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New Jersey, Illinois Get an Accidental Economic Reset.

Among the many ripples that came out of the 2008 financial crisis, one was the financial damage to older, slower-growing, heavily-indebted states like Illinois and New Jersey. Investments in infrastructure and public employees had to be put on hold as the governments spent years grappling with budget deficits and high levels of debt. Now, thanks to the surge in tax revenues being delivered by the current economic rebound, these states have an opportunity they haven't had in 15 years: the ability to invest rather than figuring out how to cut the budget.

It's a reminder of how federal dollars and a robust recovery can have a dramatic impact on what were previously perceived as structural problems.

Illinois and New Jersey have the lowest credit ratings of all the states, hovering not far from junk status. They've had multiple downgrades from the major ratings agencies since the 2008 recession driven by ever-growing long-term liabilities like pension obligations, aging populations, slow population growth, and a rising tax burden that has led to the loss of businesses and residents who move to states with lower costs of living. There have been no easy solutions to this predicament, which is why the problems have persisted and grown worse for more than a decade.

But the past 18 months has shown there was an easy solution, however improbable its origin (and with uncertainty about how long it will last): explosive economic growth that leads to a surge in tax revenues. The recovery in tax revenues has actually been faster than the recovery in economic activity has been; since the fourth quarter of 2019, the nominal level of gross domestic product has increased by 6.9% while the level of state and local government tax receipts has risen 12.0%.

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