenue	April 6
Arizona	$1.4 billion	12 percent	Joint Legislative Budget Committee	April 9
Arkansas	$353 million	6 percent	Department of Finance and Administration	March 23
Colorado	$451 million	3 percent	University of Colorado	April 14
Maryland	$2.8 billion	15 percent	Comptroller	April 10
Massachusetts	$3.8 - $4.5 billion	13–15 percent	Federal Reserve Bank of Boston	April 22
Michigan	$1 to $3 billion	4–12 percent	Treasury, Budget Office, press report	March 30
Missouri	$500 million	5 percent	Governor, press report	April 1
Pennsylvania	$1.2–$1.8 billion	4–5 percent	Independent Fiscal Office	April 8
Oklahoma	$416 million	6 percent	Governor, press report	April 3
South Carolina	$507 million	5 percent	Board of Economic Advisors	April 9
Vermont*	$228 million	14 percent	Joint Fiscal Office	April 17
West Virginia	$500 million	11 percent	Revenue Secretary	April 13
Preliminary Estimated General Fund Revenue Declines in Fiscal Year 2021				
Alaska	$815 million	15 percent	Department of Revenue	April 6
Arizona	$758 million	6 percent	Joint Legislative Budget Committee	April 9

Arkansas	206 million	3 percent	Department of Finance and Administration	April 2
Colorado	$2.4 billion	18 percent	University of Colorado	April 9
Delaware	$500 million	11 percent	Governor, press report	April 15
Hawaii official	$319 million	4 percent	Council on Revenues	March 11
Hawaii projected	$800 million to $2 billion	10–25 percent	University of Hawaii Economic Council	April 3
Illinois*	$4.4–$14.1 billion	11–35 percent	Institute of Government and Public Affairs	April 9
Kentucky	$115 million	1 percent	State budget	April 1
Massachusetts	$4.2–$7.2 billion	14 - 23 percent	Federal Reserve Bank of Boston	April 22
Michigan	$1–$4 billion	4–16 percent	Treasury and Budget Office, press report	March 30
Minnesota*	$1.5–$3 billion	5 to 9 percent	State Economist, press report	April 7
New Mexico	$1.5–$2 billion	20–27 percent	Senate Finance Committee, press report	March 31
New York	$4–$7 billion $9–$15 billion	5–8 percent 9–17 percent	Comptroller, State Budget Director, press report	March 17 March 24
Oklahoma	$1.4 billion	19 percent	Board of Equalization	April 20
Pennsylvania	$1.4–$2.2 billion	4–6 percent	Independent Fiscal Office	April 8
South Carolina	$643 million	6 percent	Board of Economic Advisors	April 9
Virginia	$1-2 billion	4 - 9 percent	Secretary of Finance, press report	March 24
Wisconsin	$2 billion	10 percent	Governor	April 15
Preliminary Estimated General Fund Revenue Declines in Fiscal Year 2022				
Arizona	$805 million	7 percent	Joint Legislative Budget Committee	April 9
Colorado	$4 billion	29 percent	University of Colorado	April 9
Hawaii	$181 million	2 percent	Council on Revenues	March 11
Kentucky	$175 million	2 percent	State budget	April 1
Wyoming*	$556 million–$2.8 billion	12–62 percent	Legislative Service Office, press report	April 10

Notes: Illinois: Calendar year estimate for 2020 and 2021 (percent is of 2021 GF revenues); Minnesota: Estimate for remainder of 2020-21 biennium; Vermont: FY20 Includes $167 million in taxes deferred to FY21 which will be credited to FY20 when collected; Wyoming: Estimate for 2021-2022 biennium

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