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State and Local Governments Rake in Surpluses after Pandemic.

State and local governments accumulated \$1.3 trillion in excess savings during the pandemic recession and subsequent recovery, from first quarter 2020 to second quarter 2023. Much of this excess is due to large federal transfers and high tax receipts relative to prepandemic trends.

While excess household savings have been credited with helping support U.S. economic resiliency throughout 2023, households were not alone in amassing excess savings after the pandemic. The existence of large sums in state and local government coffers runs counter to historic post-recession trends. State and local governments usually grapple with budget shortfalls due to rising social program demands and weak revenue streams following recessions.

Spending deadlines, along with requirements about how the funds should be used, accompanied most federal pandemic relief funds distributed to state and local governments. Additionally, many state and local governments face political pressure to pass accumulated non-pandemic relief funds along to households via transfers or tax cuts, for example. These factors may lead to sizeable drawdowns in state and local government excess savings over the next few years.

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