ON THE BRINK:

State budgets in light of the COVID-19 outbreak

MAY 5, 2020

Nicholas Horton
Research Director

Jonathan Ingram
Vice President of Policy and Research

FGA

KEY FINDINGS

1

STATE GENERAL REVENUES ARE PROJECTED TO PLUMMET UP TO 20 PERCENT ON AVERAGE OVER THE COMING MONTHS.

2

STATES ARE BRACING FOR MASSIVE UPTICKS IN MEDICAID DEPENDENCY.

3

MEDICAID PROGRAMS HAVE BEEN EXPLODING FOR YEARS.

4

CONGRESS HAS MADE THE OUTLOOK EVEN WORSE BY TYING STATES' HANDS.

BOTTOM LINE:

CONGRESS SHOULD UNTIE STATES' HANDS NOW AND PROTECT MEDICAID FOR THE TRULY NEEDY.

Overview

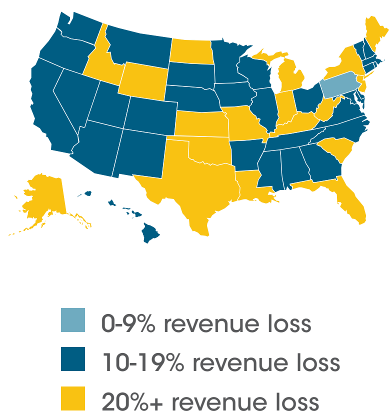
As the full economic impact of the COVID-19 pandemic and lockdowns continue to be felt, states are bracing for massive revenue shortfalls. Over the last several weeks, states have begun massively reducing revenue projections and making contingency plans.[1]

Now, a new report from one of the nation's leading economic forecasting firms is warning states just how devastating the economic downturn could be for state budgets. According to Moody's Analytics, **state general fund revenues are projected to dip by an average of 20 percent in the coming months**, leaving state policymakers scrambling to patch this massive budget hole.[2] States are also projected to experience massive spikes in Medicaid spending, further straining budgets.[3]

Unfortunately, many of these imminent symptoms have been developing for years as states expanded Medicaid eligibility and ballooned the program beyond recognition.[4-5] Congress recently made the problem even worse by tying states' hands even more during the public health emergency.[6]

As the economic downturn continues to set in, states simply must have more flexibility to manage and protect their Medicaid programs for the truly needy.

STATE GENERAL REVENUES COULD PLUMMET BY AN AVERAGE OF 20 PERCENT



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State general revenues are projected to plummet up to 20 percent on average over the coming months

Unemployment claims have hit record levels in recent weeks, as states have taken drastic measures to contain the spread of COVID-19.[7] In just five weeks, more than 26 million people filed claims for unemployment benefits—more than wiping out all job growth since 1998.[8-10]

Many small businesses and hourly workers have been forced to close, resulting in millions fewer taxpayers, massive spikes in taxpayer-funded benefit programs, and billions of dollars of lost economic activity. As a result, state economies are now on the brink.

According to Moody's Analytics, **state general revenues may plummet by an average of 20 percent over the next 15 months.**[11-12] In fact, some states may lose up to 80 percent of their revenues.[13] Nationwide, states are expected to lose more than $172 billion in general revenue, or roughly one-fifth of all state general fund spending.[14] This revenue loss is more than double states' total "rainy day" or reserve funding.[15]

Overall, Moody's estimates that states will face revenue stress far above the levels seen even during the worst of the Great Recession.[16] Notably, these shortfalls remain even after accounting for at least $145 billion in new federal relief funding and the use of roughly half of states' existing reserves.[17]

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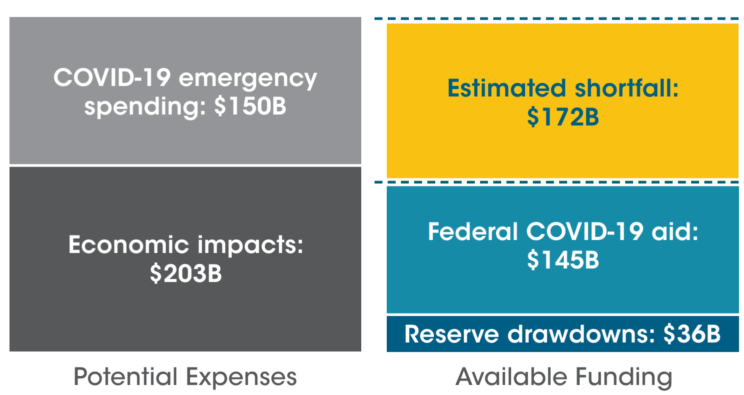
STATES FACE A SIGNIFICANT REVENUE SHORTFALL



Source: Moody's Analytics

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STATES ARE PROJECTED TO LOSE MORE THAN $172 BILLION IN REVENUE

STATE	REDUCTION IN GENERAL FUND REVENUE	GENERAL FUND REVENUE LOSSES	STATE	REDUCTION IN GENERAL FUND REVENUE	GENERAL FUND REVENUE LOSSES
Alabama	-11%	-$1.0 billion	Nebraska	-16%	-$800 million
Alaska	-80%	-$2.1 billion	Nevada	-17%	-$724 million
Arizona	-16%	-$1.8 billion	New Hampshire	-13%	-$202 million
Arkansas	-12%	-$705 million	New Jersey	-35%	-$13.2 billion
California	-19%	-$26.1 billion	New Mexico	-15%	-$1.2 billion
Colorado	-15%	-$1.9 billion	New York	-34%	-$23.8 billion
Connecticut	-16%	-$3.1 billion	North Carolina	-13%	-$3.3 billion
Delaware	-15%	-$670 million	North Dakota	-44%	-$849 million
Florida	-24%	-$8.1 billion	Ohio	-13%	-$4.3 billion
Georgia	-13%	-$3.3 billion	Oklahoma	-28%	-$2.1 billion
Hawaii	-15%	-$1.2 billion	Oregon	-12%	-$1.4 billion
Idaho	-24%	-$910 million	Pennsylvania	-8%	-$2.8 billion
Illinois	-18%	-$6.9 billion	Rhode Island	-15%	-$592 million
Indiana	-23%	-$3.8 billion	South Carolina	-20%	-$1.7 billion
Iowa	-15%	-$1.1 billion	South Dakota	-12%	-$200 million
Kansas	-24%	-$1.8 billion	Tennessee	-15%	-$2.2 billion
Kentucky	-22%	-$2.5 billion	Texas	-21%	-$12.0 billion
Louisiana	-46%	-$4.4 billion	Utah	-13%	-$1.0 billion
Maine	-26%	-$1.0 billion	Vermont	-16%	-$273 million
Maryland	-10%	-$1.8 billion	Virginia	-15%	-$3.3 billion
Massachusetts	-11%	- $3.7 billion	Washington	-17%	-$3.8 billion
Michigan	-24%	-$2.5 billion	West Virginia	-39%	-$1.9 billion
Minnesota	-13%	-$2.9 billion	Wisconsin	-13%	-$2.2 billion
Mississippi	-17%	-$1.0 billion	Wyoming	-37%	-$445 million
Missouri	-30%	-$2.9 billion	**TOTAL**	**-20%**	**-$172.1 billion**
Montana	-19%	-$481 million			

Source: Moody's Analytics

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SPENDING AND ENROLLMENT HAVE SKYROCKETED BY MORE THAN 50 PERCENT IN THE LAST DECADE ALONE

States are bracing for massive upticks in Medicaid dependency

As more businesses are forced to close and lay off workers, Medicaid spending will soar even higher than recent record levels. Health economists are projecting that Medicaid enrollment could rise by as many as 23 million people—a 32 percent increase.[18] But actual enrollment could end up even higher.

Arkansas, for example, predicts enrollment in its Medicaid expansion will grow by 100,000 enrollees by August 2020, with other Medicaid categories growing as well.[19] Medicaid applications have already increased by nearly 50 percent in Utah year over year, while applications have increased tenfold in Nevada in just one month.[20]

But while it may be easy to blame the imminent crisis on COVID-19, in reality, these problems have been building over the long term.

Spending and enrollment have skyrocketed by more than 50 percent in the last decade alone—all during a period of record economic expansion.[21] By 2018, before COVID-19 even existed, nearly 74 million individuals were dependent on Medicaid, a record high.[22] Taxpayers also spent a record $616 billion on the program.[23] Much of this growth has been driven by the rapid addition of able-bodied adults to the program.[24]

Medicaid has wreaked havoc on state budgets for years, crowding out other important state priorities like education, infrastructure, and public safety.[25] Indeed, nearly one of every three dollars states now spend is consumed by Medicaid.[26]

And even absent the COVID-19 crisis, Medicaid was projected to continue growing significantly over the coming years. Actuaries at the U.S. Department of Health and Human Services estimated Medicaid expenditures would grow by more than 70 percent over the next 10 years, far outpacing economic growth, and ultimately soaring beyond $1 trillion per year.[27]

If the already unstable program and a massive increase from an economic downturn were not bad enough, Congress has made the outlook even worse.

Congress has made the outlook even worse by tying states' hands

In a scramble to help states deal with an influx of Medicaid enrollment, Congress passed the Families First Coronavirus Response Act (FFCRA) in March 2020.[28] The package offered states increased Medicaid funding to help weather the crisis, but prohibited states from removing ineligible enrollees—including those committing welfare fraud—from their programs in order to receive the extra money.[29]

In short, Congress forced states to choose between receiving much-needed relief and protecting Medicaid funding for the truly vulnerable.[30] Even worse, the enhanced funding is a drop in the bucket towards what states will need to cover increased Medicaid costs—not only because of increased enrollment due to the economic downturn, but also because they will be forced to continue providing benefits to ineligible enrollees.[31]

Congress has a chance to get this right

As Congress continues to debate and pass additional legislation to address the COVID-19 fallout, it has an opportunity to cut the strings that are tying states' hands. States should not have to choose between much-needed federal funding and the integrity of their Medicaid programs.

Congress can—and should—rectify this situation by granting states the needed flexibility to manage their Medicaid programs.

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9. The average weekly initial claims filed between March 15, 2020 and April 11, 2020 was approximately 5.5 million per week. The weekly initial claims filed between April 12, 2020 and April 18, 2020 was approximately 4.4 million. The combined 5-week total was nearly 26.5 million claims. See, e.g., Employment and Training Administration, "Unemployment insurance weekly claims," U.S. Department of Labor (2020), https://oui.doleta.gov/press/2020/042320.pdf.
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15275 Collier Boulevard | Suite 201-279
Naples, Florida 34119
(239) 244-8808

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