Center on Budget and Policy Priorities

1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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States, Localities, Tribal Nations, Territories Need More Federal Aid

By Michael Leachman

The sizeable revenue shortfalls and added costs that states, localities, tribal nations, and territories face due to COVID-19 call for added federal aid that's temporary but significant, as President Biden's emergency relief plan proposed.[1] Congress should act quickly to provide it or risk more public-sector layoffs and cuts in services for families and businesses as states balance their budgets.

By the end of this week, 44 states plus the District of Columbia and Puerto Rico will have begun their first full legislative sessions since COVID-19 struck. Lawmakers' primary jobs will be to balance their budget for this fiscal year (which runs through June in most states) and write next year's budget. Without more federal aid, lawmakers facing hard budget choices due to the pandemic will impose another round of cuts — the last thing the country needs right now.

States and localities already have shed 1.4 million jobs since last February — nearly double the 750,000 lost in the aftermath of the Great Recession — as social distancing measures have made some jobs temporarily unnecessary (like bus drivers) and as state and local spending cuts have forced layoffs. Most of these jobs were lost last spring, but states and localities laid off another 177,000 people in the last quarter of 2020.

The Biden plan includes $350 billion in grants to help states, localities, and U.S. territories like Puerto Rico deal with these shortfalls and avoid additional layoffs, plus $20 billion to help tribal governments address the pandemic's exceptional damage to their finances and $170 billion for K-12 and higher education.

These amounts would likely be sufficient, based on our present estimate of state budget shortfalls and what we know about local, tribal, and territorial shortfalls, though state budget forecasts are highly uncertain right now. The more accurately federal policymakers target the aid to the places most in need, the more likely it will actually prove adequate.

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[1] CBPP, "Parrott: President-Elect Biden's Relief Plan Meets Urgency of Health and Economic Crisis," January 14, 2021, https://www.cbpp.org/press/statements/parrott-president-elect-bidens-relief-plan-meets-urgency-of-health-and-economic.

The Biden plan's targeting of additional aid to schools and colleges will help those educational institutions respond to extraordinary, unexpected costs imposed by the pandemic, such as educating students safely for the rest of this school year, making up for learning losses during the pandemic, supporting students who have dealt with depression and other serious emotional issues this year, and helping reconnect students to schools. Lengthening this school year and next to compensate for learning losses and providing tutors to a quarter of students would cost about $100 billion, the Learning Policy Institute estimates.[2] Colleges and universities also face significant additional needs. The precise amount is difficult to determine, but the American Council on Education estimated they needed $120 billion before the December relief package, which provided $23 billion to colleges and universities.[3]

Governments Face Revenue Losses Plus Unexpected Costs

A survey last fall by the National Association of State Budget Officers found that state revenues for this fiscal year were coming in 10.8 percent below pre-COVID projections, a very large drop — especially since it accounted for the substantial federal stimulus enacted earlier in 2020.[4] The situation has improved somewhat since then, though it's not clear by how much. We estimate revenues are still roughly 7.8 percent below pre-COVID projections, though the virus' resurgence complicates these estimates considerably.

These revenue losses caused many states to scale back previous plans for this year. For example, Florida reversed course on a pay raise for teachers, and Maryland scrapped a school funding plan that would have greatly improved the educational experiences of low-income students and children of color. Some of those new investments were built on pre-COVID projections of relatively strong revenue growth; the pandemic upended those projections, leaving states with revenues below what they need simply to cover existing payroll and services, let alone cover their increased costs.

Setting aside the lost investments and looking only at these more fundamental fiscal effects, we estimate that states, localities, tribal nations, and U.S. territories currently face total shortfalls of about $300 billion through fiscal year 2022, after subtracting federal aid provided to date.[5] If states fully spend the roughly $75 billion in reserves they held heading into the pandemic, that estimate drops to $225 billion. To be clear, these estimates only account for revenue losses resulting from the

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[2] Michael Griffith, Jessica Cardichon, and Michael A. DiNapoli Jr., "Learning in the Time of COVID-19," Learning Policy Institute, December 28, 2020, https://learningpolicyinstitute.org/blog/covid-second-round-federal-relief.

[3] American Council on Education, "Statement by ACE President Ted Mitchell on COVID-19 Relief Package Higher Education Funding," December 21, 2021, https://www.acenet.edu/News-Room/Pages/Statement-by-ACE-President-Ted-Mitchell-on-COVID-19-Relief-Package-Higher-Education-Funding.aspx.

[4] National Association of State Budget Officers, "The Fiscal Survey of the States Fall 2020," https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Fiscal%20Survey/NASBO_Fall_2020_Fiscal_Survey_of_States_S.pdf.

[5] Our shortfall estimates begin with the National Association of State Budget Officers' survey of each state's updated revenue projections. We made adjustments to reflect state budget announcements after the survey and to incorporate shortfalls resulting from certain rising costs, like increased Medicaid caseloads and normal cost increases due to inflation and population growth (though we didn't incorporate cost increases due directly to fighting COVID and mitigating its effects). We also added estimates of shortfalls faced by cities, counties, tribal nations, and U.S. territories. We then subtracted federal aid provided to date that states can use to cover revenue losses in their general fund.

pandemic plus normal cost increases states face, such as wage inflation, population growth, and increased Medicaid costs as more people turn to that program in a recession.

Our estimates don't include states' and localities' costs to continue fighting COVID-19 (including the more contagious new strain of the virus), such as personal protective equipment, testing, contact tracing, and increasing public health awareness. Nor do they include the added costs of providing services effectively and safely during a pandemic, such as training and equipping public employees who must regularly interact with other people.

Our estimates also don't include states' costs to help people and businesses facing extreme hardship due to the pandemic.[6] Nearly 1 in 5 adult renters are behind on rent and more than 1 in 3 adults are having trouble paying for usual household expenses, with rates especially high among people of color, according to the latest data. While federal aid to jobless workers and others has helped, the large share of adults still struggling to meet basic needs makes clear that it hasn't been enough. The Biden plan would increase temporary federal food and housing assistance, but given the magnitude of the crisis, states and localities likely would still need to provide additional aid to help individuals and families get through the crisis and recover from it. Indeed, given gaps in federal relief measures, some states and localities have stepped in over the last ten months with measures such as creating emergency assistance programs to help families avert eviction, further straining their budgets for the year.

Finally, very little data are available yet on how the virus' recent resurgence is affecting revenues for states, localities, tribal nations, and territories, but it can't have reduced their challenges. Federal policymakers would do well to keep that in mind as they determine how much aid to provide.

[6] CBPP, "Tracking the COVID-19 Recession's Effects on Food, Housing, and Employment Hardships," updated January 21, 2021, https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-recessions-effects-on-food-housing-and.