States Start Grappling With Hit to Tax Collections

Center on Budget and Policy Priorities

COVID-19 has triggered a state budget crisis. States, tribes, and local governments are incurring huge new costs as they seek to contain and treat the coronavirus and respond to the virus-induced spike in joblessness and related human needs. At the same time, they are projecting sharply lower tax revenues due to the widespread collapse of economic activity brought about by the virus' spread and needed containment activities. The federal stimulus bills to date include fiscal relief — but it's already clear that it will fall far short of what states, tribes, and localities will need.

It's impossible to predict what the precise impact of the pandemic will be on the economy, but the consensus is that the country appears to have already entered a recession that could be much worse than the Great Recession. For example, Goldman Sachs projects that the unemployment rate will hit 15 percent in the third quarter (July-September) and remain at 7 percent through the end of the year.

States have only just begun to forecast the pandemic's likely impacts on their revenues based on the best economic projections available and their experience with past recessions and other shocks to state economies (see Table 1). The early reports are sobering, and as the full scale of the downturn becomes clearer, revenue projections will likely fall further.

State tax collections will be rocked by both the immediate impact of the measures taken to stem the spread of the virus and a likely deep COVID-induced recession.

States face an immediate problem for the remaining months of this fiscal year because sales tax collections are likely already declining and income taxes withheld from paychecks will begin to drop soon as workers are laid off. In addition, the federal government has delayed the federal income tax deadline (which many states also use) from April 15 to July 15, which will lower revenue and increase costs in the next three months in most states.

But it's more than just a timing shift. There's a strong possibility that the delayed revenues will also be substantially less than expected if small businesses facing bankruptcy or out-of-work individuals can't make their tax payments in July, making next year's problems even worse.

- Vermont estimates a revenue drop of $224 million this fiscal year.
- Arkansas expects $353 million less in revenue this fiscal year, with $193 million of this drop due to the filing extension and the remainder due to lower collections.

And early state estimates show that revenues for the next fiscal year, which begins on July 1 for most states, could fall as much or more than they did in the worst year of the Great Recession. New York and Colorado, for example, project revenue drops of 13 percent or more if the recession is deep.

- New York's tax revenues will fall by between $9 billion and $15 billion in 2021, according to the state's Budget Director. Both the state Comptroller and the Budget Director project dramatic revenue declines; the Budget Director's projection is more pessimistic.
- Colorado estimates that a recession could cause revenues to drop by as much as $1.8 billion in 2021 and $2.1 billion in the following year.
- California expects a decline of several billion dollars in capital gains income alone in 2021 as a result of the stock market fall, according to the Legislative Analyst's Office.

- Virginia's Secretary of Finance estimates that revenues will drop by at least $1 billion in both 2021 and 2022, compared to pre-COVID projections.

Another group of states are facing a double threat. States with a high concentration of oil-related industries are seeing a decline in economic activity and tax collections because of plunging oil prices on top of COVID-19-related effects and the recession. For example, Alaska is projecting a $600 million decline in revenues in the coming fiscal year due to the oil price drop, and New Mexico could see a $1.5 to $2 billion drop.

States will first draw on their rainy day funds and other budget reserves to address these shortfalls but, as in the last recession, those reserves are going to be far from adequate. And states will worsen the recession if they respond to this dire fiscal crisis by laying off employees, scaling back government contracts for businesses, and cutting public services and other forms of spending.

There are already reports of the cuts to come. For example, Ohio's governor has asked state agencies to prepare estimates of what it would take to cut their budgets by 20 percent. Given the economy's extremely rapid decline and the extraordinary damage being done to state, tribal, and local budgets, federal policymakers will need to provide more help to states and families affected by the crisis.

Tracking Estimated State Revenue Shortfalls

We've collected the estimated revenue declines we're aware of in the table below. We'll update this list as states continue to revise their revenue estimates for the upcoming fiscal year. In all cases these are preliminary estimates that will be updated as more is known about the impact of the COVID-19 pandemic on the economy and tax collections.

TABLE 1

COVID-19 Pandemic Expected to Cause Sharp Revenue Drops in States

State	Amount	Percent of Pre-COVID-19 projections	Source	Date
Preliminary Estimated General Fund Revenue Declines in Fiscal Year 2020				
Arkansas	$353 million	6 percent	Department of Finance and Administration	March 23
Colorado	$396 million	3 percent	Office of State Planning and Budgeting	March 16
Michigan	$1 to $3 billion	4–12 percent	Treasury, Budget Office, press report	March 30
Oklahoma	$219 million	3 percent	Appropriations Chair	March 31
Vermont	$224 million	14 percent	Joint Fiscal Office	March 25
Preliminary Estimated General Fund Revenue Declines in Fiscal Year 2021				
Alaska	$600 million	20 percent	Legislative Finance Division, press report	March 13
Colorado	$750 million	6 percent	Office of State Planning and Budgeting	March 16
Colorado-recession scenario	$1.8 billion	13 percent	Office of State Planning and Budgeting	March 16
Hawaii	$319 million	4 percent	Council on Revenues	March 20
Kentucky	$115 million	1 percent	House Budget Chair, press report	March 25

Michigan	$1 to $4 billion	4–16 percent	Treasury and Budget Office, press report	March 30
New Mexico	$1.5-$2 billion	20–27 percent	Senate Finance Committee, press report	March 31
New York	$4 – $7 billion $9 - $15 billion	5–8 percent 9–17 percent	Comptroller, State Budget Director, press report	March 17 March 24
Oklahoma	$250 - $500 million	4–7 percent	Appropriations Chair	March 31
Virginia	$1 billion	4 percent	Secretary of Finance, press report	March 24

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