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Tax Windfalls Drive States to Unlikely Role in U.S. Recovery.

- **Revenue beats dire forecasts on stock gains, working from home**
- **Fleeting chance to soften pandemic hit on businesses, the poor**

America's governors aren't waiting for Washington to stimulate their economies.

Faced with unexpected budget surpluses after tax revenue held up better than anticipated during the pandemic, governors in more than half a dozen states are taking steps to help small businesses or provide cash to residents thrown out of work.

In Maryland, Republican Governor Larry Hogan is pushing for a \$1 billion stimulus package that would provide one-time checks of as much as \$750 to lower-income families. Michigan's Gretchen Whitmer, a Democrat, is seeking to provide \$225 million to small businesses. And in California, Governor Gavin Newsom has proposed using part of a \$15 billion windfall to pay for \$600 checks for some residents and \$4.5 billion of grants and tax credits to businesses hurt by virus shutdowns.

The plans reflect a surprising way the pandemic has rippled through the nation's economy. Initially confronted with the deepest contraction since World War II, states braced for a steep drop in revenue. But with higher-income Americans still able to work from home, strong consumer spending, and the stock market surging last year as Congress enacted measures to revive the economy, tax collections are rising — or at least not falling nearly as much as expected. That's given states unexpected influxes of cash that can be used to soften the blows of the pandemic.

"The fact that some states have additional revenue gives them the opportunity to stimulate their own economy or help their residents," said Karen Krop, a senior director at Fitch Ratings. "They can take that additional money and say, 'What is our highest priority right now?' And in most cases it is to stimulate their economy and help their citizens."

The measures are small compared with the \$1.9 trillion economic stimulus proposed by President Joe Biden, and big budget gaps are likely to reappear as states put together spending plans for the coming fiscal year since the surpluses are largely the result of pessimistic forecasts.

Overall state tax revenue still fell 3.2% between March and November from a year earlier, according to preliminary data from 46 tracked by the Urban Institute, causing states to eliminate 373,000 jobs, more than were lost during the last downturn. Former Federal Reserve Chair Janet Yellen, Biden's pick to head the Treasury Department, said last week that she's concerned state and local budget cutting could stall the economic recovery as it did after the last recession, underscoring the administration's plan to provide some \$350 billion in aid.

For now, though, confronted with an unprecedented crisis, some governors are plowing short-term surpluses back into their economies.

Colorado has already provided \$375 stimulus checks for some residents and lawmakers are considering other one-time measures like financing infrastructure projects. In Maryland, a wealthy state where income-tax revenue is rising despite the pandemic, Hogan is proposing to send checks

to an estimated 400,000 residents. California, reaping a surge in capital gains taxes from the state's highest earners, may send similar payouts to some 4 million people.

"It's in each state's interest to be as supportive, as they're financially able, to help their tax base and tax generators to survive and come out stronger on the other side of Covid," said Ty Schoback, senior municipal research analyst at Columbia Threadneedle Investments. States have "been able to take a little more of a scalpel approach and be a lot more intentional."

Michigan's Whitmer last week released a plan that would help businesses, unemployed residents and renters. In January, state leaders revised revenue forecasts for fiscal 2021 up by about \$1.2 billion from an estimate in August, though the revenue is still less than what the state was expecting before the pandemic.

Minnesota lawmakers were among the first to act. In December, they passed a \$216 million relief package that includes direct payments to restaurants, bars and gyms. The state's revenue department said that it helped nearly 3,900 businesses through the middle of this month.

Robert Doty, commissioner of the Minnesota Department of Revenue, said the aid is the "right thing to do" and will trickle down to business owners and employees, which is ultimately supportive for the state's coffers as well. "Anything we can do to help is pretty cool," he said.

South Carolina Governor Henry McMaster, a Republican, is incorporating small business relief as part of a budget proposal released this month that would provide \$123 million in grants to supplement federal aid. South Carolina's total general-fund revenue is about \$248.4 million higher than expected for the July to November period, according to figures released in December.

The governor has also proposed putting \$500 million in reserve. The pandemic has been a reminder of the importance of preparing for the unexpected, said Brian Symmes, a spokesman for McMaster. "It can change at the drop of the hat," he said.

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