Were States Ready for a Downturn?

Why States Matter for Families

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State finances coming in to 2020

- Operate under balanced budget frameworks
- Sources of revenue
  - Sales tax, fees, facility charges, hotel tax
- Rainy day funds
  - At the start of 2020, state finances were strong
  - All-time high of 7.6 percent to 8.0 percent of total spending
    - Had declined to 1.6 percent during prior recession
- State spending had just returned to 2008 peaks
  - Higher in half the states
Recently made tax codes more progressive

- Increased an existing EITC or implemented a new EITC since 2008:
  - California
  - Colorado
  - Connecticut
  - Hawaii
  - Louisiana
  - Michigan
  - Montana
  - Ohio
  - South Carolina
State Spending

State and Local Direct General Expenditures
Share of Total, by Functional Category, Fiscal Year 2017

- Public welfare: 22%
- Elementary and secondary education: 21%
- Higher education: 10%
- Health and hospitals: 10%
- Police and corrections: 6%
- Highways and Roads: 6%


Note: Excludes spending on government-run liquor stores, utilities, and insurance trusts. Medicaid spending is divided between the public welfare and health and hospitals functional categories, with the majority allocated to the former.
New Demands

- Paid sick leave / family leave
- Healthcare costs associated with virus
- Increased Medicaid enrollment associated with the recession
- Unemployment
Why states should not be left to their own devices

- State solutions are pro-cyclical:
  - Increase taxes
  - Decrease spending
Thank you! Additional research can be found at: www.TaxPolicyCenter.org

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