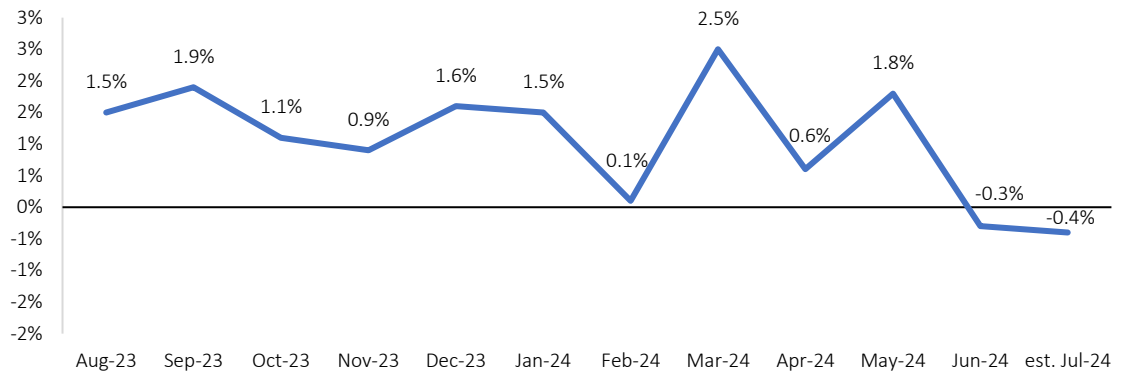


## IMPLICATIONS OF SALES TAX REVENUES ON MUNICIPALITIES

### MONTHLY STATE TAX REVENUE RESULTS

Bank of America provides monthly updates on state tax revenue trends. In the Bank's latest publication it noted that median sales tax collections in July are pointing to a 0.4% decline, which would be the second consecutive drop after June's -0.3% year-over-year posting. BofA's strategists highlight that if July does end up down, it would mark the first time that we've seen two consecutive months of declines since April and May of 2020.

Monthly State Sales Tax Collections  
Year-Over-Year Growth



Source: Bank of America

### APPLETON'S INTERPRETATION:

The near-term trend is notable in that it reflects a slowing economy, but it is not a reason to ring alarm bells in our opinion. The declines are modest (less than 1%), follow only modestly positive results (1.4% avg prior 10 months), and a deceleration in sales tax revenues should be expected for the following two reasons: 1) sales taxes directly benefited from pent up demand and spending coming out of the pandemic and that level of spending was not sustainable and 2) more so than other tax revenue sources, sales taxes benefit directly from higher inflation (higher prices = higher sales tax collections, as long as spending remains healthy). So with inflation coming down, sales taxes should come down as well (assuming spending is relatively stable).

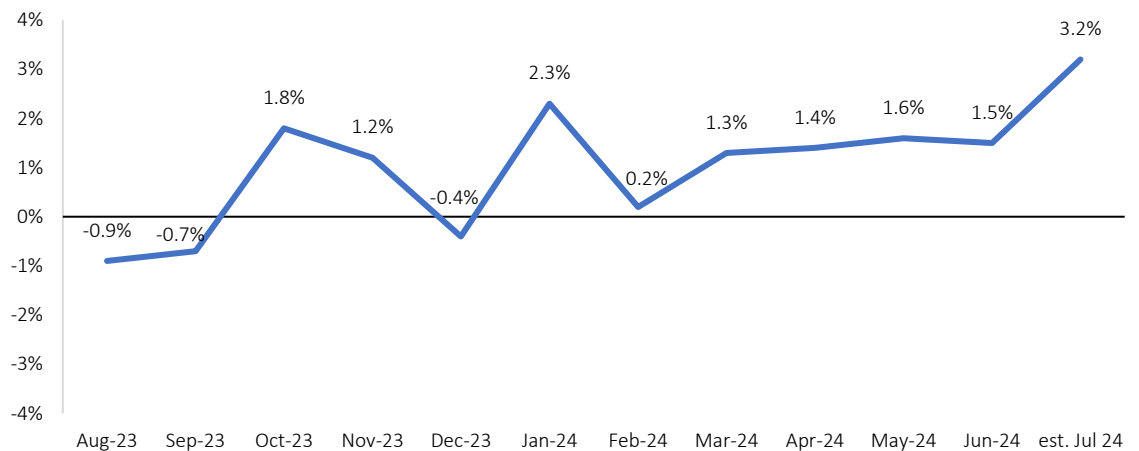
### STATE CREDIT IMPLICATIONS:

While some states are naturally more leveraged to sales taxes than others – notably non-income tax states such as Florida and Texas – we don't view the modest drop in national sales tax data as concerning for those "sales tax" states. Specifically for Texas and Florida, they both continue to benefit from unique demographic trends and their sales tax collections are likely to outperform national trends. Given only modest declines in national sales tax collection data, we do not believe there are noteworthy credit implications for individual states at this time.

### TOTAL STATE REVENUE TRENDS REMAIN STABLE:

Supported by growth in personal and corporate income taxes, overall State revenue trends are stable-to-slightly positive. While we do not expect revenues to continue to climb, the trend in State Tax revenues remains healthy, and a good proxy for the stability in overall muni credit conditions.

State Tax Revenue Stability Reflects Economic Resilience



Source: Bank of America

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