



GENERAL ASSEMBLY OF THE STATE OF TENNESSEE FISCAL REVIEW COMMITTEE

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MEMORANDUM

TO: Senator Randy McNally, Lieutenant Governor and Speaker of the Senate
Representative Cameron Sexton, Speaker of the House of Representatives

Representative Ron Travis, Fiscal Review Committee Chair
Senator Todd Gardenhire, Fiscal Review Committee Vice-Chair

Senator Bo Watson, Senate Finance, Ways and Means Chair
Representative Susan Lynn, House Finance, Ways and Means Chair

FROM: Joe Wegenka, Chief Economist
Fiscal Review Committee Staff Economics Division

DATE: April 27, 2020

SUBJECT: Impact of COVID-19 on Tax Revenue Collections

Introduction:

This memorandum was prepared to reflect the necessary adjustments to the forecasted tax collections of the state of Tennessee as a result of the COVID-19 outbreak's impact on the state and national economies.

Federal Government Action:

Four rounds of federal aid packages were enacted into law in response to the COVID-19 outbreak. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, the third of such measures, was passed by Congress and signed into law on March 27, 2020. The fourth emergency aid package was passed by Congress on April 24, 2020. The total amount of federal aid to date is approximately \$2.7 trillion. Below are some of the main provisions of enacted federal aid packages:

- Approximately \$349 billion was allocated to the Paycheck Protection Program by the CARES Act to assist impacted businesses with fewer than 500 employees with payroll and other expenses (businesses with more than 500 employees are eligible in certain industries). Business loans are forgiven if used for specified purposes. The fourth aid package added \$321 billion to the Program.
- An income-based one-time payment of up to \$1,200 was allocated to United States residents not listed as a dependent, with an additional one-time payment of \$500 per child. The payment phases out entirely at \$99,000 for single taxpayers with no children, \$146,500 for taxpayers filing as heads of households, and \$198,000 for joint taxpayers with no children.
- Unemployment insurance benefits were expanded to include a \$600 per week increase in benefits for up to four months, and a federal funding of unemployment insurance benefits provided to individuals not usually eligible for such benefits.
- IRS tax filing is deferred from the due date of April 15, 2020 to July 15, 2020.
- The 10 percent early withdrawal penalty on retirement account distributions for taxpayers facing virus related challenges has been waived.
- The state of Tennessee will receive a total of approximately \$3.7 billion in federal COVID-19 funding.

State and Local Government Action:

On March 30, Governor Bill Lee established a Safer at Home Order which allowed only those businesses deemed essential to continue operations. The order, after one extension, is effective through April 30. On April 20, Governor Lee announced the order to stay at home will expire on April 30 for 89 counties (excluding major metropolitan areas) and the vast majority of businesses in such counties will be allowed to open on May 1, with some businesses opening as early as April 27. On April 24, the Governor outlined several guidelines for businesses, including instructions for restaurants to open beginning on April 27, and retailers to open beginning on April 29 in the 89 specified counties. It is assumed that restrictions will be removed in phases and the demand will return differently for different business sectors. It is further assumed that restrictions in the excluded 6 counties will begin to be lifted in early to mid-May. Below are some of the additional changes impacting state and local tax revenues that have been enacted in response to the COVID-19 outbreak:

- Franchise and Excise Tax due date postponed from April 15, 2020 to July 15, 2020.
- Hall Income Tax due date postponed from April 15, 2020 to July 15, 2020.
- Professional Privilege Tax due date postponed from June 1, 2020 to July 1, 2020.
- Business Tax filing deadline postponed from April 15, 2020 to June 15, 2020.
- All motor vehicle registration renewal due dates for registrations expiring in March or April postponed to June 15, 2020.
- Tax return filing for the Fuel Tax from Tennessee-based interstate trucking companies postponed from March 30, 2020 to May 26, 2020.
- Liquor-by-the-drink Tax not to be collected on drinks now made available to be sold by restaurants for off-premises consumption by delivery or pick-up until April 30, 2020.
- Tobacco stamp orders are only being filled once a week on Mondays.

Economic Impact:

The COVID-19 pandemic and public health responses have resulted in unprecedented economic disruptions in the United States and the world. The seasonally adjusted annual rate of decline in real GDP is estimated to be around 7 percent in the first quarter of 2020. The economic decline in the second quarter will be much larger, with a decrease of over 20 percent, with some sources such as the Congressional Budget Office (CBO) estimating a decline of 40 percent. Economic activity is anticipated to rebound in the third and fourth quarters, as concerns about the pandemic diminish and state and local governments remove restrictions on business operations and other measures restraining economic activity.

According to the United States Department of Labor, the number of unemployed persons for the month of March was 7,140,000, with a total labor force of 155,800,000. The total number of unemployed persons, including the recent initial unemployment claims data, is currently estimated to be 30,286,000, resulting in an unemployment rate of approximately 19.4 percent. Much of this unemployment is assumed to be short-term due to temporary business closures and the additional \$600 weekly unemployment benefit. However, significantly elevated unemployment numbers are expected to persist throughout FY19-20. CBO estimates the unemployment rate to average around 14 percent in the second quarter. Approximately 15 percent of Tennessee's workforce filed for unemployment since the beginning of March, with a quarter of such claims coming from employees in the leisure and hospitality sector.

On April 15, 2020, the United States Census Bureau released advance estimates of United States retail and food service sales for March 2020. Outlined below are some takeaways and commentary from this report.

- Total retail and food service sales have decreased by 6.2 percent relative to sales in March 2019.
- Motor vehicle and parts dealers have experienced a decline in sales of 23.7 percent.
- Sales for bars and restaurants decreased by 23 percent year-over-year. Many restaurants remained open for take-out or delivery only, with some of them engaging in modified business activity, such as sales of groceries or ingredients used in preparation of their meals.
- Other business types with significant sales declines include: furniture and home furnishing stores (24.6 percent decline), electronics and appliance stores (15.9 percent), department stores (23.9 percent), and clothing and clothing accessories stores (50.7 percent). Activity in the furniture and home furnishings, as well as electronics and appliance stores is negatively impacted by any slowdowns in the housing market. According to Zillow Economic Research, pending home sales slowed dramatically in the second half of March and through April. At the height of the decline, for the week ending April 12, pending home sales have decreased by 37 percent year-over-year nationwide.
- Due to the social distancing guidelines and requirements, grocery stores, delivery services, and some home improvement sectors have experienced significant growth. Grocery store sales increased by 29.3 percent while non-store retailers realized an increase of 9.7 percent. Such industries have seen increases in employment and in some cases increased hourly wages and distributed bonuses to employees.
- According to the U.S. Energy Information Administration report dated April 23, consumption of petroleum products has fallen to the lowest levels in decades, a total

decline of 31 percent relative to averages from the first 10 weeks of 2020, including a drop in gasoline consumption of approximately 40 percent.

FY19-20 Tax Revenue:

The table below outlines actual FY19-20 year-to-date tax revenue growth rates and revised Fiscal Review Committee staff's estimates for the remainder of the year and the full fiscal year. The staff estimates a full-year decrease in total tax collections of 0.76 percent. This is compared to the year-to-date growth of approximately 8 percent. The revised estimates reflect a decrease in tax revenue collections for the last four months of the fiscal year of approximately \$869 million relative to the same time period in FY18-19 (a decrease of 14.5 percent), with a general fund decrease of approximately \$741 million during the last four months.

Taxes	FY19-20 YTD (Aug - Mar) Collections	FY19-20 YTD (Aug - Mar) Growth	Revised FRC Estimates (Apr - Jul)	Revised FRC Growth (Apr - Jul)	Revised FRC Estimates FY19-20	Revised FRC Growth FY19-20
Sales	\$6,569,571,943	6.25%	\$2,917,000,000	-10.31%	\$9,486,571,943	0.54%
F&E	\$1,542,585,309	17.06%	\$1,035,000,000	-27.28%	\$2,577,585,309	-5.96%
Fuel	\$844,775,281	10.32%	\$321,525,000	-20.63%	\$1,166,300,281	-0.39%
Other	\$1,163,041,138	5.61%	\$906,003,000	-6.40%	\$2,069,044,138	-0.01%
Total	\$10,119,973,671	8.03%	\$5,179,528,000	-14.37%	\$15,299,501,671	-0.76%

The second table compares the revised estimates to the current budget as adopted by the General Assembly in March, 2020. **It is estimated that total FY19-20 collections will fall short in meeting the budgeted revenue collections by approximately \$516 million. General fund collections are estimated to be \$472 million below budgeted estimates.** The FY20-21 budget adopted by the General Assembly includes a \$325,000,000 deposit to the Rainy Day Fund, to be deposited on June 30, 2020, and recognizes a total reserve balance of \$1,200,000,000 on June 30, 2020. An additional \$250,000,000 is included in the adopted budget to be deposited on June 30, 2021.

Funds	FY19-20 Budget	FY19-20 Revised FRC Estimates	Revised FRC Estimates vs Budget
General Fund	\$13,013,950,000	\$12,541,939,000	(\$472,011,000)
Other Funds	\$2,637,750,000	\$2,593,563,000	(\$44,187,000)
Total	\$15,651,700,000	\$15,135,502,000	(\$516,198,000)
*Totals exclude \$164M in earmarked collections			

Downside risks to the revised forecast include, but are not limited to, a prolonged hesitancy of consumers, businesses, and investors to engage in activity to their full potential in the months ahead, a significant surge in COVID-19 cases after re-opening of businesses, leading to subsequent government and private sector actions that would restrict economic activity, and additional tax deadline extensions that would transfer payments from the current fiscal year into FY20-21. Upside risks to the forecast include additional fiscal and monetary stimulus and stronger than anticipated pent-up demand, leading to a quicker than anticipated return to a sustained economic expansion.

The Fiscal Review Committee staff will continue to monitor economic data and incoming tax collections, as well as changes in state and local government guidelines regarding economic activity and social distancing protocols, and will continue to revise tax revenue estimates, including estimates for FY20-21, as more information becomes available.

Please reach out to Assistant Director Bojan Savic (bojan.savic@capitol.tn.gov) or myself (joe.wegenka@capitol.tn.gov) with any questions.

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