Bond Case Briefs

Municipal Finance Law Since 1971

State Revenues Decline for First Time Since the Great Recession, With the Worst Still to Come.

The majority of states have closed out fiscal 2020 and, as expected, most states experienced a decline in general fund revenues, both compared to prior-year (fiscal 2019) collections and to pre-COVID revenue projections. This large swing in tax collections led to a roughly 6 percent shortfall for states for fiscal 2020 in just a few months' time. This initial decline is only the beginning of what is projected to be a multi-year revenue challenge facing states with the potential to dampen the economic recovery. As states continue to experience high unemployment rates and lower consumption levels, the trends seen in the fourth quarter of fiscal 2020 are expected to further depress state revenues in fiscal 2021 and beyond.

- **Despite three quarters of strong growth through March 2020, fiscal 2020 revenue collections could not overcome the impact of the COVID-19 pandemic in the fourth quarter (April-June), as the vast majority of states operate on a July 1 to June 30 fiscal year.** States saw general fund revenues decline 3.0 percent compared to fiscal year 2019 collections, whereas prior to the COVID-19 crisis, collections were expected to grow 3.0 percent based on states' latest pre-COVID revenue estimates reported to NASBO in the spring, creating a roughly 6 percent shortfall. States, required by law to balance their budgets, have responded to these revenue shortfalls with spending cuts, in addition to using reserves and other one-time measures. New York, which operates on an April 1 fiscal year start, experienced a 10 percent decline in General Fund revenues in the April-June 2020 quarter compared to the prior year, after adjusting for the tax filing extension and liquidity financing to offset the delay.
- **Facing more severe revenue losses ahead, many governors and their administrations have directed agencies to develop budget reduction plans of as much as 15 percent or 20 percent for fiscal 2021 and/or fiscal 2022.** Declines in state tax collections (and state spending) tend to lag the economic cycle, and can take a long time to recover. After steep declines during the Great Recession, state general fund revenues took a decade to return to fiscal 2008 levels, after adjusting for inflation. Additionally, state general fund spending did not return to the inflation-adjusted pre-recession fiscal 2008 level until fiscal 2019, only to be hit with the current fiscal crisis the following year. Rising public health costs, as well as increased caseloads from citizens needing assistance during the economic crisis further increase state budget gaps.
- These declines do not include those to non-general fund revenues such as gas taxes and program fees that have also been hit hard by this fiscal crisis.

Continue reading.

NASBO

By Shelby Kerns