

Assessing the State Fiscal Outlook: A National View

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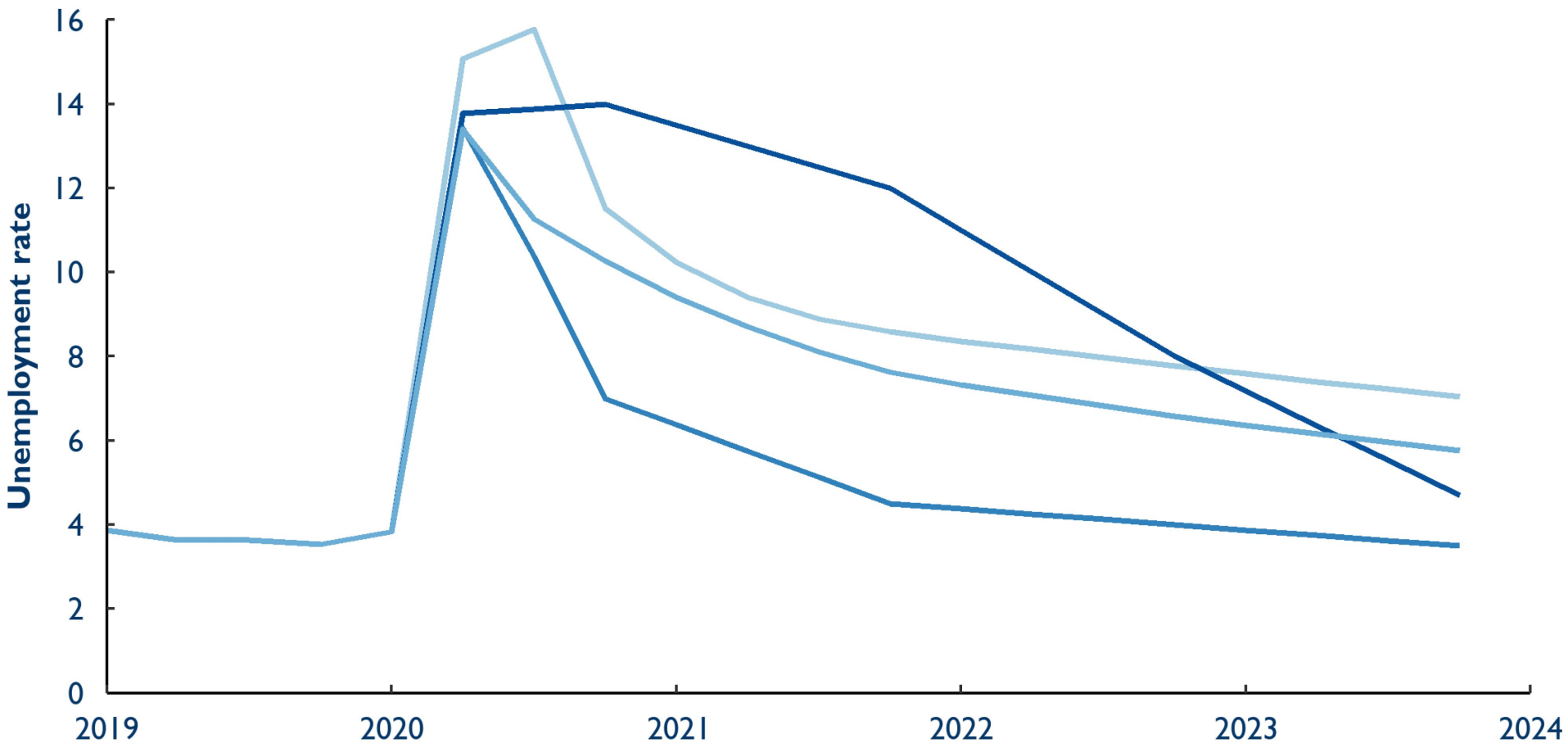
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Three Major Sources of Fiscal Pressure

- Direct COVID-19 costs
- Lower revenues
- Higher demand on Medicaid, other programs

Unemployment Projections Through 2023

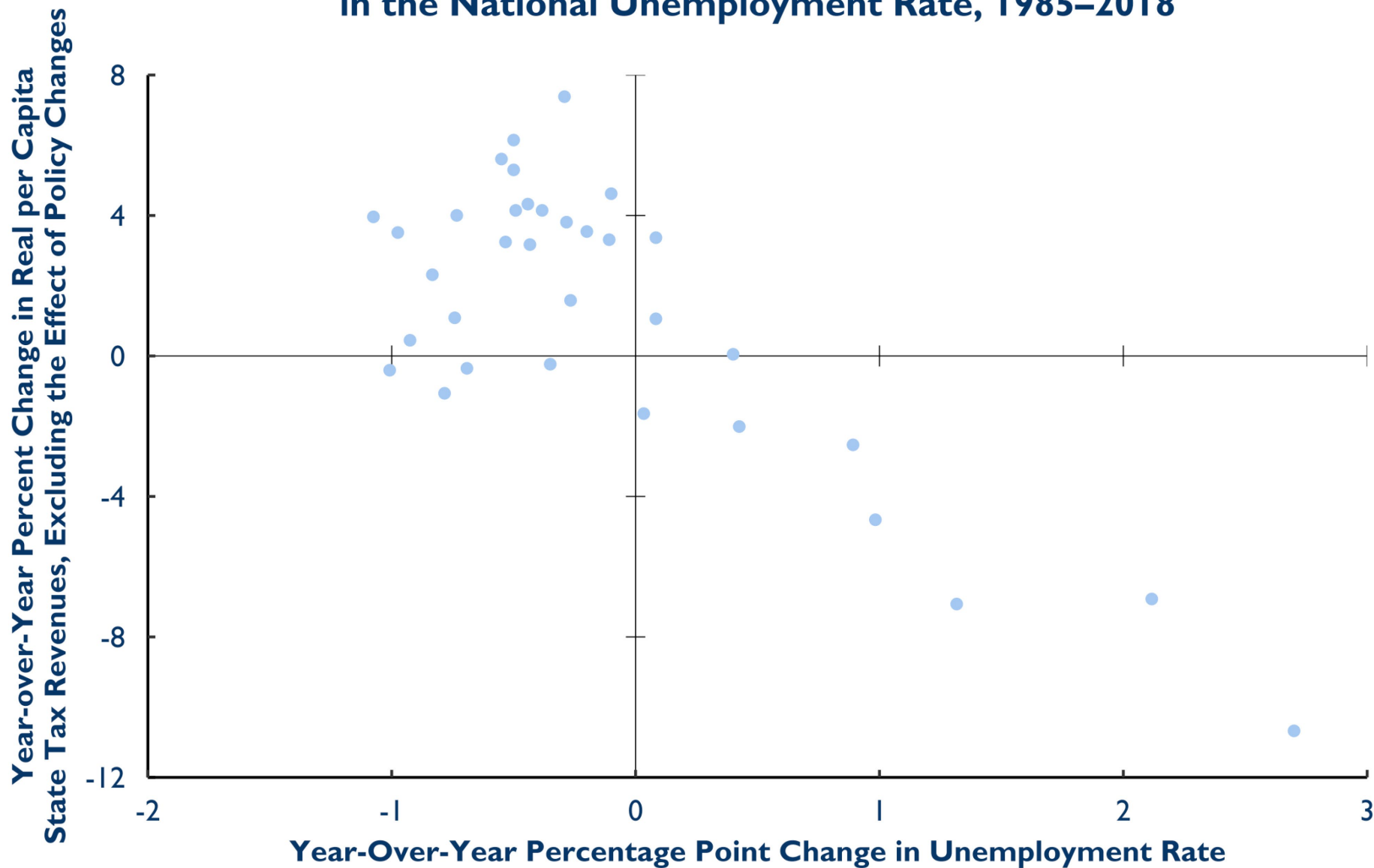
- Congressional Budget Office
- Goldman Sachs
- Most Optimistic FOMC Participant
- Most Pessimistic FOMC Participant



Source: Congressional Budget Office; Goldman Sachs; Federal Reserve; author's calculations.

Note: Goldman Sachs projections were adjusted to align timing with other projections. FOMC participant projections were linearly interpolated.

Figure 1: Changes in Real per Capita State Tax Revenues and Changes in the National Unemployment Rate, 1985–2018



Source: Fiedler, Furman, and Powell (2019)

Estimating Total Fiscal Pressure

Per point unemployment rises:

\$41 billion in revenue loss

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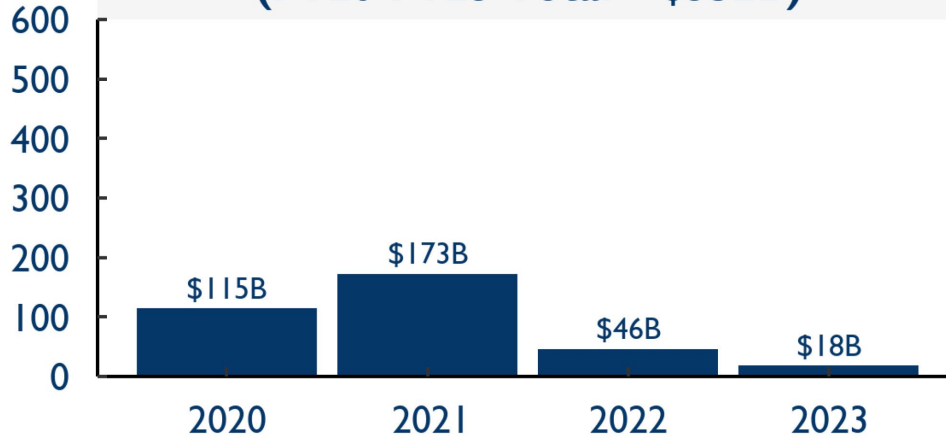
**~\$4 billion from higher demand on
Medicaid, other programs**

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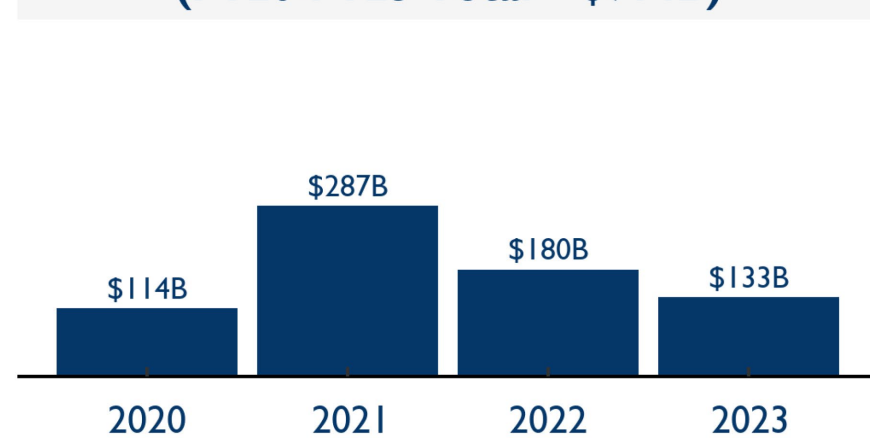
\$45 billion in total fiscal pressure

Implied State Budget Shortfalls Through FY23

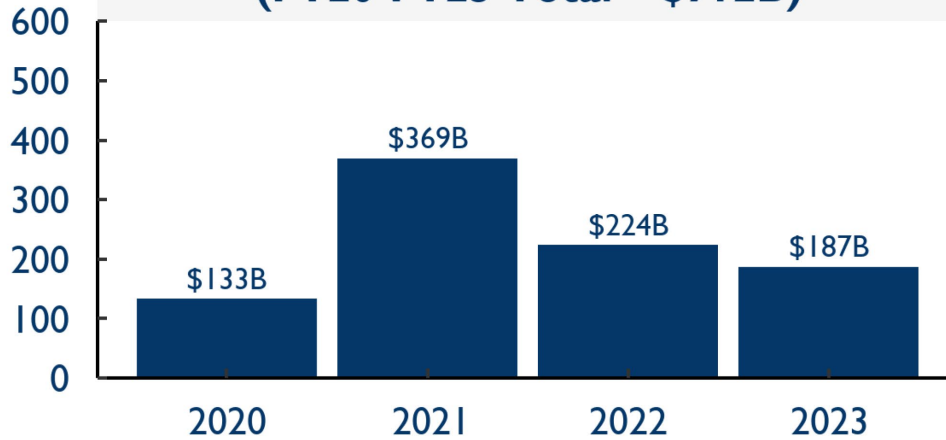
Most Optimistic FOMC Participant
(FY20-FY23 Total = \$352B)



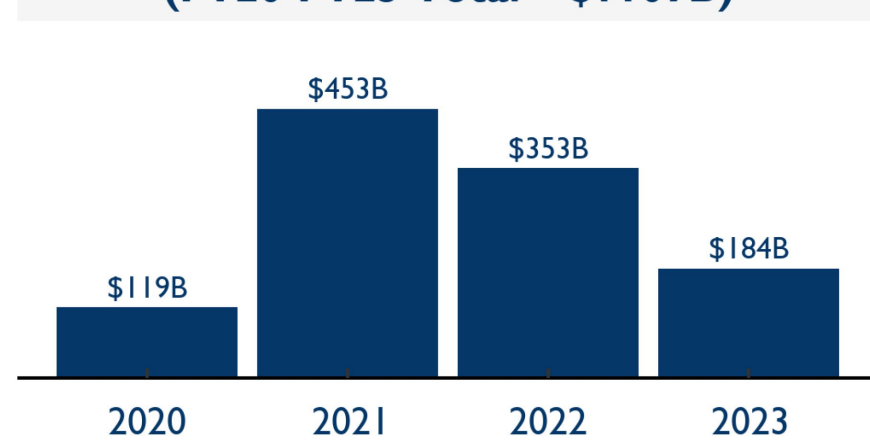
Goldman Sachs
(FY20-FY23 Total = \$714B)



Congressional Budget Office
(FY20-FY23 Total = \$912B)



Most Pessimistic FOMC Participant
(FY20-FY23 Total = \$1109B)



Source: Congressional Budget Office; Goldman Sachs; Federal Reserve; Fiedler and Powell (2020); author's calculations.

What Has Congress Done So Far?

Table 1: Summary of Funding that May Function as State Fiscal Relief

Panel A: Families First Coronavirus Response Act

| | |
|--|---|
| Increase in federal Medicaid matching rate | Roughly \$40 billion per year while federal public health emergency remains in effect |
|--|---|

Panel B: CARES Act Funding Available for Direct COVID-19 Costs

| | |
|---------------------------|---------------|
| Coronavirus Relief Fund | \$150 billion |
| FEMA Disaster Relief Fund | \$45 billion |

Panel C: Other CARES Act Funding to States, Localities, and Local Agencies

| | |
|--|---------------|
| Education Stabilization Fund | \$31 billion |
| Transit Infrastructure Grants | \$25 billion |
| Airport Improvement Grants | \$10 billion |
| Community Development Block Grant | \$5 billion |
| Homeless Assistance Grants | \$4 billion |
| Child Care and Development Block Grant | \$3.5 billion |
| Election Security Grants | \$0.4 billion |

Conclusion

States almost certain to face large budget shortfalls

- Cumulative totals in the hundreds of billions even in best case scenarios, outrunning enacted federal aid
- Quite possible shortfalls last into FY23

Magnitude/duration of shortfalls remains uncertain, with big implications for state & federal policy

- *State*: Be prepared for fiscal pressure to be larger, last longer than current “central case” suggests
- *Federal*: Tie state aid to economic conditions, so aid matches intensity/duration of economic distress