

State Stress Tests – COVID 19

Managing Stress

Moderate Stress Scenario

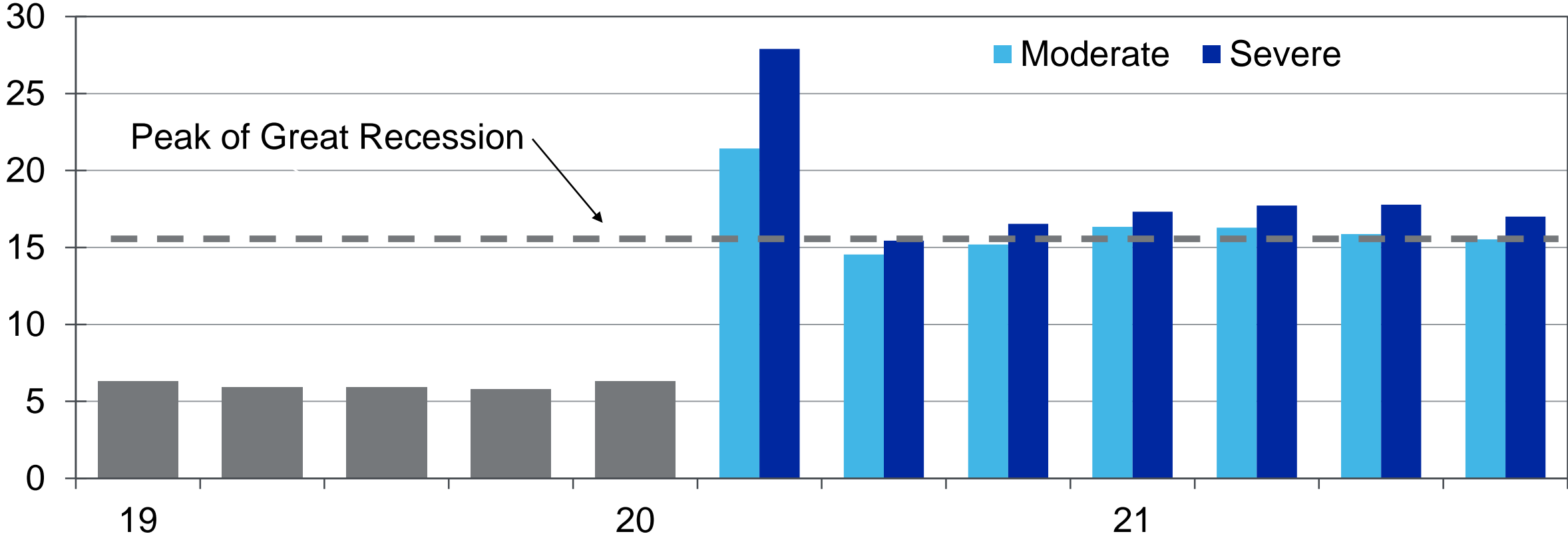
- » Deep recession in first half of 2020 followed by modest rebound. Travel and business restrictions in effect through late second quarter.
- » Peak jobless rate of 13% in 2020Q2. Peak-to-trough real GDP decline of 10%.

Severe Stress Scenario

- » Travel and business restrictions last into the third quarter, delaying recovery and causing more long-term disruptions.
- » Peak jobless rate of 17%. Peak-to-trough real GDP decline of 14%.

Unemployment Drives Medicaid Higher

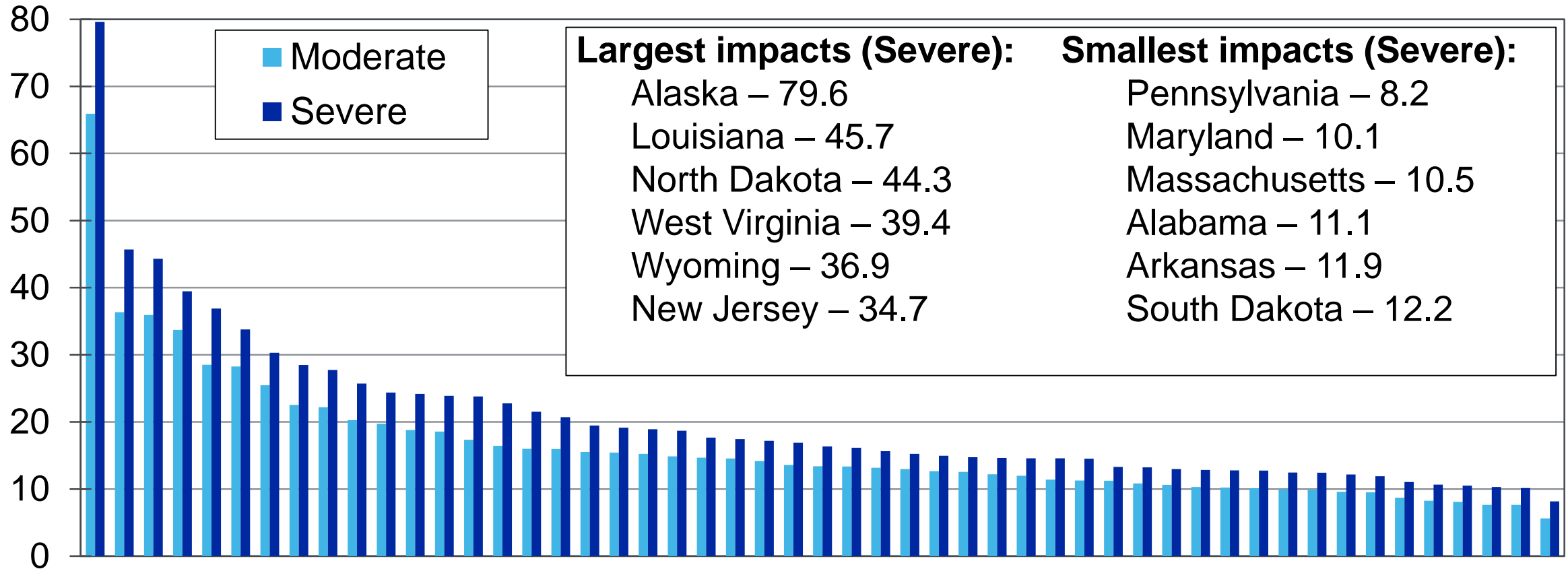
Number of unemployed people in the U.S., mil



Sources: BLS, Moody's Analytics

Wide Range of Revenue Outcomes

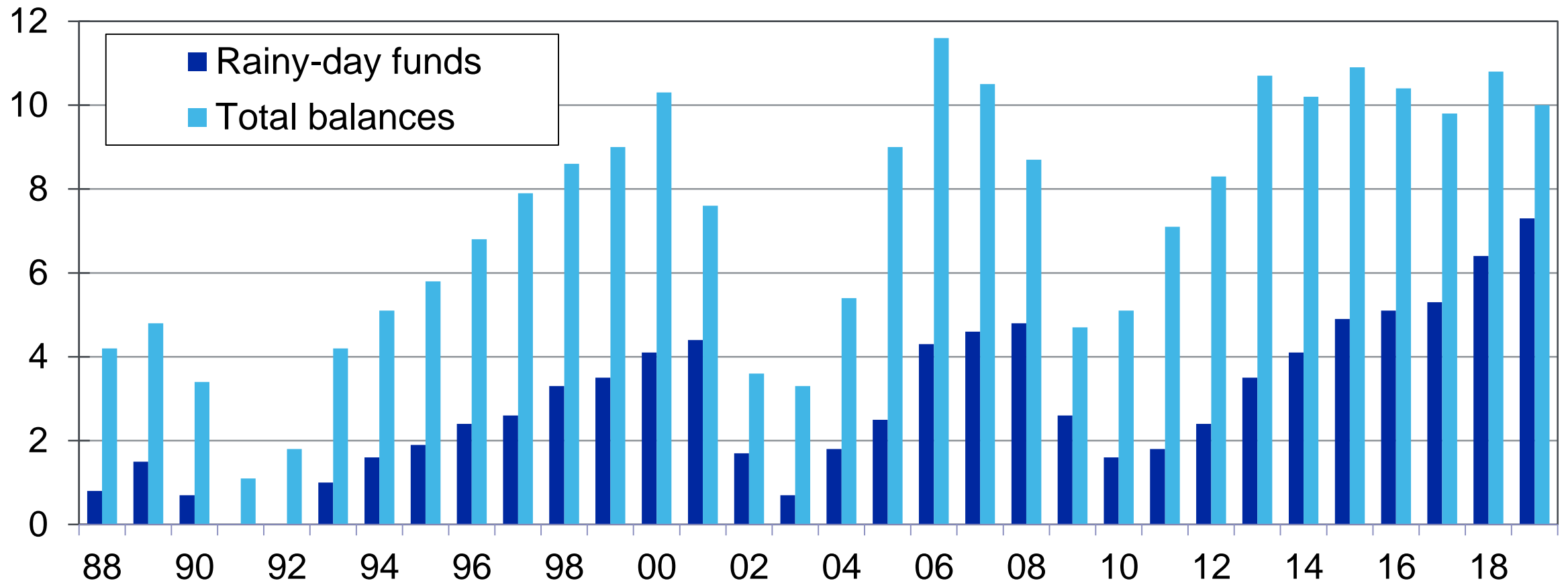
Estimated revenue losses, % of 2019 general fund revenues



Source: Moody's Analytics

States Better Prepared Than Ever

State fund balances as a % of general fund, state fiscal year



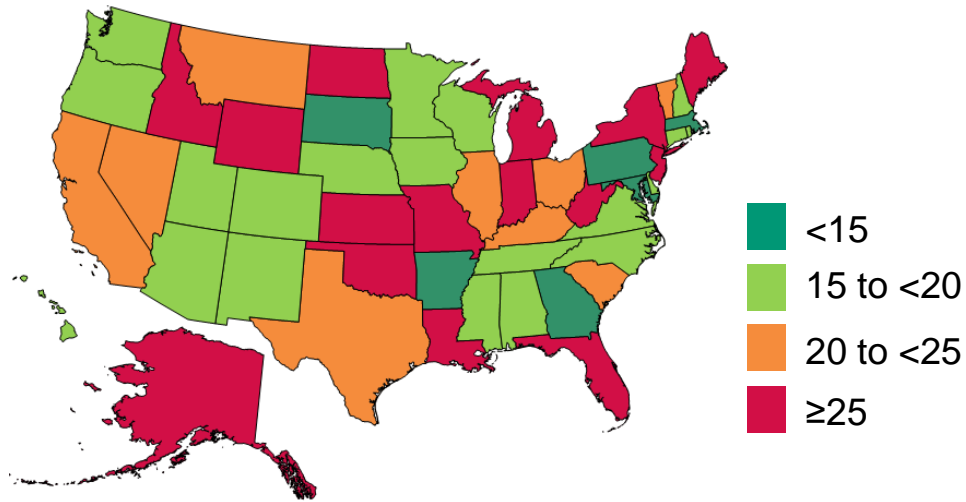
Sources: NASBO, Moody's Analytics

Economic Stress Is Unprecedented

	Moderate		Severe	
	\$, bil	% of GF	\$, bil	% of GF
Revenues	130.4	14.8%	172.1	19.5%
Medicaid	27.4	3.1%	31.2	3.5%
Fiscal Shock	157.8	17.9%	203.3	23.0%

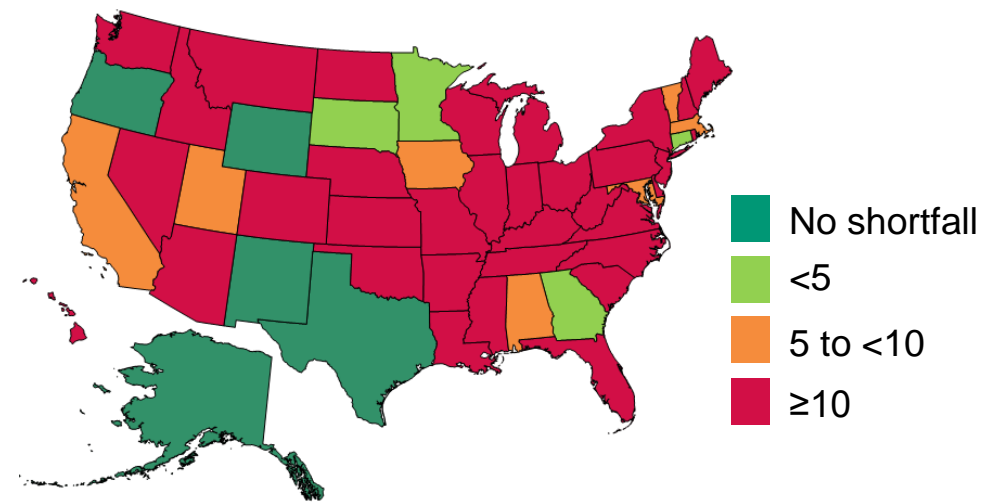
- » **5** states have the reserves they need to absorb severe levels of projected economic stress
- » **11** states have most of the reserves they need to absorb the severe scenario
- » An unprecedented **34** states would see budget gaps of 10% or more even after using all reserves

Severe Fiscal Shock, % of general fund



Sources: NASBO, Moody's Analytics

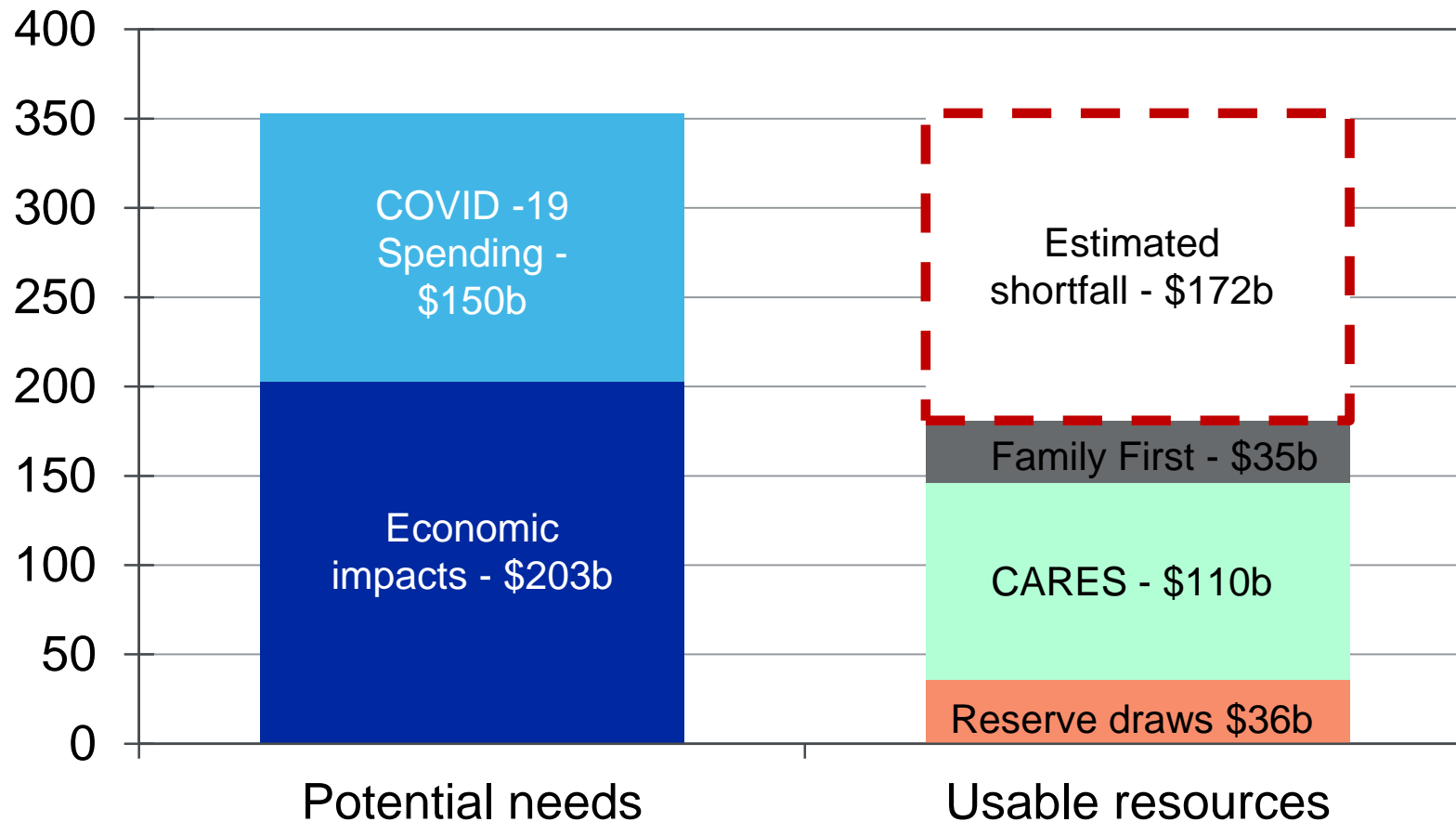
Severe Shock Net of Reserves, % of general fund



Sources: NASBO, Moody's Analytics

Even Best Prepared States Will Face Tough Decisions

State governments under the severe scenario, \$ bil



- » Assumes states will initially draw on roughly half of their overall reserves
- » Total need for additional federal aid comes to nearly **\$200 billion** through FY21
- » Impacts through FY22 could be at least another **\$100 billion+**
- » **Shortfalls of this magnitude will lead to massive layoffs and substantially increase the likelihood of local government defaults**

Source: Moody's Analytics

Two Decades Gone in Two Months

State and local government employment, mil



Sources: BLS, Moody's Analytics

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