Assessing the State Fiscal Outlook: A National View

Matthew Fiedler

Fellow, USC-Brookings Schaeffer Initiative for Health Policy
Economic Studies Program
Brookings Institution
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\text{ billion in revenue loss} \quad + \quad \sim $4\text{ billion from higher demand on Medicaid, other programs} \quad = \quad $45\text{ billion in total fiscal pressure}
Implied State Budget Shortfalls Through FY23

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

- 2020: $115B
- 2021: $173B
- 2022: $46B
- 2023: $18B

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

- 2020: $114B
- 2021: $287B
- 2022: $180B
- 2023: $133B

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

- 2020: $133B
- 2021: $369B
- 2022: $224B
- 2023: $187B

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

- 2020: $119B
- 2021: $453B
- 2022: $353B
- 2023: $184B

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

<table>
<thead>
<tr>
<th>Panel A: Families First Coronavirus Response Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in federal Medicaid matching rate</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B: CARES Act Funding Available for Direct COVID-19 Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coronavirus Relief Fund</td>
</tr>
<tr>
<td>FEMA Disaster Relief Fund</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel C: Other CARES Act Funding to States, Localities, and Local Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Stabilization Fund</td>
</tr>
<tr>
<td>Transit Infrastructure Grants</td>
</tr>
<tr>
<td>Airport Improvement Grants</td>
</tr>
<tr>
<td>Community Development Block Grant</td>
</tr>
<tr>
<td>Homeless Assistance Grants</td>
</tr>
<tr>
<td>Child Care and Development Block Grant</td>
</tr>
<tr>
<td>Election Security Grants</td>
</tr>
</tbody>
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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