

# How States Can Manage Uncertainty, Balance Budgets, and Help Communities in the Pandemic's Wake

Policymakers should act to improve long-term fiscal health while addressing more immediate needs

**ARTICLE** March 22, 2021 By: [Jeff Chapman](#) & [Josh Goodman](#) Topics: [Fiscal & Economic Policy](#) & [U.S. State Policy](#) Projects: [State Fiscal Health](#) Read time: 2 min



People walk past a mural of faces wearing masks in New York City in October 2020. As the COVID-19 pandemic continues to affect communities and economies, state policymakers are forced to make hard choices about how to balance their budgets.

Alexi Rosenfeld/Getty Images

After scrambling to close midyear budget gaps, sustain needed services, and help the millions suddenly left jobless nationwide by pandemic shutdowns, state governments now confront additional and urgent decisions. Although conditions are improving, COVID-19 and its impact still top state legislative agendas. The difficult climate this year exacerbates the perennial pressure on state policymakers to focus on immediate crises while pushing complex, ongoing problems into the future.

Still, there is much that decision-makers can learn from recent events to make progress on structural reforms that will improve state fiscal health over the long run. They cannot control many factors affecting their state's bottom lines—such as global economic conditions, federal policies, demographic changes, or pandemics—but well-managed states can stay on track, whatever unforeseen circumstances may arise.

Improving fiscal management does not have to further strain current budgets. Instead, enacting certain policies and practices will help states better manage finances now and in the coming years. But policymakers need to get the details right, and this may take more time than legislatures and state executives have during typical sessions. States can commit now to such efforts by making them a priority for interim committee work or special studies. Every state has already made progress on one or more of these ideas, but each has room to improve.

First, states need strategies to [manage uncertainty and adapt quickly](#) when fiscal crises arise. Experience and research show that:

- Robust reserves with evidence-based deposit and withdrawal rules are states' best line of defense against undesirable spending cuts or tax increases.
- Budget stress tests help policymakers estimate the potential financial shortfalls that could result from adverse events and plan ahead to keep long-term priorities on track.
- Contingency plans can ensure that states are ready for midyear gaps and allow decision-makers to avoid under-correcting or overcorrecting to emerging budget shortfalls.
- Evidence-based budgeting can help states avoid indiscriminate across-the-board cuts to close a budget gap, instead helping them address the most critical needs with proven programs.

Second, [crafting multiyear budget plans](#) can help ensure that this year's budget decisions do not create future deficits. Experience and research show that:

- Developing and following principles for using temporary budget fixes can help states achieve budget stability as they recover from recessions.
- Distinguishing between recurring and one-time revenue and spending avoids setting up future deficits and helps policymakers maintain sustainable funding for key priorities.
- Fiscal protections—if built into tax incentives—ensure that the cost of economic development efforts does not grow far beyond expectations.
- Planning now how to manage anticipated opioid settlement funds will help states sustainably dedicate money received to combating that public health crisis.

Third, [states can improve how they support localities](#) that may be struggling economically and fiscally. For example:

- States can review and amend policies that decrease fiscal flexibility for local governments and may make recovery from the downturn more difficult.
- States can monitor local budget conditions and offer help to distressed communities.
- Policymakers should examine state investments in economic development programs designed to strengthen distressed areas to improve how well they are targeted and tailored to local needs.

*Jeff Chapman is a director and Josh Goodman is a senior officer with the state fiscal health project at The Pew Charitable Trusts.*

## AUTHORS



**Jeff Chapman**  
Director  
State Fiscal Health  
✉



**Josh Goodman**  
Senior Officer  
State Fiscal Health  
✉

## MEDIA CONTACT

**Sarah Leiseca**

Manager, Communications

[202.540.6369](tel:202.540.6369)



**RELATED**

- Topics** [Fiscal & Economic Policy, U.S. State Policy](#)
- Projects** [State Fiscal Health](#)
- Experts** [Jeff Chapman, Josh Goodman](#)