

Budgeting in the Age of COVID-19

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Budgeting in the Age of COVID-19:

As simple as nailing
Jell-O to a wall...



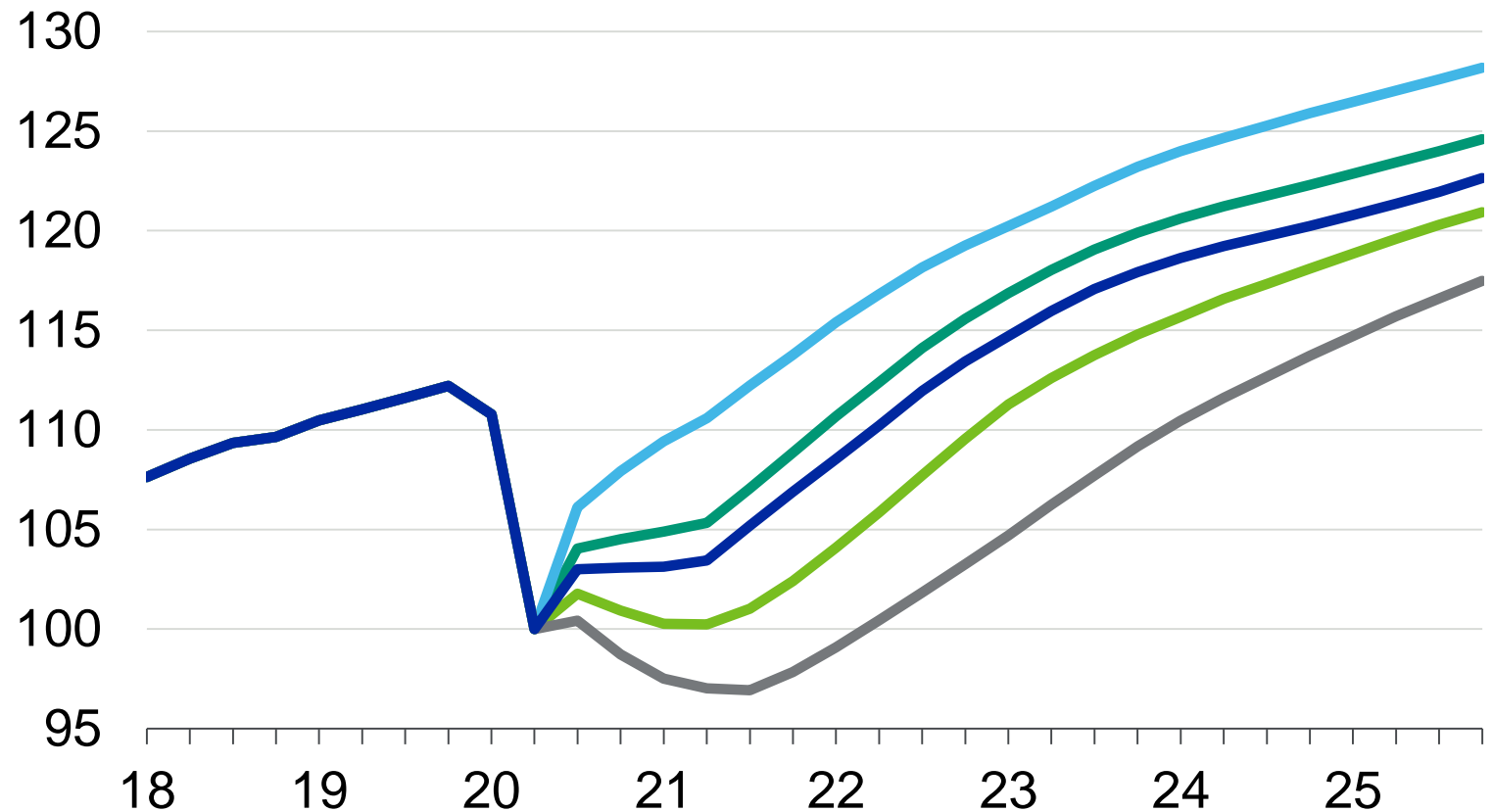
Use More Than One Nail

Alternative economic scenarios better prepare policymakers

Pray for the best, plan for the worst

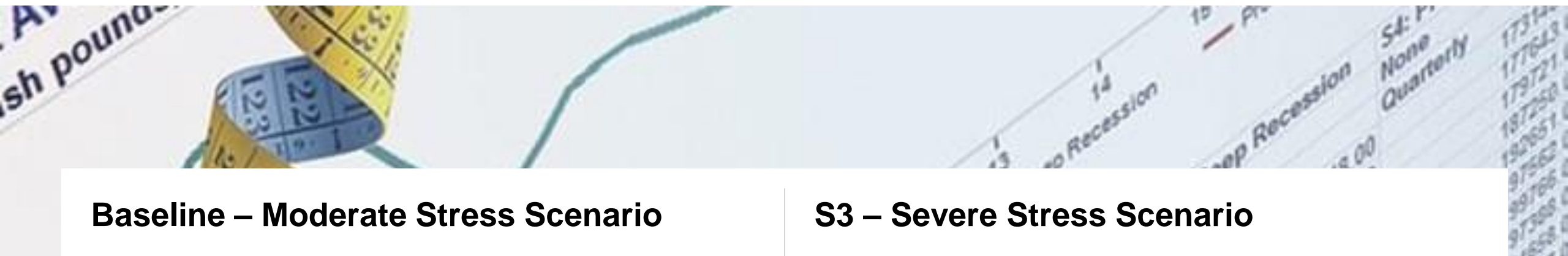
Stress testing across alternative scenarios isn't just a tool to be used in good times.

When the future is most uncertain, preparing for a range of potential budget outcomes can help make decision making more straightforward for policymakers.



What Scenarios Are We Looking At?

Scenario assumptions behind MA's most recent stress tests



Baseline – Moderate Stress Scenario

BL

Assumes the worst of the pandemic will end with the summer.

By Q4 of 2020 the jobless rate will be 9.5% and GDP will be almost 7% lower than at the end of 2019.

Job market doesn't fully recover until late 2023

S3 – Severe Stress Scenario

S3

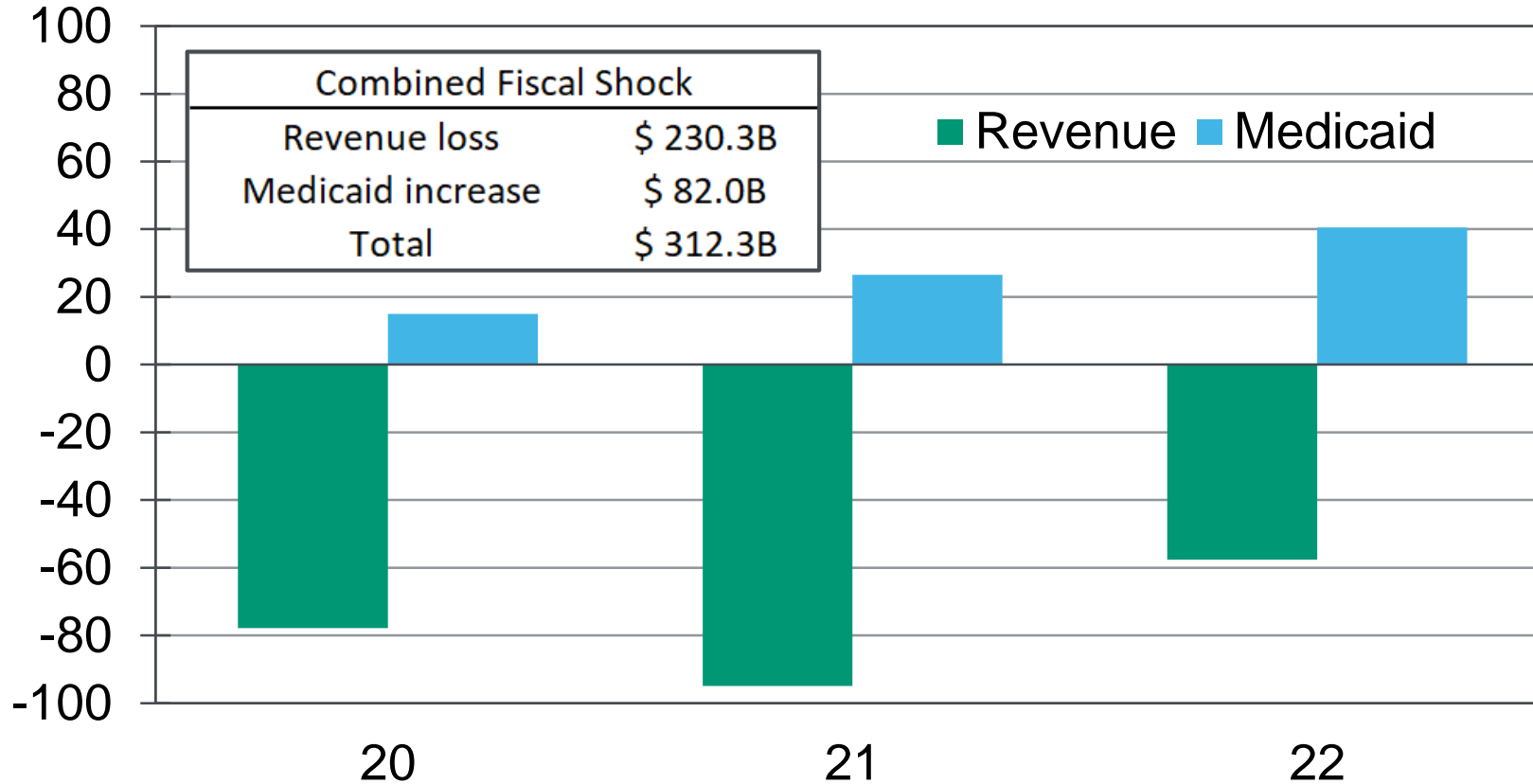
Assumes a second round of outbreaks leads to a double-dip recession.

By Q4 of 2020 the jobless rate will be 11.5% and GDP will be more than 10% lower than at the end of 2019.

Job market doesn't fully recover until early 2026

Baseline Outlook

Aggregate fiscal shock across all 50 states



What was severe has become the baseline:

Revenue losses and Medicaid surge are likely to extend across at least three fiscal years

Majority of the pain will still be concentrated on the revenue side of the ledger.

Including local governments, total need will be as high as \$500 billion

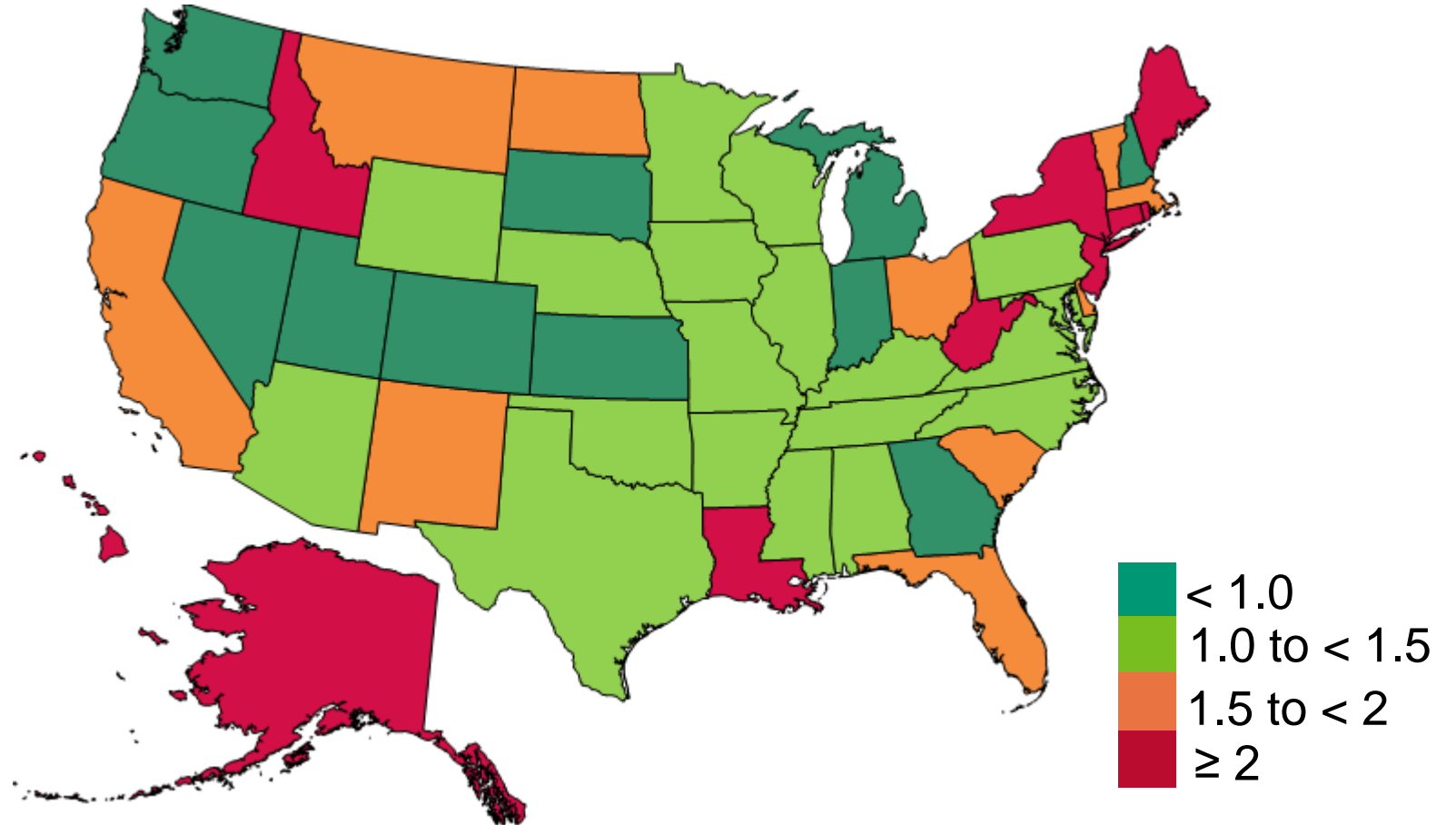
Baseline Outlook

Three-year fiscal shock as a % of Gross State Product

Implications Vary Across States

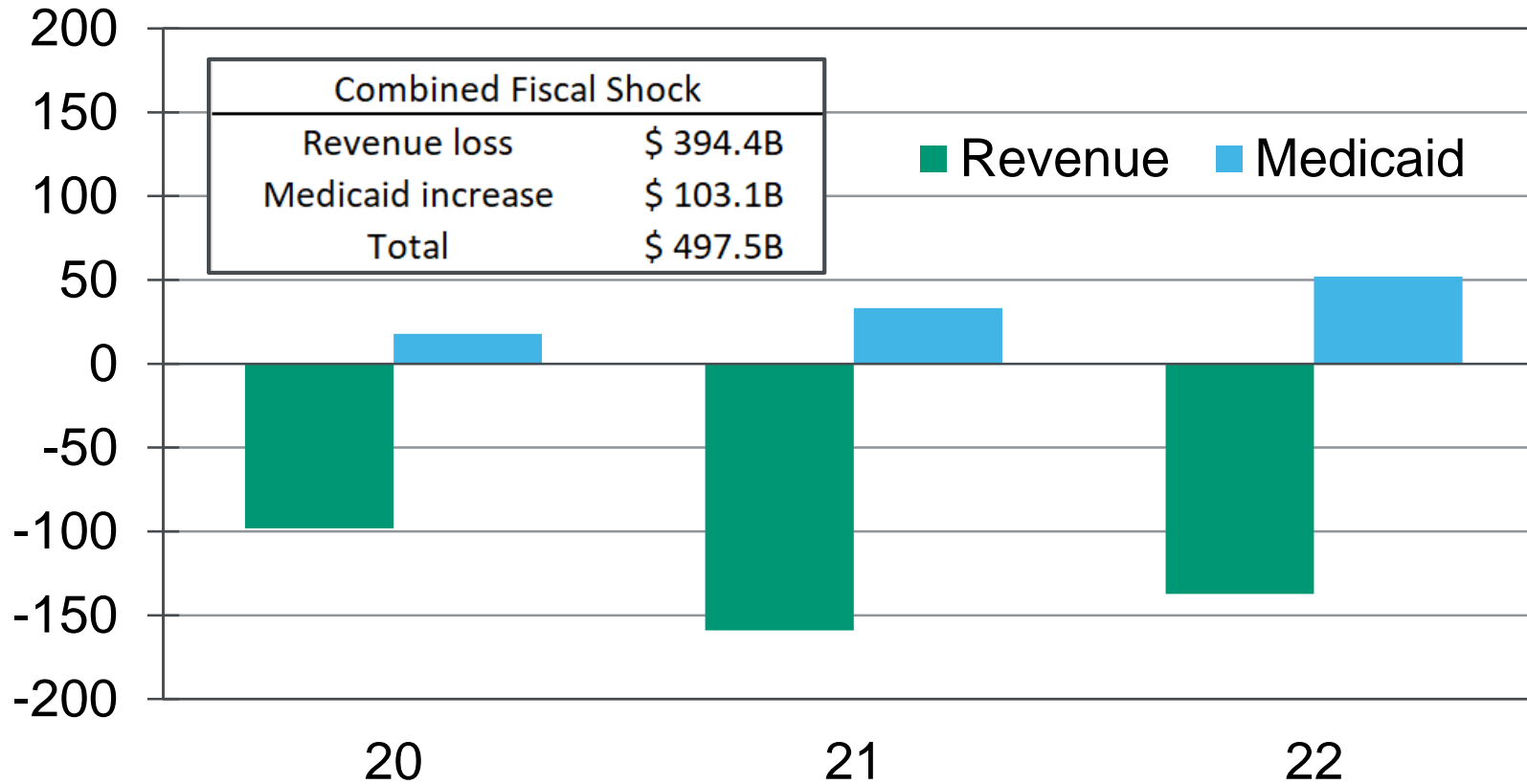
Overall fiscal shock, not including the use of rainy-day reserves.

States seeing the most risk are those whose economies rely heavily on the public sector, tourism, and energy. Also those with exceptionally high exposure rates/business restrictions.



Severe Outlook

Aggregate fiscal shock across all 50 states



Reimagining the meaning of the word severe:

A double-dip recession would create unprecedented fiscal stress for state budgets.

Including local governments, total need would be as high as \$750 billion

Keys for Planning Around COVID

1

“Use More Than One Nail”

Plan for more than one alternative scenario as part of your planning process. Help policymakers understand the risks.

2

Identify Key Assumptions

Understand what assumptions are driving each scenario and which are the most important to budget outcomes.

3

Consider the Whole Picture

Make sure to include all of the factors that impact budget shortfalls, revenues AND spending.



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