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States Start Grappling With Hit to Tax Collections.

COVID-19 has triggered a state budget crisis. States, tribes, and local governments are incurring huge new costs as they seek to contain and treat the coronavirus and respond to the virus-induced spike in joblessness and related human needs. At the same time, they are projecting sharply lower tax revenues due to the widespread collapse of economic activity brought about by the virus' spread and needed containment activities. The federal stimulus bills to date include fiscal relief — but it's already clear that it will fall far short of what states, tribes, and localities will need.

It's impossible to predict what the precise impact of the pandemic will be on the economy, but the consensus is that the country appears to have already entered a recession that could be much worse than the Great Recession. For example, Goldman Sachs projects that the unemployment rate will hit 15 percent in the third quarter (July-September) and remain at 7 percent through the end of the year.

States have only just begun to forecast the pandemic's likely impacts on their revenues based on the best economic projections available and their experience with past recessions and other shocks to state economies (see Table 1). The early reports are sobering, and as the full scale of the downturn becomes clearer, revenue projections will likely fall further.

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Center On Budget And Policy Priorities