



Washington State to feel economic, tax revenue pinch due to COVID-19

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In Washington State, small businesses will suffer the brunt of state-wide measures to prevent the spread of the coronavirus, as legislators deal with a decline in tax revenue.

The state has more than 1,000 confirmed cases of coronavirus and at least 66 deaths related to the virus, the most of any state in the nation.

As residents grapple with measures to isolate themselves, businesses that provide face-to-face services -- like nail salons and tattoo parlors and restaurants, bars, entertainment venues -- will face weakened sales, said Derek Drayer, an economics professor at Seattle University.

The state government will provide USD 5m in grants to small businesses, Governor Jay Inslee (D) announced on 18 March. The state has a USD 4.7bn unemployment trust fund, which the governor has called "very robust."

The governor has also granted extensions for businesses to file taxes and waived a waiting period for people to file for unemployment. Washington State legislators had already allocated USD 200m from its emergency response fund to fight the spread of the virus.

Nonetheless, the think tank Economic Policy Institute forecast that the state could lose almost 120,000 jobs due to the spread of the virus.

Washington State, which does not have a state income tax, relies on taxes for more than 60% of its roughly USD 66.4bn in annual revenue, according to state government figures.

"I'm sure there will be trickle down effects to state and local government budgets," Drayer said.

"The state's sales tax revenue is just going to drop, and the state government doesn't have the ability to spend more than it is taking in," said Misha Werschkul, executive director of the Washington State Budget and Policy Center.

"It's like a fiscal crisis following along an economic crisis following along a public health crisis."

Retail sales taxes contributed USD 10.2bn to the state's coffers in FY18 (ended 31 December), according to state government figures. Washington State is the only state with a gross receipts tax, which taxes businesses on their gross revenue.

"Small businesses have been disproportionately funding a lot of state government for a long time and they are hit by this economic crisis that revenue source is going to see an impact as well," Werschkul said.

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“Washington State and Seattle are very dependent on tax revenue but we’re not at the point where we will see tax revenue fall off,” said Paul Guppy, vice president of research at the think tank Washington State Policy Center.

Seattle’s most densely populated areas, like First Hill and Capitol Hill, will feel the brunt of the economic shock, while rural areas will likely fair a bit better, said Guppy.

Also, Seattle’s tech economy may help it bolster the storm, as many employees can work from home and these are high-paid jobs, Drayer said.

“I think the Seattle economy is in a really interesting position and maybe in a unique position to weather something like this because the presence of Amazon,” Drayer said.

An investor traded USD 1.5m of Washington State’s general purpose general obligation bonds, Series 2020A with a 5% coupon and maturing in 2038 at a price of 115.32 to yield 3.1% today, according to data from *Electronic Municipal Market Access*.

by Patrick Ferguson

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