



## WHAT YOU NEED TO KNOW ABOUT State Tax Revenue

### PRO POINTS

- **The coronavirus has caused steep drops in tax collections in states across the country, hitting a wide range of revenue streams.**
- **Even so, experts disagree about how much further assistance states and localities need to weather the pandemic.**
- **That's in part because there are signs across the country that revenues are improving, or at least haven't fallen as dramatically as some analysts feared.**
- **With that in mind, additional federal assistance to states and localities has become a major stumbling block as Democrats and Republicans discuss another round of pandemic relief.**

### HOW WE GOT HERE

State and local governments generally were in solid fiscal shape before the coronavirus pandemic all but shuttered the U.S. economy six months ago, boasting robust rainy day funds, and buoyed by a strong overall economy. But almost without exception, states and localities have been scrambling since March, facing balanced budget requirements that aren't a concern for federal policymakers and left in the lurch by a gridlocked debate in Washington over whether to offer them more assistance.

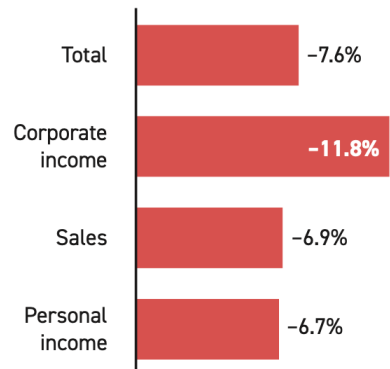
States have set up their tax systems in a variety of different ways, with some relying quite heavily on a sales tax, income tax or even taxes on extracting oil. Others rely more on multiple revenue streams. But the coronavirus-induced economic slowdown has caused damage across-the-board, no matter how a state structures its collections. In all, total state revenues between March and July were down \$30 billion, or 8 percent, from the same period in 2019, and both sales tax and income tax collections decreased just south of 7 percent.

Some recent reports have been more promising, with solid tax collection figures coming in recent weeks from states like California, Georgia and New Jersey. The conservative-leaning Tax Foundation, for instance, argues that state tax collections for fiscal 2020 are stronger than they appear at first blush, because much of the revenue declines can be chalked up to delays in income tax filings.

Congress offered states, localities, territorial and tribal governments \$150 billion through March's CARES Act — funds that are supposed to be used to cover expenses caused by the

### Overall change in state tax revenue during pandemic

#### CHANGE IN REVENUE BY TYPE ACROSS ALL STATES



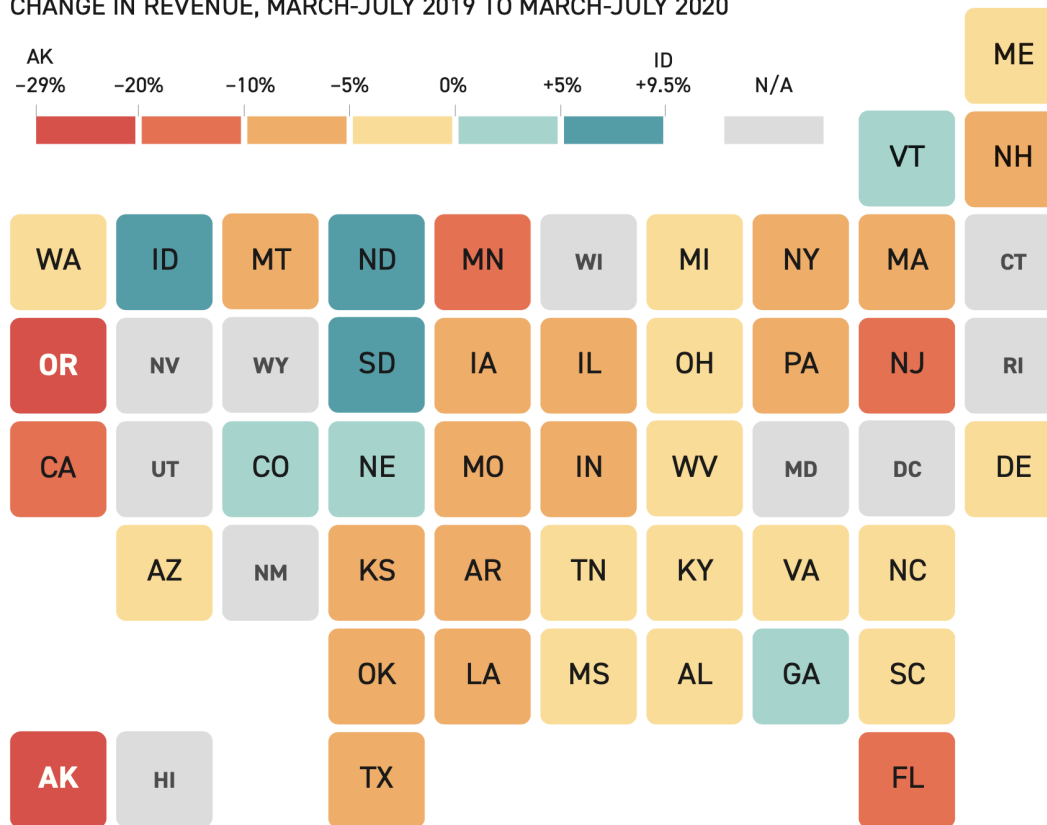
Note: The period of the pandemic for this comparison is March to July 2020. The change is calculated as the percentage change from the same period in 2019.

Source: Urban Institute



## Change in state tax revenue during Covid-19 pandemic

CHANGE IN REVENUE, MARCH-JULY 2019 TO MARCH-JULY 2020



Source: Urban Institute

pandemic, though some states have used the money to fill budget holes. Governors and mayors have spent the ensuing six months pressing for additional assistance, but state and local funding has proven to be perhaps the largest stumbling block as Democrats and Republicans find themselves deadlocked on another coronavirus relief package. House Democrats passed a bill in May that had more than \$900 billion in state and local aid. Senate Republicans countered in their latest proposal with zero additional assistance.

### WHAT'S NEXT

More funding for state and local governments faces several hurdles as Washington struggles with another pandemic response — not least being that the debate over replacing the late Justice Ruth Bader Ginsburg, which is expected to dominate proceedings on Capitol Hill for the weeks to come, if not longer. Top Republicans, including President Donald Trump, have warned that they're not interested in shoring up the finances of blue states that they accuse of living beyond their means even before the coronavirus struck.

Advocates for states and localities maintain that they'll have to slash important services and cut jobs at a very inopportune time without further help, and some experts have warned that the worst might be yet to come — that states could face their biggest fiscal challenges later, even into fiscal 2022. For instance, state income tax collections are expected to be a problem area next year, given the troubles the broader economy faced in 2020.



On top of that, analysts across the board agree that Washington's fiscal responses to the pandemic have helped to prop up state and local revenue levels. Sending states an insufficient amount of further aid, or even nothing at all, could merely serve to undercut the strides that states and localities might be making, according to those making the case for more robust assistance.

But skeptics have noted that lots of already approved assistance for states and localities has yet to be committed or disbursed — some \$130 billion out of \$360 billion that's been given a green light, according to the Committee for a Responsible Federal Budget. There's also a sense among some experts that the state and local revenue figures, as bad as they are, could be much worse, and that those governments might not need as much assistance as they're requesting.

Another issue, for both the federal government and states and localities: Experts generally believe that projecting revenues on the state level can be difficult in the best of circumstances, and could be especially challenging because of the current uncertainties in the economy.

That could make it even more difficult for federal policymakers to craft an aid package for states, outside of the intensified political obstacles facing additional coronavirus relief.

#### POWER PLAYERS



##### **White House chief of staff Mark Meadows**

He is seen as drawing a harder line on coronavirus negotiations than his GOP partner, Treasury Secretary Steven Mnuchin, who some Republicans believe gave up too much in previous pandemic packages. Meadows has publicly drawn the line at \$150 billion in new state and local funding, though he also praised a recent bipartisan proposal from the Problem Solvers Caucus that included a half trillion in new assistance for states and localities.



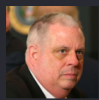
##### **Speaker Nancy Pelosi**

She has come under some pressure from more centrist Democrats to push harder for a relief package this month, or at the very least further votes on the matter. But Pelosi and Senate Minority Leader Chuck Schumer have made it clear that they won't accept anything close to the narrower responses that Republicans have been pushing, in no small part because they see enhanced state and local funding as a key part of any further package.



##### **Federal Reserve Chair Jerome Powell**

He has pushed for more funding for states and localities for months, arguing that job cuts in those governments and service reductions will put a crimp on the economic recovery from the pandemic. But Powell has also come under some questioning for how inactive the Fed's own tool for helping local governments, the Municipal Liquidity Facility, has been so far.



##### **Maryland Gov. Larry Hogan**

As chairman of the National Governors Association, Hogan has made many public rounds seeking more funding for states. He's also a Republican governor in a very blue state — though as an occasionally strident critic of President Donald Trump's handling of Covid-19 who publicly considered running for president this year, it's not clear how much extra weight his words carry among his fellow party members.