U.S.News & WORLD REPORT

Report: State Spending Spikes, Revenues Fall in Fiscal Year 2020

States' general fund revenues declined for the first time since the Great Recession, according to a recent analysis by the National Association of State Budget Officers.

Eliott Davis

December 3, 2020

In a continued sign of the strain that the coronavirus pandemic and resulting recession put on state budgets, recent analysis shows that state expenditures saw a huge increase in fiscal year 2020, while general fund revenues declined for the first time since the Great Recession.

A November report by the National Association of State Budget Officers, a nonpartisan research organization focused on state budget practices, found that total state spending grew by nearly 8%, due in large part to the 14% increase in the spending of federal funds received. The latter spike – which was likely brought on by increased federal aid to states after the pandemic hit – is stark in comparison to fiscal year 2019, when federal funds spending went up only 3.8% year over year. Most state fiscal years run from July 1 through June 30, according to the National Conference of State Legislatures.

Nearly every state increased its total spending in the last fiscal year. North Carolina and Rhode Island were the only states to see total spending increases higher than 20%, while many others saw spikes in the teens. Alabama, Connecticut, Colorado, Nevada and West Virginia were the only states where total spending decreased year over year.

Overall, the Far West and Southeast regions of the country experienced the highest spending growth in fiscal 2020, according to the report. An October report by the Cato Institute, a libertarian think tank, gave poor grades to a majority of governors based on their fiscal policies – including high levels of state spending – from January 2018 to August 2020. Many governors in Western states received grades of C or below, including Gov. Jay Inslee of Washington and Gov. Kate Brown of Oregon, who each got Fs. Total state spending in Oregon and Washington in fiscal 2020 increased by approximately 15% and 6%, respectively, according to the National Association of State Budget Officers report.

Many Western states did enter fiscal 2020 with some of the healthiest rainy day funds, however, which might help them moving forward, according to an October report by The Pew Charitable Trusts.

It might be a while until states are able to dig out of the budget holes they find themselves in, the NASBO report found. Some of the categories where state spending increased can be tied directly to the COVID-19 crisis. Total Medicaid spending increased by more than 7% in the last fiscal year, which "reflects the impact of the COVID-19 pandemic and ensuing economic fallout, with the resulting rise in unemployment affecting Medicaid enrollment and spending," according to the report. The "all other" category increased the most at 12.6%, because federal pandemic aid via the Coronavirus Aid, Relief, and Economic Security (CARES) Act – such as unemployment insurance, public health programs, housing assistance and technology upgrades – largely falls under this broad category.

Some category spending spikes cannot be tied to the pandemic, however. Total transportation spending increased by more than 9%, while capital expenditures – which is mainly tied to new construction and infrastructure repairs and improvements – saw an increase of more than 10%.

"I think the increase in fiscal 2020 is more connected with states' recent efforts to increase funding for infrastructure and transportation, addressing both maintenance and the expansion of transportation systems," said Brian Sigritz, director of state fiscal studies at the National Association of State Budget Officers, in an email to U.S. News. "In fiscal 2020, it is estimated that capital spending for transportation increased 13.3 percent. COVID-19 could limit capital projects in the future depending on the extent the pandemic negatively impacts states' fiscal conditions."

While state spending increased mostly across the board, general fund revenues declined for the first time in more than a decade. There was an overall decline in general fund tax collections in fiscal 2020, although "most states were seeing strong revenue growth and tax collections coming in above projections" over the first three quarters, according to the report. One revenue category that took a particularly big hit was gaming and lottery, which declined nearly 13%, due at least in part to casinos closing during the pandemic.

Unfortunately, according to the report, the worst may be yet to come: States are likely to see more severe revenue declines in fiscal year 2021 because the brunt of the impact of the pandemic came in only the last quarter of fiscal 2020.

"The declines in revenue will require states to take additional steps to ensure that their budgets remain in balance for fiscal 2021 and fiscal 2022," the report notes, "including spending cuts, personnel actions, examining tax increases, using rainy day funds and reserves, and the possibility of additional federal aid to states."