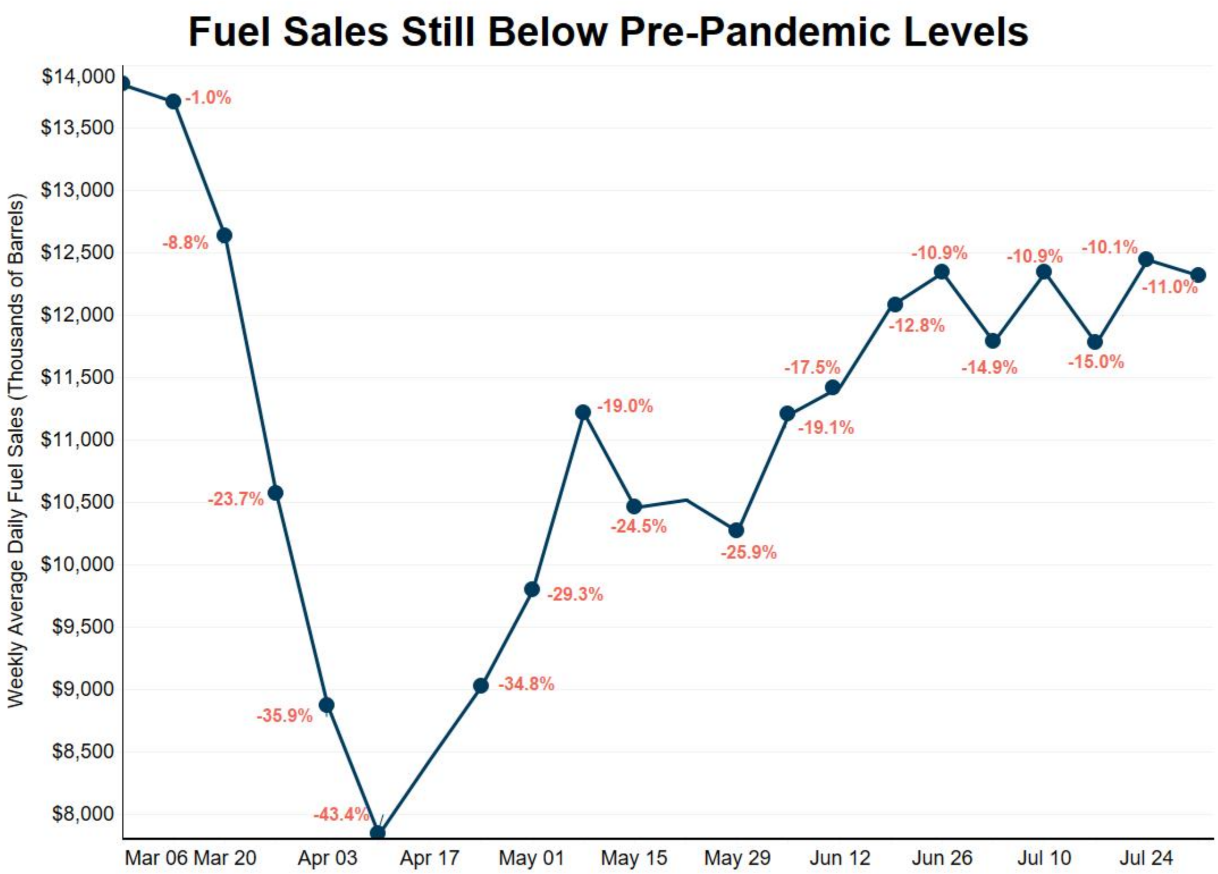
Pandemic’s Toll on State Gas Tax Revenue

States rely on gas tax revenue to fund transportation spending. But because of the massive decline in fuel usage during the height of the pandemic, states will have a hole left in their budgets—one that will not be made up just with increased economic activity as the virus abates and Americans take to the roads again. Congress will need to step in and fill and the gap, otherwise states will have to cut spending on crucial investments that are vital for economic growth.

What’s the story: Fuel sales (motor gas, jet fuel, and diesel) were on average over 14 million barrels per a day before the pandemic, according to the U.S. Energy Information Administration. Then fuel usage dropped off a cliff. In early April, sales were down to just over 8 million barrels a day, a drop of 46% from early March. Sales have recovered some, but they are still far below their levels prior to the COVID-19 shock.



Do the math: We do not have tax receipt data yet, but we can come up with a rough estimate for how much revenue states are missing based on fuel sales. If sales had maintained their pre-pandemic levels, fuel sales would have been about 380 million more barrels. There are about 30 gallons of gas per barrel and the average gas tax rate of the states is around $0.36 per gallon. That means states have lost somewhere in the ballpark of $4 billion in gas tax revenue so far. That will likely grow until the economy is fully recovered, which may not be until next year.

State and local government spending accounted for almost 11% of GDP before the pandemic. That is over $2.3 trillion in spending each year, of which $431 billion is investment spending. Their spending fell

5.6% in the second quarter. Declines in investment were a major contributor to that decline. State and local governments also employ roughly 20 million Americans, or over 13% of the U.S. workforce.

Our take: Unless the federal government steps in to fill the lost revenue, states will either have to raise taxes (in fact their taxes will go up automatically because of a programmed increase in unemployment taxes that occurs when those funds are used), or cut back on spending and services. Both routes would lead to less economic growth and a prolonged recovery. State and local governments may also be forced to lay off workers, or bring back fewer than they would have, if the federal government does not help.

–Curtis Dubay, Senior Economist, U.S. Chamber of Commerce