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When Will Tax Revenues Rebound? It Depends on the Tax.

Some taxes are more impaired by the pandemic recession than others, and each jurisdiction is impacted differently, but many will still suffer revenue slumps into next year and even beyond.

Without claiming to own a crystal ball, my multi-decade experience in public finance and investment analysis gives me some insights that can hopefully help state and local government policymakers, budgeters, managers and union leaders as they plan ahead for the economy's transition from pandemic recession to an elongated economic and fiscal recovery.

It doesn't take a crystal ball to see that even if the economy grows by 6 percent in 2021 from this winter's bottom-out point, as the most optimistic Wall Street economists forecast, many states and localities will remain underwater, struggling or unable to maintain full-scale public services in the face of continuing revenue shortfalls.

Let's first clear the air about the stock market and its limited forecasting value for public budgeting. The major stock indexes are back up to pre-pandemic levels, but that is not a useful predictor for governmental tax revenues. The lost earnings of 2021 will have only a fractional impact on the long-run value of shares in big businesses; blue-chip investors are already looking out toward 2022 and beyond. Where the business-sector pain will continue to be felt most acutely is in the lower tier of smaller public companies and the even smaller privately owned businesses.

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