Ten Threats to Local Government Revenues from the Corona-Recession

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1. Property Tax, Short Run (2020). Penalties for late payment have been delayed until July. May payments and June distributions may be reduced. This may create cash flow difficulties. Local governments may borrow in anticipation of future revenues, and may request advances on the December distributions. Collections may fall due to increased tax delinquency.

2. Property Tax, Medium Run (2022). The recession will result in less construction, fewer equipment purchases and possibly falling property values in 2020. This will reduce assessed value growth in 2021, and may cause AV to fall. Higher tax rates would be needed to raise the maximum levy in 2022. Higher tax rates can lead to greater circuit breaker tax cap losses, especially for units overlapping cities and towns. Schools would collect less from fixed referendum rates.

3. Property Tax, Long Run (2022-27). A negative or small positive percent change in Indiana income is likely in 2020. This figure will enter the Maximum Levy Growth Quotient formula in 2022, and remain until 2027. Maximum levy growth will slow.

4. Local Income Tax, Short Run (2021). Income tax payment deadline has been delayed until July. Next year’s LIT distribution will be set based on county income tax collections through June 30. Distributions would be lower than expected in 2021, unless the collection deadline is extended.

5. Local Income Tax, Medium Run (2022). Lower incomes in 2020 mean lower tax payments and collections in 2021. LIT distributions in 2022 will fall or grow more slowly.

6. Local Income Tax, Long Run (2022-after). In a severe recession, distributions may exceed collections, and county LIT balances may turn negative. Distributions then would be limited below collections until balances are rebuilt, perhaps for several years.

7. State Aid to Schools, Short Run (2020). Parents may hold children out of school in August, if they fear COVID-19. The September pupil count may be lower. State aid is distributed based on the pupil county, so total aid could be lower.

8. State Aid to Schools, Medium Run (2021). The shortfall of state sales and income taxes may be so severe that state balances are depleted. Spending cuts would be required, so state aid to schools would be less than budgeted formula appropriations in fiscal year 2021.

9. State Aid to Schools, Long Run (2021-2023). The state budget for fiscal years 2022 and 2023 will be passed next year, based on revenue forecasts done in December 2020 and April 2021. Pessimistic forecasts would mean slower growth in appropriations for state school aid.

10. State Road Funding, Right Now (2020). Motor fuel sales are down, which has reduced gasoline and special fuel tax collections. About half of this revenue is distributed by formula to counties, cities and towns each month. Road funding will decrease.