State budget balancing strategies: COVID-19 and the Great Recession

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Abstract
This research compares state budget balancing strategies taken during the COVID-19 pandemic and the Great Recession of 2007–2009. Distinguishing features of the two crises, as well as differences among the states, lead them to engage such strategies in similar and dissimilar ways. Federal aid during both fiscal disasters is also distinctive. During the Great Recession, federal stimulus funds to states supported budget balancing efforts. In contrast, until the COVID-19 relief bill of March 2021, federal assistance was primarily funneled directly to individuals and businesses and for pandemic-specific spending. This left states on their own to close budget gaps fueled by COVID-19.

Applications For Practice
• States used budget balancing tools in similar and dissimilar ways during the Great Recession of 2007–2009 and the COVID-19 pandemic. Differential use of these tools is related to: distinctive aspects of the two fiscal disasters, lessons learned from the Great Recession and applied during COVID-19, and the specifics of federal aid supplied during and following each economic downturn.
• The timing, speed, and nature of aid from federal to state governments in times of fiscal crisis are critical to successful recoveries.
• The recently enacted 2021 federal COVID-19 relief act will mitigate the pandemic’s continuing influence on state budgets and reduce the need for tax hikes in states still struggling from its economic impacts.
• Remote working trends, the reduced need for business travel, and computer-driven technologies will permanently change the workplace landscape, including that of state governments.
INTRODUCTION

State governments in the United States fund a wide range of public services including, but not limited to, health care, education, public safety, and transportation. In fiscal year (FY) 2019, states spent $2.1 trillion to cover these expenses, accounting for 9% of the nation’s GDP, a share that has increased steadily since the middle of the 20th century (Chantrell, 2020; National Association of State Budget Officers [NASBO], 2019). Taxes, the largest source of state revenues, continued 10 years of growth into 2019, but at a slower pace than in 2018 (NASBO, 2019). In 2020, however, annual growth in tax collections reversed course in most states when the COVID-19 pandemic hit the United States in the early months of the year. Taxes fell due to the unprecedented economic decline associated with the pandemic as states shifted filing dates and collection deadlines to FY 2021, in line with federal government actions. At the same time, demand for state services increased and unemployment funds were rapidly depleted as job losses exploded. Most states have had to take draconian budget actions to combat the effects of COVID-19, the first time they have had to do so since the Great Recession of 2007–2009.

This research examines US state government actions to address the impacts of COVID-19 on budget balances. These actions are compared with those taken during the Great Recession. Specifically, we discuss budget balancing strategies typically engaged by the states when they face budget crises. We then compare strategies taken during the Great Recession and COVID-19. As a context for this comparison, we discuss the economic and fiscal climates of states as the Great Recession—the most dramatic economic downturn since the Great Depression—took hold in 2008, and the COVID-19 pandemic—the most severe public health crisis since the Spanish Flu of 1918—hit the nation in early 2020. We mine budget and fiscal data from professional organizations and think tanks as well as federal government data repositories and state governments to inform our discussion of state budget actions during the two crises. We integrate data on state budgets and finances before and during the Great Recession and the COVID-19 pandemic with qualitative data from state-of-state messages of governors explaining the strategies taken to manage state budgets during times of crisis.

ADDRESSING BUDGET GAPS: THE STATE BUDGET BALANCING TOOLKIT

Unlike the federal government, all states except Vermont have a constitutional or statutory balanced budget requirement. Consequently, in times of fiscal crisis, states must take budget balancing actions on both the revenue and expenditure sides of the budget (Poterba, 1994). In general, if a state budget deficit is expected to be short-term “…then modest adjustments can be made such as … drawing on rainy day funds” (Lee et al., 2008, 204). All states have legal requirements for accessing these funds as well as for annual deposits that must be made into them during periods of budget stability and growth (Cammenga, 2020; NASBO, 2019). Several states have multiple rainy day funds, including those that are dedicated to education and/or contingency funds for Medicaid that are generally capped and tied to the size of a state’s general fund. There are also a variety of protocols for spending rainy day funds, with some states requiring a legislative majority, or super majority, to approve expenditures from the funds that can be an impediment to releasing funds for use (NASBO, 2015). For instance, in Texas, with the largest stabilization fund in the 50 states during the Great Recession, the state legislature did not approve use of the fund—use required a two-thirds majority vote (Shi, 2016, 40).

Even if rainy day funds are full to the legal cap (41 states cap fund balances), they are often not sufficient to cover budget shortfalls (Rueben & Randall, 2017). This is due to several factors,
such as constitutional and/or statutory constraints regarding the size of reserves, when fund withdrawals are allowed, and how and when funds must be repaid (Finegold et al., 2003). States also have different ways of financing rainy day funds. According to the Urban Institute (2020):

Most allow some or all their year-end surplus to flow to the rainy day fund (RDF). Other states require a flat contribution out of total or special revenue sources. California, for example, dedicates a portion of its capital gains tax revenue to its budget stabilization account. Similarly, natural resource-rich states like Texas and Louisiana dedicate a portion of oil extraction revenues to various reserve funds, in combination with other deposit mechanisms.

The upward trajectory from 2002 to 2020 of state rainy day fund balances as a percent of general fund spending is a clear sign that states are increasingly recognizing the critical role of accumulated reserves (see Figure 1). Collectively, states moved from median rainy day balances below 1% of general fund revenues in 2002 to 8% by 2020. In fact, by 2019, two-thirds of states had rainy day fund balances that well exceeded pre-Great Recession levels, with the median number of days that states could operate on such funds standing at 27 (Rosewicz et al., 2020). Over the two decades, median rainy day fund balances fell below mean balances, sometimes markedly so, reflecting the high ratio of balances as a percent of state general fund spending in several outlier states. These include Alaska (88% in 2002, 55% in 2007, and 40% in 2019), Wyoming (91% in 2019), New Mexico (20% in 2019), and Texas (21% in 2019) (NASBO, 2020d, 87).

Although short-term strategies such as drawing down rainy day funds are not intended to deal with structural budget deficits, their main advantage is that they typically help to close budget gaps immediately. As Marlowe (2016) writes, while “…rainy day funds are far from perfect…they can help to stabilize the often volatile politics of state budgeting. That’s why they’re more important than ever.” Other short run strategies to address budget gaps include, but are not limited to, deferring payments to vendors, delaying payroll payments, moving monies from other funds into the general fund, and raiding special funds, such as education funds and/or the prior year’s fund balance. If the budget problem is longer term, states engage other strategies on both sides of their budgets.

States can make revenue enhancements, including broadening tax bases, increasing tax rates, imposing new taxes, and/or raising rates on existing ones and eliminating/postponing tax expenditures. States can expand lottery and gambling activities and impose taxes on such activities.

![Figure 1](https://www.nasbo.org/reports-data/fiscal-survey-of-states)
They can also impose new or higher fees and charges. According to Johnson et al. (2010, 1) such actions are “part of an established pattern; states historically have turned to revenue increases as part of the response to recessions…. [R]aising new revenue provides more short-term economic benefit than relying only on spending cuts.” Nonetheless, the impact of tax changes is not as immediate as most spending cuts, and many elected officials are hesitant to advocate for increased taxes, whatever form; increases to existing fees and charges and adding new ones are only slightly more palatable.

On the expenditure side, gap closing strategies can involve spending cuts that may be immediately put into action either across the board or in targeted programs, or occur more organically through agency reorganization or consolidation. Prime candidates for restructuring are generally large programs such as welfare and/or those that have expanded most rapidly such as Medicaid; expenditures for both typically rise during recessionary periods. Restructuring sometimes involves privatization of state-operated facilities such as prisons. It should be noted, however, that privatization does not necessarily result in cost savings (Abt Associates Inc., 1998). Also, while the public may be more accepting of some programmatic cuts, these types of strategic actions, like revenue enhancements, can take time to implement and any cost savings associated with them may occur in the years following the end of the downturn. And, while cuts in state funding in programs and services for individuals, nonprofit organizations, and local governments can help to reduce budget deficits, they also increase the angst felt by funding recipients.

Reducing personnel costs, a major expense for state governments, is another budget balancing strategy. Actions can include hiring freezes, elimination of vacant positions, furloughs, layoffs, and early retirements. Commitments to retired state workers can be changed in some states by revising pension payments and other post-employment retirement benefits (OPEBs). Still, such fixes have their own challenges since personnel cuts are anathema to state unions, many of which are quite powerful. They are probably just slightly less egregious to the public than tax increases, particularly as an economic decline persists. Aside from making cuts to particular programs and personnel, states may also cut or hold back funding to local governments.

In addition to strategies that impact both sides of operating budgets, states can incur new debt and/or make changes to their debt and capital budgets to address budget gaps. For example, in FY 2008, California issued economic recovery bonds to reduce the state’s deficit (NASBO, 2008b). States may also refinance debt, bond for capital projects that were previously directly funded, de-authorize capital projects to help tamp down on future fiscal pressures, or use capital reserve funds to close gaps. Like most budget-reducing strategies, however, such efforts can come with costs. That is, no state will want to engage any debt strategy that might negatively impact its credit rating.

Although states have a toolkit of strategies regarding revenues, expenditures, and debt that can be applied when the economy sours, each action, whether individually or collectively engaged, comes with challenges. The use of specific budget balancing strategies by states during the Great Recession and the COVID-19 pandemic are discussed in the following sections.

STATE ECONOMIES AND BUDGET BALANCING DURING THE GREAT RECESSION

The Great Recession began in December 2007, marking the fifth economic downturn in the United States since 1980, and the longest since World War II.2 The bull economy of the 1990s, followed by the recession that ran through all or parts of the four quarters of 2001, contributed to the relatively weak position of states for weathering the Great Recession that began in the

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2Since 1929, the National Bureau of Economic Research (NBER), a private, nonprofit research organization, has been considered the primary arbiter for US business cycle reference dates. Although a generally used rule-of-thumb definition of a recession is two consecutive quarters of falling gross domestic product (GDP), the NBER uses several other indicators to define when recessions begin and end.
last quarter of 2007 and ran through the second quarter of 2009. During the recession, real US gross domestic product (GDP) declined by 4.0% from its peak in the fourth quarter of 2007 to its trough in the second quarter of 2009 (U.S. Bureau of Economic Analysis, 2021a). The national unemployment rate that stood at 5% in December 2007 almost doubled to 9.5% by June 2009 and peaked at 10.0% in October 2009.

The impact of the Great Recession differed among the states. Twelve states experienced real GDP decline, with the largest loss (−2.0%) occurring in Alaska. Other states experiencing declines included Arizona, Connecticut, Delaware, Florida, Georgia, Indiana, Kentucky, Michigan, Nevada, Ohio, and Rhode Island. Looking at the impact of the recession on employment, many of these same states had the most severe job losses. Nevada led the states in job declines in relative terms with a 13.1% drop. Job losses in Arizona, Florida, Michigan, and California exceeded 9% and those in Oregon, Idaho, and Georgia exceeded 8%.

The impact of the recession also hit some demographic groups and industries more than others. Job losses for people of color were greater than for whites and were greater for men than for women. The losses were steepest in goods-producing industries, with the two hit hardest being manufacturing and construction, both male-dominated. Financial services, another male-dominated industry, was also dramatically impacted (Coghlan et al., 2018). Reflecting the gender differential in job loss, the Great Recession is often referred to as a “man-cession” (Wall, 2009).

Impact on revenues and expenditures

In FY 2008, just as the nation was going into the Great Recession, state revenue collections reached their historic peak of $670 billion in nominal terms. By the time the recession ended in June 2009, revenues had dropped by close to 6% to $632 billion (Haggerty, 2013). State balances in rainy day funds also declined during the recession “...by nearly $6.0 billion, with the median balance as a share of general fund spending dropping from 4.8 percent in FY 2008 to 1.6 percent in FY 2010” (White, 2019). This decline, however, masks variation among the states. For example, Missouri “…hardly touched its rainy day fund…the state constitution requires that any funds withdrawn be repaid with interest in three equal payments over the next three fiscal years” (Goodman, 2020). Most states delayed using rainy day funds until they saw the full extent of the recession, with nine accessing the funds in FY 2008, 26 accessing them in FY 2009, and 19 in FY 2010. A few states, including Vermont and South Dakota, did not touch the funds at all (NASBO, 2013).

Looking at the revenue side of the budget, although “[s]tate and local government finances, and particularly tax revenue, are tied inextricably to the economy” (Boyd, 2011), the timing of changes in state tax revenues does not necessarily coincide with changes in the nation’s GDP. In fact, aggregate state tax revenues increased in the fourth quarter of 2007, the first quarter of the national recession. Revenues continued to grow into the first quarter of 2008, peaked in the second quarter, then declined in the last two quarters of 2008, realizing a trough in the first quarter of 2009 before the uptick in the second quarter of the year (U.S. Bureau of Census, 2021).

In the states, “[s]ales taxes were the first to fall, but income taxes ultimately fell harder and faster. At their low point in the second quarter of calendar year 2009, state taxes were 17 percent below their level one year earlier and personal income taxes were 27 percent lower” (Gordon, 2012). It is, however, important to note that these data again mask differences across the states, “reflecting both the heterogeneity of tax systems and of the state economies…and their varied exposure to financial and economic shocks” (International Monetary Fund, 2012, 16). Tax collections in five states actually increased during the
recession: Wyoming (14.9%), North Dakota (4.4%), Oregon (1.9%), Iowa (1.3%), and South Dakota (0.9%) (U.S. Bureau of Census, 2010, 2021). In Wyoming and North Dakota, enhanced revenue collections were primarily attributable to increases in severance taxes. Ironically, among the remaining states, the largest tax revenue decline occurred in Alaska, primarily attributable to falling severance tax collections.

As with revenues, there were differences among the states on the expenditure side of the budget. In FY 2008, six states reported negative growth, 17 experienced less than 5% positive growth, 18 realized growth from 5% to 10%, and 9 had growth of 10% or more (NASBO, 2008a). In FY 2009, however, the picture grew darker, with overall state general fund spending decreasing by 3.4%, the second worst drop over the previous 32 years. Among states, 28 reported general fund spending below FY 2008 levels, 19 experienced spending growth less than 5%, two realized increases from 5% to 10%, and just one showed spending growth greater than 10%.

**Governors weigh in**

Governors in all 50 states are required under their constitutions to present an annual report outlining their budget and policy goals for the upcoming year to their legislatures. Campbell and Sances (2013, 252) opine that, “Even before the [Great Recession], there were concerns about the adequacy of state fiscal capacity in the face of increasing policy responsibilities, as well as warnings about states’ long-term challenges.” But, acknowledging the decline in GDP in early 2008, governors expressed their concerns about maintaining budgetary structural balance while managing through fiscal crises in their state addresses. More than half of the governors specifically mentioned structural balance and/or problems with balancing their budgets (Willoughby, 2008), as well as discussing plans for replenishing budget stabilization/rainy day funds and/or reaching structural balance. For example, the then-governor of New Jersey pushed for a restructured budget culture that he saw had allowed “…the proliferation of spending, borrowing, and mismanagement to take hold of state finances” (Willoughby, 2008, 163), and suggested applying toll-road receipts to pay down debt and to fund transportation infrastructure. Other governors discussed problems of spending beyond means, using savings to pay bills, and debilitating “binge and purge” budget processes. Even in Wyoming, with its well-funded budget at the time, the governor called for budget restraint, stating that “we cannot and should not fund every request that comes before us. We have to have the discipline to reduce the increases in the standard budget. When you go to add things to the budget, please do it on the basis that it is not a continuing appropriation” (Willoughby, 2008, 163).

As the Great Recession gained steam, governors kept their budget and policy priorities taut, emphasizing their role as fiscal disciplinarians and offering cautionary advice for navigating forward. By the time governors were giving their 2009 addresses in the early part of that year, the national recession was in full swing and they were paying increased attention to revenue collection slowdowns or declines (Willoughby, 2009) and to growing expenditures resulting in significant state budget gaps in many states.

**Closing budget gaps**

At the start of the Great Recession, draw-downs from rainy day funds and reserves eased fiscal pressures on the states but were insufficient to cover deepening budget gaps. In fact, as noted by the National Conference of State Legislatures (National Conference of State Legislatures
[NCSL, 2020, 2021], “[t]he importance of rainy day funds as a safety net became apparent in the Great Recession. States were caught without adequate reserves and year-end balances… dropped to an average low of about 4.8% of state general fund spending in FY 2009.” States were driven to implement balancing strategies on both sides of their budgets somewhat quickly. On the expenditure side, targeted spending cuts were the dominant strategy used by states to close their budget gaps in FY 2009 and FY 2010. Among the 50 states, 33 made targeted cuts in FY 2009 and 36 in FY 2010. According to NASBO (2009), the expenditure cuts made in FY 2009 were the largest since the organization began publishing its Fiscal Survey of the States in the late 1970s.

States made targeted cuts primarily in education, health, and social services, key areas of state functions and budgets. For example, Michigan moved individuals from nursing homes to community settings and reduced funding for education and training programs. Across-the-board cuts were the second most widely used budget balancing strategy by the states during the recession, with more than half using them in FY 2009 (29) and FY 2010 (28). For instance, in New Jersey in FY 2009, a $25 million reduction in procurement reform initiatives was made across all departments. In New Hampshire, out-of-state travel was curtailed, as were equipment purchases. Changes in state participation in Medicaid was another strategy used by more than half of the states in FY 2009 (27) and FY 2010 (28). Hawaii, for example, delayed payments for Medicaid recipients (NASBO, 2008b, 2009).

In many states, budget cutting continued into FY 2012, 2 years after the NBER (2010) determined that the national recession had ended. According to the Center on Budget and Policy Priorities (Williams et al., 2011, 1), “[o]f the 47 states with newly enacted budgets, 38 or more [were]…making deep, identifiable cuts in K-12 education, higher education, health care, or other key areas in their budgets for fiscal year 2012.”

Across-the-board and targeted cuts resulted in significant reductions in state employment after 2009, with 19 states laying off employees in FY 2009 and 26 in FY 2010. Job declines in most states continued into 2010 and 2011, even after the national recession ended and employment in the private sector began to recover. Other expenditure-cutting strategies used by the states to close their budget gaps included delayed payments to local governments and to state government suppliers.

On the revenue side of the budget, “33 states raised new revenues, relative to what otherwise would have been collected during 2008 and 2009” (Johnson et al., 2010, 5). In seeming contradiction to the urgent need for additional revenues, some states cut taxes in 2008, before the full extent of the recession was apparent. Most cuts were relatively small, although a substantial property tax reduction for local governments was made in Indiana (NASBO, 2008b, 59). In FY 2009, 28 states made tax changes—some raising taxes, some lowering taxes—with changes collectively yielding $715.7 million in additional revenues to the states.

Federal aid to state governments

Federal assistance tempered more draconian state budget actions during this downturn. The first two aid packages were directed primarily at individuals and businesses. The Economic Stimulus Act passed early in 2008 provided assistance in the form of individual income tax rebates and two provisions to encourage business investment (U.S. Congress, 2008a). The Troubled Asset Relief Program (TARP) enacted in October of 2008 put money into failing businesses and banks (U.S. Congress, 2008b). For the states, however, the most direct federal assistance came with the passage of the American Recovery and Reinvestment Act (ARRA), signed into law in February 2009 (U.S. Congress, 2009).

It is relevant to note that earlier assistance from the federal government in the wake of the 2001 recession set the stage for ARRA, especially the Jobs and Growth Tax Relief Reconciliation
Act of 2003 that expanded the federal share of Medicaid by $10 billion and distributed a one-time appropriation of $10 billion to help states balance their budgets (U.S. Congress, 2003–2004). Further expansion of the federal government’s share of Medicaid would be one element of ARRA in providing budget relief to states and local governments, the total of which would reach $275 billion (PEW Charitable Trusts, 2009).

Other elements of ARRA that were put in place to relieve budget pressures on the states included a $54 billion State Fiscal Stabilization Fund that “…provided flexible grants for education as well as specific appropriations for a range of programs—including renewable energy, broadband deployment, and grants and loans for transportation infrastructure—many of which were administered by states” (PEW Charitable Trusts, 2009). Although there has been no definitive evaluation of the overall impact of ARRA due to the lack of a conclusive counterfactual scenario, clearly without the massive federal dollar infusion, states would have had to take more painful steps to close budget gaps and reach balance.

Ed DeSeve (2011), who oversaw the implementation of the ARRA for the Obama administration, identified several lessons to be learned from its implementation, including:

1. timing and speed of aid from the federal government to the states are critical;
2. attention from the top matters; and
3. intergovernmental coordination is essential.

The discussion in the following sections shows that lessons two and three were not heeded when the COVID-19 pandemic hit the United States in early 2020, devastating most state economies and budgets. It would take a full year until leadership from the top would emerge and the importance of intergovernmental cooperation would be recognized. Regarding the first lesson, it would also take a full year before federal aid would be specifically targeted at reducing state budget deficits.

STATE ECONOMIES AND BUDGET BALANCING DURING COVID-19

The nation experienced steady economic growth in the decade following the Great Recession, with real GDP increasing every quarter from the second quarter 2009 through the end of 2019, excepting the first quarters of 2011 and 2014. As the pandemic unfolded, real GDP declined by 1.3% in the first quarter of 2020, and then tumbled 31.7% in the second quarter. GDP rebounded in the third quarter of 2020 by 33.4% and in the fourth quarter grew by 4.1% (U.S. Bureau of Economic Analysis, 2021a). However, even with growth in the last half of 2020, real GDP decreased 3.5% in 2020 over 2019, compared with an increase of 2.2% in 2019 over 2018.

The extraordinary drop-off in economic activity resulted in dramatic job losses across the nation. The 3.5% unemployment rate in January 2020, just before the pandemic rocked the nation, was the lowest in over two decades (see Figure 2). By April, the rate sky-rocketed to 14.8%. Although it fell steadily after that and was down to 6.3% by January 2021, the unemployment rate remains significantly above pre-pandemic levels (U.S. Bureau of Labor Statistics, 2021a).

Moreover, several segments of the population have been especially hard hit by the economic fall-out from the pandemic. In fact, the downturn has been referred to as a “she-cession” given its severe impact on women, a phenomenon different from the 2007–2009 “man-cession” (Gupta, 2020). Further, as pointed out by the Atlanta Federal Reserve President, Rafael Bostic, “the COVID recession has fully reversed the labor market progress that African Americans have made…in the recovery from the Great Recession…. For those at the bottom of the income
distribution, they are still in deep crisis” (Matthews & Bloomberg, 2021, A3). The pandemic has also catalyzed trends and innovations regarding remote work, e-commerce, and robotics that may very well exacerbate labor market differentials across population groups, industries, and states even after the national economy recovers (Lund et al., 2021).

Like the Great Recession, the pandemic has had different impacts across states. For example, in the first quarter of 2020, state GDP declines ranged from 11.9% to 1.3%, with three states (Louisiana, Delaware, and Wyoming) realizing declines greater than 10% while three others (Idaho, North Dakota, and Colorado) experienced declines of under 2%. By the second quarter, declines ranged from 42.2% to 21.9%, with Hawaii, Nevada, and Tennessee all experiencing declines of over 40%. Utah and Delaware were the only two states to realize declines under 25%. Overall, 17 states experienced double-digit year-over-year GDP declines, a significant difference from the Great Recession, when only Michigan and Wyoming experienced such large declines (Sayed & Boddupalli, 2020). By the third quarter of 2020, all states experienced GDP growth, from 52.2% in Nevada to 19.4% in Wyoming (U.S. Bureau of Economic Analysis, 2021b).

Economic decline and recovery in the states from the pandemic are tied to their mix of industries as well as to other factors, such as fiscal culture and variable virus transmission rates. From the second to third quarters of 2020, the greatest gains in GDP occurred in Nevada, Tennessee, Michigan, and Vermont. The wildest swing was in Nevada, which experienced a second quarter decline of 42.2% followed by a third quarter gain of 52.2%. All other states rebounded in the third quarter of 2020 except Delaware, New Mexico, North Dakota, Oklahoma, and Wyoming. Delaware’s failure to rebound is explained, in part, by the deep decline in the finance and insurance industries upon which the state is heavily reliant. New Mexico, North Dakota, Oklahoma, and Wyoming are states heavily dependent upon mining and quarrying, oil and gas, transportation and warehousing, and/or agriculture, forestry, fishing, and hunting, all industries hit hard by the pandemic (U.S. Bureau of Economic Analysis, 2021b).

In 2020, among the states, Hawaii suffered the most marked decline in GDP, with a dip of 8.9% in the first quarter of 2020, then a plunge of 42.2% in the second quarter, before rebounding, though not completely, by 31.3% in the third quarter (U.S. Bureau of Economic Analysis, 2021b). The impact of the pandemic on Hawaii is due to its heavy dependence on tourism-related industries, especially accommodations and food services. Hawaii’s transient accommodations tax receipts accounted for 5.0% of total general revenues in 2020 but are estimated to account for just 1.1% in 2021 (State of Hawaii Executive Budget, 2021–2023, 24). Nevada, another state highly dependent on tourism, realized a 4.9% decline in GDP in the first

**FIGURE 2** US unemployment rate, quarterly, 2000 to 2021. Source: U.S. Bureau of Labor Statistics. 2021. “Seasonal Unemployment Rate, Series LNS14000000, 16 years and over.” Accessed February 1, 2021. https://data.bls.gov/pdq/SurveyOutputServlet
quarter of 2020, then like Hawaii, a plunge of 42.2% in the second quarter, before rebounding by 52.2% in the third. Compared with Hawaii, Nevada’s stronger third quarter rebound is most likely explained by its location on the continent allowing tourists to drive in, whereas Hawaii’s tourism is dependent on airline passengers.

State unemployment rates in January 2020 ranged from a low in North Dakota of 2.3% to a high in Alaska of 6.0%. Alaska, along with Illinois, Nevada, New York, Oregon, and Washington, experienced record low unemployment rates early in 2020. At the time, 26 states had rates equal to the national unemployment rate of 3.6%, 15 states had lower rates, and nine states, higher rates (U.S. Bureau of Labor Statistics, 2020a). In April 2020, unemployment rates increased in every state to higher levels than the previous year, with most states setting job loss records. The unemployment rates in 13 states were the same as that of the nation at 14.7%, over half (27) had rates lower than the national rate, and 10 states had higher rates (U.S. Bureau of Labor Statistics, 2020b). Connecticut’s unemployment rate of 7.9% was the lowest of all states. Unemployment rates in Hawaii and Nevada were both above their previous highs by more than 10 percentage points (U.S. Bureau of Labor Statistics, 2020b). By January 2021, the range in state unemployment rates had narrowed somewhat, from 3.0% in Nebraska and South Dakota to 9.0% in California, 9.2% in Nevada, and 9.3% in Hawaii (U.S. Bureau of Labor Statistics, 2021b).

**Impact on revenues and expenditures**

State revenues had been building slowly and steadily in the decade following the end of the Great Recession (second quarter of 2009). States entered fiscal 2020 with tax revenues that “collectively had recovered to a high of 18.7 percent greater than its peak before plunging during the Great Recession, after adjusting for inflation and averaging across four quarters to smooth seasonal fluctuations” (Rosewicz et al., 2021). By January 2020, 33 states had stockpiled rainy day funds, allowing them to cover a larger share of their operating costs than at the onset of the Great Recession (Rosewicz et al., 2020). But as the pandemic took hold, state tax revenues declined precipitously—collectively, second quarter 2020 receipts were 25% below the same quarter in 2019. While numerous factors contributed to the decline in state revenues, the impact on industries hit hardest by the pandemic—accommodations and food services, and arts, entertainment, recreation, and travel—meant that some states were especially vulnerable. “No major tax stream in tourism-dependent states went unscathed as job losses within the leisure and hospitality industry, travel restrictions, and temporary business closures contributed to declines in personal income, sales, and gaming taxes” (Rosewicz et al., 2021). Overall, general fund revenues, estimated at $878.2 billion in fiscal 2020, were down by 1.4% over fiscal 2019 (NASBO, 2020d, 6–7).

Just prior to the pandemic, state general fund spending in real terms had barely returned to pre-Great Recession levels. Almost half of states (24) expected to spend less from their general funds in FY 2020 than they had in FY 2008, after adjusting for inflation (NASBO, 2020b). Although six states realized general fund expenditure growth of 10% or more in FY 2019, just two expected such growth for fiscal 2020, and another two expected such growth in FY 2021 (enacted). At the other extreme, while six states experienced zero or negative general fund expenditure growth in FY 2019, twice that number expected similar change in FY 2020, and 18 expected no growth or decline in FY 2021 (NASBO, 2020d, 5).

From the Great Recession to the start of COVID-19, state spending shares by function remained stable except for those supporting education and Medicaid. Whereas spending for education comprised the bulk of state expenditures in FY 2008 (31.8%) followed by Medicaid (20.7%), by FY 2020, the proportion of state expenditures for education (28.7%) and Medicaid (28.6%) were essentially equal (NASBO, 2008a, 2020c).
Governors weigh in

Just before the pandemic hit in February 2020, state governors expressed high optimism in their state-of-state addresses based on a decade of revenue gains—many claimed their state to be in excellent shape, even thriving. They cited consistently improving revenues, growing economies, stellar credit ratings, and balanced budgets, some even pointing to surpluses. New Jersey’s governor, for instance, spoke of making the first deposit into the state’s rainy day fund in over a decade. Many other governors highlighted boosting these funds to be ready for the inevitable downturn, a direct nod to the long, slow recovery since the Great Recession. Yet, despite improving revenues, governors proposed general fund spending for FY 2021 just 2.8% over FY 2020, with $33.2 billion in new spending earmarked for selected areas, including for Medicaid and K-12 education, and for deposits into rainy day funds (NASBO, 2020a).

Still, even with the rather rosy budget numbers in January 2020, governors were hesitant to make expansive promises. Several pressed their legislatures and the public to take a long-term perspective to maintain state fiscal momentum, with a few suggesting the importance of looking one or two decades out. Gubernatorial forward-thinking did consider many of the budget and policy agenda areas typically mentioned in state addresses—education, workforce and economic development, welfare, and transportation infrastructure. A bit more unusual were specifics regarding homelessness, broadband accessibility, rural development and assistance, disaster recovery, e-cigarettes, climate change, and domestic terrorism (NASBO, 2020a).

Thus, while governors began their 2020 addresses positively by highlighting strong economies and state finances, most continued them pragmatically. Many spoke of the need for maintaining fiscal responsibility by erasing deficits, paying down debt, and limiting future spending. For example, Alaska’s governor talked of putting the state on a sustainable fiscal path that could require voting on a spending cap, changes to the state’s permanent fund dividend, and new taxes (NASBO, 2020a). Others spoke of tax reforms to enhance equity and/or tax cuts. Notwithstanding the strong fiscal status of many state governments just prior to the onset of COVID-19, most governors indicated being as reticent in promoting expansive budgets as they were in early 2008, as the national economy began to decline.

Closing budget gaps

COVID-19 hit states differently because of variation in their industrial mix and employment and revenue structures, and later, variable COVID-19 transmission levels. In the early months of 2020, many state legislatures were in session considering amendments to current budgets (FY 2020) and deliberating about the upcoming year’s budgets (FY 2021). Some states with biennial budgets were able to navigate through the early part of the pandemic. For example, in Montana, the legislature was not in session in 2020 and the state was operating under its biennial budget for FY 2020 and FY 2021 when the pandemic hit. At the time, Montana had $115 million in its rainy day fund, a surplus of $300 million in its general fund, and $360 million in unemployment insurance fund reserves. Also, the governor immediately established a panel to advise him on spending $1.25 billion in federal funding (Tax Foundation, 2020).

At the start of the pandemic, with no national leadership forthcoming on managing the disaster, governors took quick actions on their own to contain impact, including declaring fiscal emergencies in their states and issuing multiple executive orders regarding procurement of medical and protective supplies, assisted living/nursing/long-term care facilities and/or the closing/opening of businesses, public events/church services, emergency services, and housing. Several created a special task force or team to help manage the pandemic (Council of State Governments, 2020). Some legislatures, if out of session, convened emergency or extraordinary legislative sessions to grapple with the effects of the pandemic. In these sessions, some states
created COVID-19 emergency funds and/or passed supplemental or emergency appropriations. Other states revised revenue estimates, re-evaluated revenue sources and policy goals, or changed budget processes. In New Jersey, for instance, the governor and legislative leaders announced on April 1, 2020 that the state’s 2020 fiscal year would end on September 30 rather than on the traditional June 30. The legislature then enacted a 3-month budget to take the state to the end of September (Mabon et al., 2020). In New York, the legislature passed a budget in late March 2020 that enacted a new budget modification process to adjust for revenue shortfalls or potential federal assistance. The process required the Division of the Budget (DOB) to notify the legislature when there was a 1% revenue shortfall or overspending and provided authority to the DOB to make cuts if the legislature did not adopt its own plan for addressing the shortfall within 10 days (Mabon et al., 2020; Tax Foundation, 2020).

Tax payment schedule changes of all sorts were engaged by states to manage through the pandemic. Many states changed spring income tax filing deadlines to coincide with the new federal deadline of July 2020. Others waived nexus requirements. For example, in Mississippi, “income tax withholding requirements will be based on employees’ normal work location, not their temporary telework location, necessary to ensure businesses do not become exposed, by virtue of teleworking employees” (Tax Foundation, 2020). Tax deadlines were extended, tax payments delayed, and late tax payment penalties waived. For instance, Iowa suspended interest and penalties on late tax payments, and Connecticut suspended its 10-cent plastic bag tax (NCSL, 2020; Tax Foundation, 2020).

Immediate actions by state legislatures included passing continuing resolutions for spending. For example, in South Carolina, the legislature passed a continuing resolution in April 2020 to extend current funding levels to July should a new budget not be adopted by the start of FY 2021. Other states passed contingency or short-term budgets. For instance, in Kentucky, the legislature adopted a one-year, “slimmed-down” budget rather than the usual 2-year budget typical of even-numbered years. Some state legislatures re-engineered their FY 2021 budgets. In Tennessee, for example, legislators adopted a FY 2021 budget, scaling back gubernatorial education priorities, shifting funding to COVID-19 response efforts, and beefing up the rainy day fund (Council of State Governments, 2020; NASBO, 2020a; NCSL, 2020).

Several states immediately engaged in short term borrowing and increased bonding to weather the crisis. For example, in Rhode Island, the Disaster Emergency Funding Board approved borrowing up to $300 million to shore up the general fund until state tax revenues came in later in the year. In Indiana, bonds were issued to cover capital spending, the funding for such infrastructure having been diverted to respond to COVID-19 (NASBO, 2020a; NCSL, 2020; Tax Foundation, 2020).

In terms of rainy day fund management strategies, it should be noted that although two-thirds of states held relatively well-stocked funds in January 2020, just half of them tapped these funds by the middle of FY 2020 to plug budget holes. As of December 2020, ten states had used rainy day funds to shore up their FY 2021 budgets, including seven that had accessed them for FY 2020. While a few states depleted their rainy day funds (Nevada and New Jersey), others boosted these reserves or approved plans to contribute monies into them in FY 2021 (Connecticut, Maine, Tennessee, and West Virginia). Most states adopted a “wait and see” attitude about dipping into rainy day funds, perhaps in line with gubernatorial concerns or as a display of discipline by continuing to contribute to them during the pandemic (NASBO, 2020b; NCSL, 2020). Some states accessed prior year balances and made transfers from other funds into general funds.

Most expenditure cuts made during COVID-19 were targeted. Mid-year FY 2020 spending cuts by states included those by Alaska that made targeted cuts to its budget for K-12 and travel (NASBO, 2020d, 43). Some governors used executive authority to make budget cuts. For instance, the governor of Ohio required agencies to “cut unnecessary spending by up to 20 percent for the remainder of this fiscal year and the next” (Tax
This chief executive initiated $775 million in budget cuts for the fiscal 2020 budget, including $300 million specifically targeted at schools (Ludlow, 2020). Colorado’s governor engaged executive authority to make a “targeted and practical approach to reduce spending quickly by $228.7 million to attempt to maintain the statutory reserve requirements directed by statute” (State of Colorado, 2020). Some governors used their veto authority to reduce state spending. For example, in Washington, the governor vetoed 147 separate expenditure items, reducing state general fund spending by nearly $445 million across budgets covering FY 2020 to FY 2023 (State of Washington, 2020). In Maryland, the Board of Public Works approved a budget cut of $120.7 million in general funds to its fiscal 2020 budget (State of Maryland, 2020).

To cope with the pandemic, a few states implemented salary reductions, furloughs, and layoffs, and/or made pension or OPEB changes, with the greatest number of states eliminating vacant positions and/or instituting a freeze on hiring. For example, New Jersey implemented a statewide hiring freeze excepting jobs related to combating COVID-19 while also limiting use of hourly and temporary workers. Michigan, a state that did lay off employees, indicated some agility concerning state employment. The Senate’s Appropriations Committee Chair suggested laying off non-essential workers who could not assist with fielding telephone calls regarding unemployment insurance claims, initiate budget savings, and streamline the overload of the program. Still, by the end of April 2020, the state was temporarily laying off almost 3000 employees to save about $5 million (Tax Foundation, 2020).

Some states engaged strategies specifically related to Medicaid, such as reversing coverage or increasing co-pays for beneficiaries, changing (cutting) health-care provider rates, or rescinding newly-awarded managed-care contracts or delaying new contracts and grants. For instance, Florida’s governor vetoed provider rate increases for those who care for people with disabilities, and Colorado enacted a reduction in rates paid to providers who care for a subset of the state’s elderly and approved an increase in member co-pays to the federal maximum permitted, realizing over $2 million in savings (NCSL, 2020; Tax Foundation, 2020). Governors in Tennessee and Oklahoma presented plans to expand Medicare coverage; a successful ballot measure in Oklahoma expanded Medicaid without block grants or work requirements (Mabon et al., 2020; NASBO, 2020c).

Some states took actions to expand financial aid to the public by establishing new loan programs to businesses. Delaware’s governor, for example, pushed no-interest 10-year loans capped at $10,000 per month for qualifying hospitality businesses, to be used for non-personnel costs such as rent and utilities, with loan payments deferred for nine months (The Tax Foundation, 2020). In some states, actions were taken to expand and streamline unemployment benefits. In Arkansas, for instance, the governor directed the state’s Department of Commerce to waive certain requirements and expand application avenues to streamline the process for applying for and receiving unemployment benefits (State of Arkansas, 2020).

Some states cut or held back local aid despite the severe impacts of COVID-19 on local governments that had to ramp up health-care services almost instantaneously, often with little extant infrastructure. A number of states promised to backfill the aid with federal relief dollars. For example, Michigan cut $97 million in local aid funding in its FY 2020 budget but intended to replenish the funds with federal CARES Act funding (Egan, 2020).

Twenty-five states made tax changes in FY 2021, with some increasing tax revenues, others cutting taxes, and still others doing both to different tax sources. Of 12 states that made sales tax changes, the collective yield was $127.5 million (NASBO, 2020d). This total includes actions taken by Mississippi ($30 million) and Tennessee ($112.4 million), each of which passed marketplace facilitator taxes requiring new, or an expanded number of, marketplace sellers/facilitators to collect and remit all applicable use taxes. The $127.5 million collective yield thus reflects actions taken by other states that decreased sales tax receipts. For instance, Florida provided back-to-school and disaster preparedness holidays ($36.6 million reduction), Kentucky
applied new and expanded exemptions for the sale of machinery used in micro-breweries and other manufacturers of distilled spirits, wine, or malt beverages ($2 million reduction). Washington changed tribal tax sharing compacts ($1 million reduction) and enacted sales tax exemptions for feminine hygiene products ($4.1 million reduction) (NASBO, 2020d, 106). While all state tax changes for FY 2021 collectively resulted in an increase of $5.1 billion, most of this increase was generated by corporate income tax changes ($4.3 billion), of which 96% was attributable to changes made by the California State Assembly ($4.1 billion) (NASBO, 2020d, 106 and 108). Taking California out of the mix means that the tax changes of the other 24 states, collectively, added $1 billion to state revenues.

Federal aid to state governments

Federal aid has been a significant component of state efforts to address COVID-19. Prior to January 2021, four substantial federal aid packages were passed. These include the Coronavirus Preparedness and Response Supplemental Appropriation ($8.3 billion), the Families First package ($192 billion), the Coronavirus Aid Relief and Economic Security Act (CARES, $2.2 trillion), and the Paycheck Protection Program ($484+ billion). The Coronavirus Preparedness and Response Supplemental Appropriation Act included almost $1 billion to state and local public health agencies to combat COVID-19. The rest of the funds were for research and development of vaccines, for medical supplies and personal protective equipment, and to support related international efforts (U.S. Congress, 2020a). Families First provided funding for expanded employee sick, medical, and parental leave, and the Paycheck Protection Program provided loans to businesses to support continuous operations (U.S. Congress, 2020b and 2020d).

The $2.2 trillion CARES Act was the largest federal government assistance program in US history. It included loans and grants to businesses; expanded unemployment benefits, aid for hospitals and health-care providers, and direct relief to individuals and families; and gave $150 billion to state, local, and tribal governments for COVID-19-related expenditures (U.S. Congress, 2020c). Of the $150 billion, $30 billion was set aside for states and educational institutions, $45 billion for disaster relief, and $25 billion for transit programs (LaBrecque, 2020). Within two months of the onset of COVID-19, the U.S. Congress had provided close to $3 trillion in direct aid, grants, and loans to individuals, businesses, and communities across the nation. While none of the federal aid was directly available to the states to use in efforts to close budget gaps, funds made available to individuals and businesses did help to fill state coffers.

In March 2021, President Biden signed a $1.9 trillion COVID-19 relief bill. Among its numerous provisions, the bill provides $350 billion for state and local governments to recover lost funds related to the pandemic. Of this total, $130 billion is earmarked for local governments and $220 billion for states, territories, and tribal governments. Of this total, $25 billion will be divided equally among the states, and $169 billion allocated based on a state's unemployment rate. For the states, the bill has two important and unique caveats. The first is that states are prohibited from using the funds to cut taxes, either directly or indirectly through, for example, the provision of additional tax expenditures. “For every dollar that a state government spends on net tax cuts, it will lose a dollar of the federal fiscal aid it receives from the Act’s Coronavirus State Fiscal Recovery Fund” (Johnson, 2021). The second is that the states are prohibited from spending relief bill dollars on public pension costs, a major problem in many states.

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3In December 2020, Congress passed the Consolidated Appropriations Act that included almost $900 billion in federal spending. Public Law 116-260 provides for consolidated appropriations for the fiscal year ending September 30, 2021 and includes Divisions M and N, specific to supplemental appropriations and additional funding for coronavirus emergency response and relief (U.S. Congress, 2020e).
STATE BUDGET BALANCING: COMPARING TWO FISCAL DISASTERS

While states accessed their budget balancing toolkit to manage through both the Great Recession and COVID-19, there are differences regarding the strategies they used during the two crises (see Table 1). The timing of state draw-downs from rainy day funds provides one example of the differences. The slow unfolding of the Great Recession saw relatively few states accessing these funds in FY 2008, but over half using them in FY 2009, and more than a third pulling from them in FY 2010. During COVID-19 that hit so quickly and dramatically, a third of the states accessed rainy day funds mid-year FY 2020 but just 10 states accessed them by mid-year FY 2021. The rebound of GDP in many states may have helped stem rainy day fund use during the pandemic, and/or states may be more reticent to lean heavily on their rainy day funds, perhaps

### Table 1: Number of US states applying expenditure reducing and fund management strategies to address budget gaps during the Great Recession and COVID-19

| Strategy                                      | Great Recession | COVID-19          |
|-----------------------------------------------|-----------------|-------------------|
|                                               | Fiscal 2008     | Fiscal 2009       | Fiscal 2010 | Mid-year fiscal 2020 | Enacted fiscal 2021 |
| Expenditure reducing strategies               |                 |                   |            |                     |                    |
| Across the board cuts                         | 10              | 29                | 28         | 7                    | 8                   |
| Targeted cuts                                 | 2               | 33                | 36         | 15                   | 23                  |
| Salary reductions                             | 0               | 9                 | 12         | 0                    | 3                   |
| Furloughs                                     | 0               | 15                | 22         | 3                    | 7                   |
| Layoffs                                       | 3               | 19                | 26         | 2                    | 2                   |
| Early retirements                             | 1               | 6                 | 6          | 1                    | 1                   |
| Employee benefit reductions                   | 0               | 6                 | 9          | 0                    | 0                   |
| Pension/OPEB adjustments                      | 1               | 4                 | 6          | 1                    | 6                   |
| Eliminate vacant positions/freeze hiring      | 1               | 3                 | 2          | 19                   | 19                  |
| Reorganize agencies                           | 4               | 7                 | 14         | 1                    | 2                   |
| Privatization                                 | 0               | 3                 | 3          | 0                    | 0                   |
| Reduce or hold back local aid                 | 2               | 17                | 22         | 3                    | 6                   |
| Medicaid program changes                      | n/a             | 27                | 28         | 3                    | 4                   |
| Fund management strategies                    |                 |                   |            |                     |                    |
| Access rainy day fund                         | 9               | 26                | 19         | 17                   | 10                  |
| Access prior year fund balance                | 4               | 5                 | 3          | 10                   | 9                   |
| Other fund transfers                          | 3               | 4                 | 3          | 13                   | 14                  |
| Deferred payments                             | 0               | 4                 | 3          | 2                    | 5                   |

Abbreviation: n/a, data not available.

Source: National Association of State Budget Officers (NASBO). The Fiscal Survey of the States. Fall 2020, Tables 11 and 12, 18-21; Spring 2010, Table A-Sa, 44-46; Fall 2009, Tables A-Sa and A-Sb (Tables 1-A and 1-B), 41-44; Fall 2008, Table A-S, 41-42. Accessible at: https://www.nasbo.org/mainsite/reports-data/fiscal-survey-of-states/fiscal-survey-archives. Rosewicz et al. (2020).
learning from the Great Recession to show greater fiscal discipline, and/or because of variations in the timing and type of federal aid dispersed throughout 2020.

During COVID-19, states were much more likely than during the Great Recession to access prior year fund balances and make transfers from other funds to fill budget holes. Such agile actions may have been in reaction to the extensive and immediate impact of COVID-19 on state economies and/or to the stronger revenue position of states just prior to the pandemic compared with just before the Great Recession and/or given lessons learned in that economic downturn.

Comparing states’ expenditure-reducing strategies also demonstrates differences during the two crises. Targeted spending cuts are the most popular strategy states used to balance budgets in both periods. However, states were less likely to engage across-the-board cuts during the pandemic than the Great Recession. Regarding the reduction of personnel costs, during COVID-19, states predominantly instituted hiring freezes or eliminated vacant positions, with relatively few imposing salary reductions, furloughs, layoffs, early retirements, or making changes to employee benefits. The fact that many states were able to keep workers through telework options comes into play here. Finally, fewer states during COVID-19 compared with the Great Recession conducted agency reorganizations, privatization efforts, touched local aid or made Medicaid program changes. While such actions need another year or two to shake out changes that may be in the offing, this may speak to the instant effects of the pandemic, quick state pivots regarding tax collections, fiscal year extensions, and/or the rapid and substantial federal aid to buoy the national economy.

In terms of revenue-enhancing strategies, states made tax changes during both crises—28 states during the Great Recession and 25 during the pandemic. In both periods, states were as likely to make changes that reduced tax revenues as they were to make changes that increased these revenues (NASBO, 2008b, 2020d). In the end, states make tax law changes during economic crises that they believe are most likely to bolster their economies.

Although there was some federal aid provided early in the Great Recession, most of the aid did not come down to the states until eight months after its onset in December 2007, and then again, a full year after the start. In the case of COVID-19, federal aid immediately flowed down, but was not provided directly to states for budget balancing efforts. Instead, the funding was virus-related and/or focused on augmenting the spending power of individuals and families and assisting businesses to remain operational, both vital for state economic survival. The COVID-19 funding was also directed to health-related services, but it should be noted that federal monies for personal protective equipment (PPE) and other expenditures related to the virus could replace state funding that then could be redirected to other uses. Thus, unlike the stimulus funds funneled to states during the Great Recession for closing budget gaps, until the COVID-19 relief bill was signed into law in March 2021, federal aid to states during the pandemic was primarily directed to individuals and for virus-related expenditures and not for state and local government budget balancing purposes.

There are several differences between the 2021 COVID-19 relief bill and federal assistance under ARRA, the major legislation affecting the states during the Great Recession. One major distinction is that under the 2021 bill, the bulk of funds to the states is distributed on the basis of unemployment rather than on the basis of population, the criterion used to distribute ARRA funds. It should, however, be noted that with regard to the distribution mechanism, the COVID-19 relief act also differs from the CARES Act that used state population as its basis for fund dissemination. Another difference between the COVID-19 relief act and federal aid during the Great Recession are the caveats in the 2021 legislation to the states regarding tax cuts and pensions. There were no such caveats related to ARRA funding.

The two disasters also differ with respect to the extent of intergovernmental cooperation. As identified by Ed DeSeve (2011) in his assessment of ARRA, intergovernmental coordination among all levels of government was an essential element in efforts to address the Great...
Recession. During COVID-19, with its complex intergovernmental issues such as differences among the states in virus-related regulations, coordination, and cooperation among levels of government has not been a highlight.

CONCLUDING REMARKS

This research has looked at state budget strategies in the Great Recession and the COVID-19 pandemic. In the Great Recession, states faced a slow unfolding of the economic downturn that allowed time for planning and navigating forward. Although this recession was different from those of the previous 40 years in severity and duration, states engaged a familiar budget balancing toolkit—accessing rainy day funds, making personnel and programmatic changes, cutting expenditures, and raising revenues by increasing taxes, fees, and charges. Importantly, federal assistance was earmarked to states to close budget gaps, and intergovernmental systems worked with relatively few hitches, with coordinating efforts made among all levels of government and ongoing communication among governmental partners to steer funding down the chain.

COVID-19, a biological disaster, dramatically disrupted what had been a slow growth economy following the end of the Great Recession. In fact, before the pandemic hit in 2020, most states were exhibiting strong fiscal health and growing economies. Although states did not anticipate the pandemic, once it hit, many showed resiliency by pivoting quickly. They called special legislative sessions, changed budget years and budget processes and/or tax filing deadlines, and created new funding mechanisms. Many state employees moved rather seamlessly to work from home and/or were repurposed to work in programs overburdened by the crisis. Moving forward, states seem to recognize that remote working trends, reduced need for business travel, and computer-driven technologies will permanently change the workplace landscape.

Heeding lessons learned from the Great Recession, national leadership and policy finally emerged 12 months after COVID-19 hit the nation. In the absence of such leadership, states exhibited a patchwork of pathways to manage through the pandemic. Some states have done fairly well, moving past COVID-19 spikes with stable economies, while others continue to battle the virus and its effects and face ongoing budget problems. Although prior to the 2021 COVID-19 relief act, states had been left on their own to close budget gaps, it should be noted that federal assistance provided earlier in the pandemic to individuals and businesses did contribute to boosting state economies and, thus, state coffers.

Federal aid during COVID-19 stands in stark contrast to what happened during the Great Recession when federal assistance was key to bringing state budgets into balance. While the COVID-19 relief act provides direct aid to states and is expected to negate the need for additional layoffs and to assist states in closing budget gaps, only time will tell what the full impact of the aid will be on state economies and budgets.

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