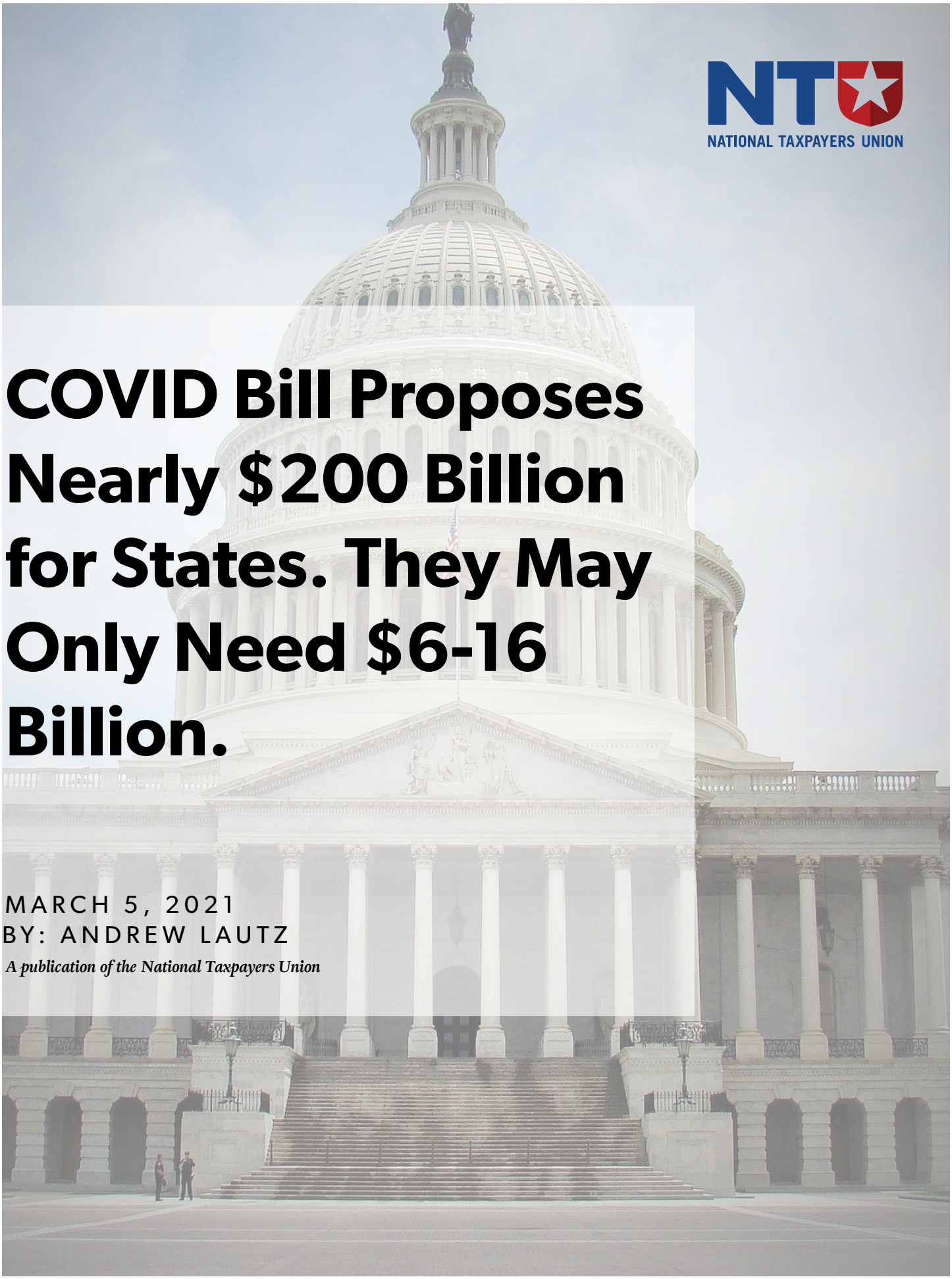

NATIONAL TAXPAYERS UNION

COVID Bill Proposes Nearly $200 Billion for States. They May Only Need $6-16 Billion.

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Introduction

One of the major debates over the current COVID-19 relief package being advanced by Congressional Democrats and President Biden is the $350 billion the legislation allocates to states and municipalities. Of this amount, $195 billion is specifically directed to state governments (not to counties, municipalities, or Tribal governments). This level of spending is uncalled for based on available data. A better estimation would suggest between $6 billion and $16 billion would be sufficient to address the immediate fiscal needs of state governments.

The nonpartisan Committee for a Responsible Federal Budget recently noted that additional education funding and transit grants provided to states and municipalities in the proposal—when combined with the $350 billion—add up to a total of $510 billion in state and local aid, or more than a quarter of the bill's $1.9 trillion in potential appropriations.

This analysis uses data from the National Association of State Budget Officers (NASBO), the Urban-Brookings Tax Policy Center, the Department of Labor, the Government Accountability Office (GAO), and the House Committee on Oversight and Reform to make the case that the allocations in the current COVID-19 relief bill *specifically* directed to state governments—not to counties, municipalities, or Tribal governments, which are not part of this analysis, but the $195 billion proposed for state governments—are uncalled for.

Based on our analysis of a) state revenue shortfalls from 2020, b) state Rainy Day Fund situations for fiscal year (FY) 2021, c) state unemployment rates as of December 2020, d) existing actions by state governments to cut spending for FYs 2020 and 2021, and e) ongoing federal support for states (such as the 6.2-percent FMAP boost for Medicaid spending), we believe that between **$6 billion** and **$16 billion** is more appropriate, or between just three and eight percent of the $195 billion proposed now.

If lawmakers were to follow this proposal instead of continuing on their current trajectory, they could s**ave taxpayers $179 billion to $189 billion** in potentially unnecessary expenditures, and billions of dollars over the next decade in interest payments on the additional national debt. Even if policymakers disagree that some of the metrics below are most appropriate for determining COVID-19 relief for state governments, we hope that this analysis starts a conversation on the appropriate level of funding for state governments *at this precise time* and *at this moment* in the COVID-19 fight and (hopefully) recovery.

One additional note: some Republicans opposed to the $350 billion for states and municipalities have termed this a "blue state bailout." Democrats have pointed out that many of the states hurting the most are, in fact, "red states" that typically vote Republican. The Democrats are correct to point out that red states are hurting, too, and our Tiers 1 and 2 of states that we think need the most support now includes six states that voted for Donald Trump in the 2020 election and seven that voted for Joe Biden. The point of this analysis is not to arbitrate between Republican and Democratic talking points, but to arrive at a *better* measure of which states are truly in need than the current proposal.

A Quick Measure of What Has Already Been Done

Though it is not as helpful to our analysis because State Rainy Day Funds and revenues have been supported by federal government aid this past year (i.e., we don't want to 'double-count' in determining current state need), it is worth quickly reviewing how states have been helped by the federal government thus far.

The federal government has supported state governments through two primary means since March 2020: 1) a 6.2-percent boost to the federal government's share of a state's total Medicaid spending, which is

ongoing and scheduled to last through the end of the public health emergency, and 2) the $150 billion the CARES Act appropriated to states through the Coronavirus Relief Fund (CRF).

We included FMAP spending through December 31, 2020 thanks to a GAO report published this year. We included CRF allocations thanks to a Treasury Department analysis released after August 31, 2020. We only count CRF allocations to state governments, not to county or local governments. We also measure the FMAP and CRF spending against the state's total estimated FY 2020 General Fund expenditures (according to NASBO). This is not a perfect proxy, but gives us a rough estimate of how significant an impact the federal support of the past year had on states' budget.

In total, the federal government has provided more than $136 billion in support to states through these two initiatives alone, or 15 percent of the value of total FY 2020 state spending ($903 billion). Because states with large budgets generally received a lower proportion of federal relief relative to their total expenditures than states with small budgets, the average level of support comes out to just over 25 percent of total FY 2020 expenditures—an extraordinary amount.

A legitimate critique of the CRF funds is that the CARES Act limited states to spending them on very specific purposes: "necessary expenditures" due to COVID-19, not accounted for in pre-COVID budgets, and incurred between March 1, 2020 and December 31, 2021. This could leave out initiatives like replacing lost tax revenue or assisting people who have been economically hit by COVID-19, which the current Democratic bill provides for. Lawmakers could, as an alternative, expand the allowable uses for remaining state funds in the CRF, giving states more flexibility to spend those dollars.

These two initiatives also do not capture *total* federal spending on states—we exclude education spending in the CARES Act, FAA grants to airports, and FTA grants to transit agencies. Each of those pots of money were sent to states *and* municipalities, and GAO reporting does not distinguish between what proportion of the total per-state allocations went to *state* governments versus municipal governments. Therefore, it is likely that we undercounted total federal spending in each state.

Key Facts:

The current COVID-19 relief bill working through Congress provides nearly $200 billion to state governments, though NTU analysis suggests that is 10 to 30 times too high.

Congress has already appropriated $136 billion to state governments through prior COVID bills, and continues to support states through enhanced Medicaid spending.

Proposed allocations to states only consider their share of unemployed Americans, when several other factors like reserve funds and revenue projections should factor in.

Some states could also be made whole for budget cuts they had to make last year in response to COVID constraints, which total around $9 billion.

Our analysis suggests that $6 billion to $16 billion is a more appropriate range for aid to state governments, though our analysis does not examine aid to local governments.

Table 1: Existing Federal Support to State Governments

State	FMAP Spending from 6.2% Boost ($ in Millions)	CRF Allocations to State ($ in Millions)	Total Federal Spending	FY 2020 Expenditures	Fed Spending as % of FY 2020 Expenditures
AK	$49	$1,250	$1,299	$4,778	27.19%
AL	$278	$1,786	$2,064	$9,494	21.74%
AR	$307	$1,250	$1,557	$5,750	27.08%
AZ	$458	$1,857	$2,315	$11,529	20.08%
CA	$2,869	$9,525	$12,394	$146,933	8.44%
CO	$360	$1,674	$2,034	$12,715	16.00%
CT	$204	$1,382	$1,586	$19,155	8.28%
DC	$125	$495	$620		
DE	$99	$927	$1,026	$4,514	22.73%
FL	$1,254	$5,856	$7,110	$34,419	20.66%
GA	$520	$3,503	$4,023	$26,095	15.42%
HI	$82	$863	$945	$8,046	11.74%
IA	$212	$1,250	$1,462	$7,821	18.69%
ID	$102	$1,250	$1,352	$3,913	34.55%
IL	$835	$3,519	$4,354	$37,330	11.66%
IN	$555	$2,442	$2,997	$16,522	18.14%
KS	$182	$1,034	$1,216	$7,535	16.14%
KY	$379	$1,599	$1,978	$11,622	17.02%
LA	$414	$1,802	$2,216	$9,681	22.89%
MA	$735	$2,672	$3,407	$33,785	10.08%
MD	$416	$1,653	$2,069	$19,652	10.53%
ME	$134	$1,250	$1,384	$3,934	35.18%
MI	$710	$3,080	$3,790	$9,331	40.62%
MN	$398	$1,870	$2,268	$24,191	9.38%
MO	$494	$2,084	$2,578	$9,212	27.99%
MS	$260	$1,250	$1,510	$5,765	26.19%
MT	$52	$1,250	$1,302	$2,436	53.45%
NC	$710	$3,585	$4,295	$24,062	17.85%
ND	$48	$1,250	$1,298	$2,359	55.02%
NE	$107	$1,084	$1,191	$4,499	26.47%
NH	$89	$1,250	$1,339	$1,688	79.32%
NJ	$591	$2,394	$2,985	$39,418	7.57%
NM	$206	$1,068	$1,274	$7,856	16.22%
NV	$131	$836	$967	$4,408	21.94%
NY	$2,653	$5,135	$7,788	$77,469	10.05%
OH	$959	$3,754	$4,713	$33,774	13.95%
OK	$225	$1,259	$1,484	$7,424	19.99%
OR	$344	$1,389	$1,733	$10,713	16.18%

PA	$1,348	$3,935	$5,283	$34,090	15.50%
RI	$101	$1,250	$1,351	$3,913	34.53%
SC	$310	$1,905	$2,215	$8,633	25.66%
SD	$41	$1,250	$1,291	$1,703	75.81%
TN	$515	$2,363	$2,878	$15,663	18.37%
TX	$2,009	$8,038	$10,047	$59,084	17.00%
UT	$115	$935	$1,050	$7,298	14.39%
VA	$313	$3,109	$3,422	$22,287	15.35%
VT	$64	$1,250	$1,314	$1,607	81.77%
WA	$384	$2,167	$2,551	$24,319	10.49%
WI	$530	$1,997	$2,527	$18,450	13.70%
WV	$153	$1,250	$1,403	$4,588	30.58%
WY	$26	$1,250	$1,276	$1,627	78.43%

Methodology: Determining Need

The current Congressional COVID-19 relief bill divides the nearly $200 billion in funding to states in two ways: 1) 13 percent ($25.5 billion) is divided equally, ensuring small states receive a minimum allocation of $500 million, and 2) 87 percent ($169 billion) is based on state share of total unemployed workers.

Unemployment should certainly be part of the picture when determining state aid, but this methodology for determining need is overly simplistic and wasteful. It fails to account for:

1. The size of state Rainy Day Funds, which exist for precisely a moment like COVID-19;
2. The proportional change in a state's tax revenue in 2020 compared to the prior year, especially when considering 22 states have experienced revenue *increases* and an additional 13 states have seen a revenue drop of less than three percent as of December 31, 2020;
3. How Rainy Day Fund balances compare to a state's drop in revenue;
4. Spending cuts or other budget adjustments already made by state governments;
5. The number of state government employees a state has lost in the past year;
6. A state's unemployment *rate*, rather than their share of total unemployed workers in America; and
7. A state's unemployment rate relative to pre-COVID unemployment rates.

The last two metrics are particularly important relative to the $169 billion lawmakers currently propose to allocate based on a state's share of unemployed workers. Individuals who want a job and don't have one are certainly struggling right now, but the December bill and the proposed COVID-19 relief package support them with a $300 or $400 per week boost to their regular unemployment benefits (the former bill from January through March 14, the latter proposed from March 15 through August). Indeed, the $600-per-week benefit from the CARES Act helped prevent major state revenue dropoffs in part *because* it allowed unemployed people to continue spending at rates similar to before they lost their jobs. Yes, the raw number of unemployed workers is one measure of how a state's economy is struggling. However, this must be considered in tandem with the factors mentioned above and in the context of the unemployment insurance (UI) boost millions of Americans are receiving right now.

We can split the seven additional metrics above broadly into three categories: 1) states' Rainy Day Fund situations, especially as they compare to revenue losses caused by the pandemic, 2) states' labor situations, relative to the national unemployment rate and to their pre-COVID economies, and 3) lawmakers' spending cuts or budget adjustments enacted *since* the COVID crisis hit.

The following tables measure each of those three impacts.

Table 2: States' Rainy Day Fund and Revenue Pictures as of Early 2021

State	Rainy Day Fund Balance, FY 2021 ($ in Millions)	Rainy Day Fund Balance as % of Expenditures	% Change in Tax Revenue, Apr-Dec 2020	Rainy Day Fund vs. Tax Revenue Loss Ratio	Rainy Day Fund Enough to Cover Revenue Shortfall?
AK	$587	13.0%	-42.5%	0.31	No
AL	$1,093	11.4%	3.7%	3.08	Yes
AR	$185	3.3%	-0.2%	16.5	Yes
AZ	$993	8.4%	2.4%	3.5	Yes
CA	$11,376	8.5%	1.2%	7.08	Yes
CO	$2,935	25.9%	5.70%	4.54	Yes
CT	$3,542	17.6%	-2.5%	7.04	Yes
DE	$252	5.5%	-7.3%	0.75	No
FL	$1,674	4.7%	-11.3%	0.42	No
GA	$2,567	9.8%	1.9%	5.16	Yes
HI	$68	0.9%	-17.0%	0.05	No
IA	$784	10.1%	-2.0%	5.05	Yes
ID	$423	10.4%	10.4%	1	Yes
IL	$4	0.0%	-2.0%	0	No
IN	$887	5.1%	-2.4%	2.13	Yes
KS	$82	1.0%	-2.7%	0.37	No
KY	$466	3.9%	1.5%	2.6	Yes
LA	$503	5.4%	-7.5%	0.72	No
MA	$2,207	6.4%	-2.8%	2.29	Yes
MD	$1,204	6.1%	0.1%	61	Yes
ME	$273	6.6%	2.2%	3	Yes
MI	$896	8.4%	0.3%	28	Yes
MN	$2,794	11.40%	-2.5%	4.56	Yes
MO	$611	6.2%	-2.7%	2.3	Yes
MS	$521	9.3%	0.3%	31	Yes
MT	$115	4.5%	-5.6%	0.8	No
NC	$1,128	4.6%	2.1%	2.19	Yes
ND	$727	29.2%	-14.8%	1.97	Yes
NE	$412	8.7%	0.7%	12.43	Yes
NH	$115	7.3%	-2.0%	3.65	Yes
NJ	$0	0.0%	-2.4%	0	No
NM	$817	11.1%	4.3%	2.58	Yes

NV	$0	0.0%	-11.8%	0	No
NY	$2,476	3.4%	-4.1%	0.83	No
OH	$2,692	8.0%	-0.9%	8.89	Yes
OK	$230	3.1%	-4.0%	0.78	No
OR	$1,377	12.3%	-10.5%	1.17	Yes
PA	$340	1.0%	-3.1%	0.32	No
RI	$105	2.7%	0.8%	3.38	Yes
SC	$1,337	15.6%	1.7%	9.18	Yes
SD	$193	11.1%	6.3%	1.76	Yes
TN	$1,450	9.0%	-1.3%	6.92	Yes
TX	$8,788	16.8%	-10.4%	1.62	Yes
UT	$817	9.7%	8.0%	1.21	Yes
VA	$1,149	4.9%	1.2%	4.08	Yes
VT	$227	13.6%	2.2%	6.18	Yes
WA	$1,963	7.6%	2.5%	3.04	Yes
WI	$762	4.1%	0.5%	8.2	Yes
WV	$900	19.70%	-4.3%	4.58	Yes
WY	$1,388	93.3%	-8.5%	10.98	Yes

In Table 2 above, we compare Rainy Day Funds (based on a percentage of state expenditures) to state revenue shortfalls. This is not an apples-to-apples comparison, because we do not have a measure of Rainy Day Funds as a percentage of state *revenue*. Therefore, these comparisons are meant to be illustrative of the broad state budget picture rather than perfectly explanatory.

Thirteen states—Alaska, Delaware, Florida, Hawaii, Illinois, Kansas, Louisiana, Montana, New Jersey, Nevada, New York, Oklahoma, and Pennsylvania—are in particularly bad shape when comparing their Rainy Day Funds (as a percentage of total expenditures) to their April through December 2020 revenue shortfalls. Considering just the loss in revenue (which is not a perfect proxy, since it spans FYs 2020 and 2021) and not states' COVID-related spending increases (which are not fully measurable at this time), these states could not meet the revenue losses of those nine months in 2020 with their Rainy Day Fund balances alone. They may be in particular need of assistance.

Table 3: States' Labor Pictures as of Early 2021

State	% Change in State Government Jobs, Dec. 2019-Dec. 2020	State Unemployment Rate, Dec. 2020	Year over Year Change in Unemployment	Change in Unemployment Greater Than Avg of 2.4%
AK	1%	5.8%	-0.3%	No
AL	-4%	3.9%	1.2%	No
AR	-2%	4.2%	0.7%	No
AZ	-3%	7.5%	3.0%	No
CA	-7%	9.0%	5.1%	Yes
CO	-17%	8.4%	5.9%	Yes
CT	-8%	8.0%	4.2%	Yes
DE	-6%	5.3%	1.3%	No

FL	-6%	6.1%	3.2%	Yes
GA	-7%	5.6%	2.5%	Yes
HI	-11%	9.3%	6.6%	Yes
IA	1%	3.1%	0.3%	No
ID	-8%	4.4%	1.5%	No
IL	-4%	7.6%	3.9%	Yes
IN	-8%	4.3%	1.1%	No
KS	-10%	3.8%	0.7%	No
KY	-12%	6.0%	1.7%	No
LA	-2%	7.2%	2.0%	No
MA	-10%	7.4%	4.6%	Yes
MD	-11%	6.3%	2.9%	Yes
ME	-12%	4.9%	1.9%	No
MI	-12%	7.5%	3.6%	Yes
MN	-7%	4.4%	1.1%	No
MO	-4%	5.8%	2.4%	No
MS	-6%	6.2%	0.6%	No
MT	4%	4.4%	0.9%	No
NC	-3%	6.2%	2.6%	Yes
ND	-2%	4.1%	1.7%	No
NE	-6%	3.0%	0.0%	No
NH	-26%	4.0%	1.4%	No
NJ	-5%	7.6%	3.9%	Yes
NM	4%	8.2%	3.4%	Yes
NV	-3%	9.2%	5.5%	Yes
NY	-1%	8.2%	4.3%	Yes
OH	-14%	5.5%	1.4%	No
OK	-2%	5.3%	1.9%	No
OR	3%	6.4%	3.0%	Yes
PA	-6%	6.7%	2.1%	No
RI	-5%	8.1%	4.6%	Yes
SC	-5%	4.6%	2.2%	No
SD	-10%	3.0%	-0.4%	No
TN	-9%	6.4%	3.1%	Yes
TX	-5%	7.2%	3.7%	Yes
UT	-5%	3.6%	1.2%	No
VA	-8%	4.9%	2.2%	No
VT	-3%	3.1%	0.7%	No
WA	-7%	7.1%	3.1%	Yes
WI	-13%	5.5%	2.0%	No
WV	-7%	6.3%	1.2%	No
WY	-12%	4.8%	1.1%	No

Table 3, above, seeks to measure each state's labor picture. In February, *The Washington Post* sought to examine the impact COVID-19 has had on state and local governments, and found that "state and local governments have shed 1.3 million jobs since the pandemic began last year — a loss of more than 1 in 20 government jobs." While this is certainly concerning, it does not present the complete labor picture. For example, some states that saw a large drop in government jobs—such as New Hampshire, South Dakota, Ohio, and Indiana, all of which saw state government jobs drop at least eight percent between December 2019 and December 2020—have seen their overall unemployment rates rebound:

- New Hampshire lost 26 percent of state government jobs, but the unemployment rate in December 2020 stood at four percent, only 1.4 percentage points worse than in December 2019;
- South Dakota lost 10 percent of state government jobs, but the unemployment rate in December 2020 stood at three percent, actually 0.4 percentage points better than in December 2019 (the state is an outlier; it is the only state to have an unemployment rate in December 2020 better than the rate in December 2019);
- Ohio lost 14 percent of state government jobs, but the unemployment rate in December 2020 stood at 5.5 percent, only 1.4 percentage points worse than in December 2019;
- Indiana lost eight percent of state government jobs, but the unemployment rate in December 2020 stood at 4.3 percent, only 1.1 percentage points worse than in December 2019.

This suggests that some public-sector employees who lost jobs have found work elsewhere. The policy goal for lawmakers should not necessarily be returning all public-sector workers to their previous jobs. Indeed, if some former public-sector workers find good opportunities in the private sector they may make future state budgeting decisions easier for lawmakers, especially as states look to cut costs and/or balance budgets in the post-COVID economy.

Instead, policymakers' goal should be to ensure that public- *and* private-sector workers who lost their jobs during the COVID-19 recession have access to other work opportunities. On those metrics, many states are still clearly struggling—including tourism- and entertainment-heavy states like California, Hawaii, Nevada, and New York. The UI boost should help unemployed workers meet their needs until vaccine distribution aggressively ramps up and sectors of the economy can reopen again, but states with rough labor pictures may merit some additional aid.

As we will demonstrate below, states that are in a bad place with their Rainy Day Funds *and* have a bad labor/unemployment situation make up Tier 1 of our recommendations for state government aid—the six states where governments most need assistance. Tier 2 includes seven additional states whose labor pictures are not as concerning, but who nonetheless have Rainy Day Funds in rough shape.

Table 4, pulled from NASBO data, identifies which states have made mid-year changes to either their FY 2020 or FY 2021 budgets during the COVID era. Two caveats here: 1) since the NASBO survey is from fall 2020 this data may not incorporate more recent cuts to FY 2021 budgets, and 2) this does not incorporate changes that state policymakers may be considering for FY 2022 budgets, given anticipated state expenses or revenue shortfalls.

However, the data do give us a sense of how much certain states have had to sacrifice amid COVID-19 impacts—a total of $6 billion in cuts in FY 2020 and a total of $3.7 billion in cuts a few months into FY 2021.

Though existing federal aid (such as the FMAP boost and CRF dollars) makes states less likely to require further cuts—or reduced the need for deeper cuts than those noted above—they still reflect a toll the pandemic has put on state budgets. While it is hard to predict states' FY 2022 needs four months out from the beginning of most states' FY 2022 (in July), we have offered a more expansive state and local aid package that could make additional states whole from their FY 2020 and FY 2021 cuts. These states comprise Tier 3 of our state and local aid recommendations.

Table 4: States That Have Made Cuts for FY 2020 or FY 2021

State	States With FY 2020 Cuts ($ in Millions)	States With FY 2021 Cuts ($ in Millions)
AR	$113.10	
CA	$746.00	
CO	$228.00	
GA	$48.20	
HI	$94.30	$45.30
IN	$373.10	$421.30
KS		$437.60
MD		$394.90
MI	$741.90	
MO	$428.20	$438.50
NJ	$400.70	
NM		$558.60
NV	$84.60	$676.30
OH	$781.90	
OR		$564.10
PA	$475.00	
RI	$118.90	
UT	$659.20	$155.80
VA	$464.40	
VT	$48.10	
WA	$26.30	
WV	$199.00	
Totals	**$6,030.90**	**$3,692.40**

Methodology: Determining Aid

The methodology for determining recommended appropriations to state governments below corresponds to the metrics that merited a state's inclusion in each of Tiers 1 through 3. States in tiers 1 and 2 largely receive recommendations based on helping their Rainy Day Funds for FY 2021 meet their anticipated revenue shortfalls from 2020. This is an imperfect proxy for a few reasons: 1) the revenue shortfall took place across two fiscal years (FYs 2020 and 2021), 2) the shortfalls do not account for current (December-February) *and* future (March-June) potential revenue shortfalls in FY 2021, and 3) Rainy Day Funds may not exactly equal the amounts surveyed by NASBO in the fall. However, we believe that filling this gap is a rough proxy for what states may need to meet the revenue side of the equation. Ongoing UI benefits and an eventual economic recovery may mean that 2021 state revenue shortfalls do not match 2020 shortfalls in scale. And the ongoing FMAP boost—not accounted for in these recommendations—will help states continue to meet added expenditures during the COVID-19 crisis, particularly health expenditures.

Tier 3, meanwhile, is more straightforward:making the states who cut spending in FYs 2020 and 2021 whole. While this is backward-looking rather than forward-looking, and while in normal times NTU would normally encourage state governments to cut extraneous spending and reduce their size, making states whole for realized spending cuts is more responsible than filling their coffers for anticipated expenditures or shortfalls in the rest of FY 2021, FY 2022, and beyond.

Here's how our proposed allocations shake out by state:

Table 5: Recommended Allocations to State Governments Based on Need

State	Possible Allocation ($ in Millions)	Tier	Notes
FL	$2,350	1	Makes Rainy Day to revenue loss ratio whole
HI	$1,284	1	Makes Rainy Day to revenue loss ratio whole
IL	$735	1	2% of expected revenue in Fiscal 2021 (loss Apr-Dec. 2020)
NJ	$875	1	2.4% of expected revenue in Fiscal 2021 (loss Apr-Dec. 2020)
NV	$542	1	11.8% of expected revenue in Fiscal 2021 (loss Apr-Dec. 2020)
NY	$510	1	Makes Rainy Day to revenue loss ratio whole
AK	$1,332	2	Makes Rainy Day to revenue loss ratio whole
DE	$82	2	Makes Rainy Day to revenue loss ratio whole
KS	$139	2	Makes Rainy Day to revenue loss ratio whole
LA	$195	2	Makes Rainy Day to revenue loss ratio whole
MT	$28	2	Makes Rainy Day to revenue loss ratio whole
OK	$67	2	Makes Rainy Day to revenue loss ratio whole
PA	$714	2	Makes Rainy Day to revenue loss ratio whole
AR	$113.1	3	Restores spending cuts from FYs 2020 and 2021
CA	$746.0	3	Restores spending cuts from FYs 2020 and 2021
CO	$228.0	3	Restores spending cuts from FYs 2020 and 2021
GA	$48.2	3	Restores spending cuts from FYs 2020 and 2021
IN	$794.4	3	Restores spending cuts from FYs 2020 and 2021
MD	$394.9	3	Restores spending cuts from FYs 2020 and 2021
MI	$741.9	3	Restores spending cuts from FYs 2020 and 2021
MO	$866.7	3	Restores spending cuts from FYs 2020 and 2021
NM	$558.6	3	Restores spending cuts from FYs 2020 and 2021
OH	$781.9	3	Restores spending cuts from FYs 2020 and 2021
OR	$564.1	3	Restores spending cuts from FYs 2020 and 2021
RI	$118.9	3	Restores spending cuts from FYs 2020 and 2021
UT	$815.0	3	Restores spending cuts from FYs 2020 and 2021
VA	$464.4	3	Restores spending cuts from FYs 2020 and 2021
VT	$48.1	3	Restores spending cuts from FYs 2020 and 2021
WA	$26.3	3	Restores spending cuts from FYs 2020 and 2021
WV	$199.0	3	Restores spending cuts from FYs 2020 and 2021

- If lawmakers followed Tier 1 recommendations, they would appropriate approximately $6 billion to six states most impacted by revenue and Rainy Day Fund struggles.

- If lawmakers followed Tiers 1 and 2 recommendations, they would appropriate approximately $9 billion to 13 states most impacted by revenue, Rainy Day Fund, and/or labor struggles.
- If lawmakers followed Tiers 1 through 3 recommendations, they would appropriate approximately $16 billion to 30 states that have been most impacted by the COVID-19 crisis and/or had to cut spending due to COVID-19.

Beyond what was already mentioned, there are limitations to this data that we note below:

- NASBO noted that Texas made FY 2020 and FY 2021 budget changes—the Governor is asking agencies to cut their budgets five percent—but did not provide an estimate as to what those budget cuts would be; we excluded Texas from the list, but note NASBO estimated their Rainy Day Fund sits at $8.7 billion, likely exceeding the state's projected loss in revenue. More recent estimates peg the state's Rainy Day Fund at $10.7 billion;
- NASBO reported that Illinois, New Jersey, and Nevada had virtually nothing in their Rainy Day Funds, so we estimated their allocations at roughly their 2020 revenue losses in proportion to their total expected revenue in FY 2021 (again, an imperfect proxy).

Limitations of this Analysis

A few additional limitations of this analysis, some of which have already been noted in passing:

- Data from NASBO is based on a fall 2020 survey released in December, and may not fully account for state government activity or projections released in the final weeks of 2020 and the first two months of 2021;
- Data from NASBO reflects General Fund expenditures; although this is the main vehicle for state government spending, General Funds may not capture and accurately reflect all state government spending;
- Data from GAO is often months old, but should—for the most part—accurately reflect resources available to states and municipalities through the CARES Act, given in most reports GAO finds the federal government had obligated a significant majority of the funds appropriated for certain purposes (and in case the of the $150 billion Coronavirus Relief Fund (CRF), the per-state allocations had been fully determined as of the publication date);
- Numerous other data from GAO on state and local allocations from airport funding (FAA), transit funding (FTA), and education funding were not included in this analysis, because GAO does not parse out which funding went to state governments and which funding went to municipal governments;
- Due to gaps in available data, some of the comparisons we rely on are not quite apples-to-apples; for example, we compare Rainy Day Funds (based on a percentage of state expenditures) to state *revenue* shortfalls, because we do not have a measure of Rainy Day Funds as a percentage of state revenue; these comparisons are meant to be illustrative of the broad state budget and labor pictures, not perfectly explanatory.
- The $6 billion to $16 billion estimate based on fiscal year (FY) 2021 needs, rather than FY 2022 needs as experts at the Center on Budget and Policy Priorities (CBPP) did in calling for $225 billion in aid. Even though many state legislatures are back in session and considering FY 2022 budgets, we believe it is premature to allocate state aid for FY 2022—especially as many states are reporting better-than-expected revenue projections and/or budget surpluses for FY 2021.

Conclusion

As noted above, if lawmakers were to follow this proposal instead of continuing on their current trajectory they could save taxpayers $179 billion to $189 billion in potentially unnecessary expenditures.

Policymakers may disagree that some of the metrics mentioned above are most appropriate for determining COVID-19 relief for state governments. They likely have access to better and more recent data than we do, which may demonstrate more need than the $6 billion to $16 billion we outline here.

Policy experts outside government may also disagree with elements of this analysis. As previously mentioned, in February CBPP called for sending $225 billion to states, municipalities, tribes, and territories. This figure is significantly higher than NTU's recommendation, but we note NTU's analysis does not include estimates of appropriate funding for municipalities, tribes, or territories. As previously noted, we also look at *past* FY 2020 losses and *anticipated* FY 2021 losses rather than looking ahead to the end of FY 2022 as CBPP does (for most states, the end of FY 2022 is June 30, 2022, more than a year from now). American Enterprise Institute (AEI) experts, for their part, called for $100 billion to $200 billion in state *and* local aid in December. Though we agree with the authors' assessment that state aid is not simply an example of "moral hazard" in the context of COVID, we would seek more details on the precise reasons they call for $100 billion to $200 billion in aid.

What we hope to demonstrate with this analysis, though, is that $200 billion for state governments alone is *far* too much at this point in time and at this moment in the COVID-19 crisis and recovery. In particular, lawmakers should not seek to fill anticipated FY 2022 state budget gaps or revenue shortfalls *now*, given the high degree of uncertainty over state budget pictures for the upcoming fiscal year. Instead, lawmakers should focus on making the state governments struggling most with the pandemic whole from current losses. That may require a fraction of the $200 billion outlined in the current COVID-19 relief package.

About the Author

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