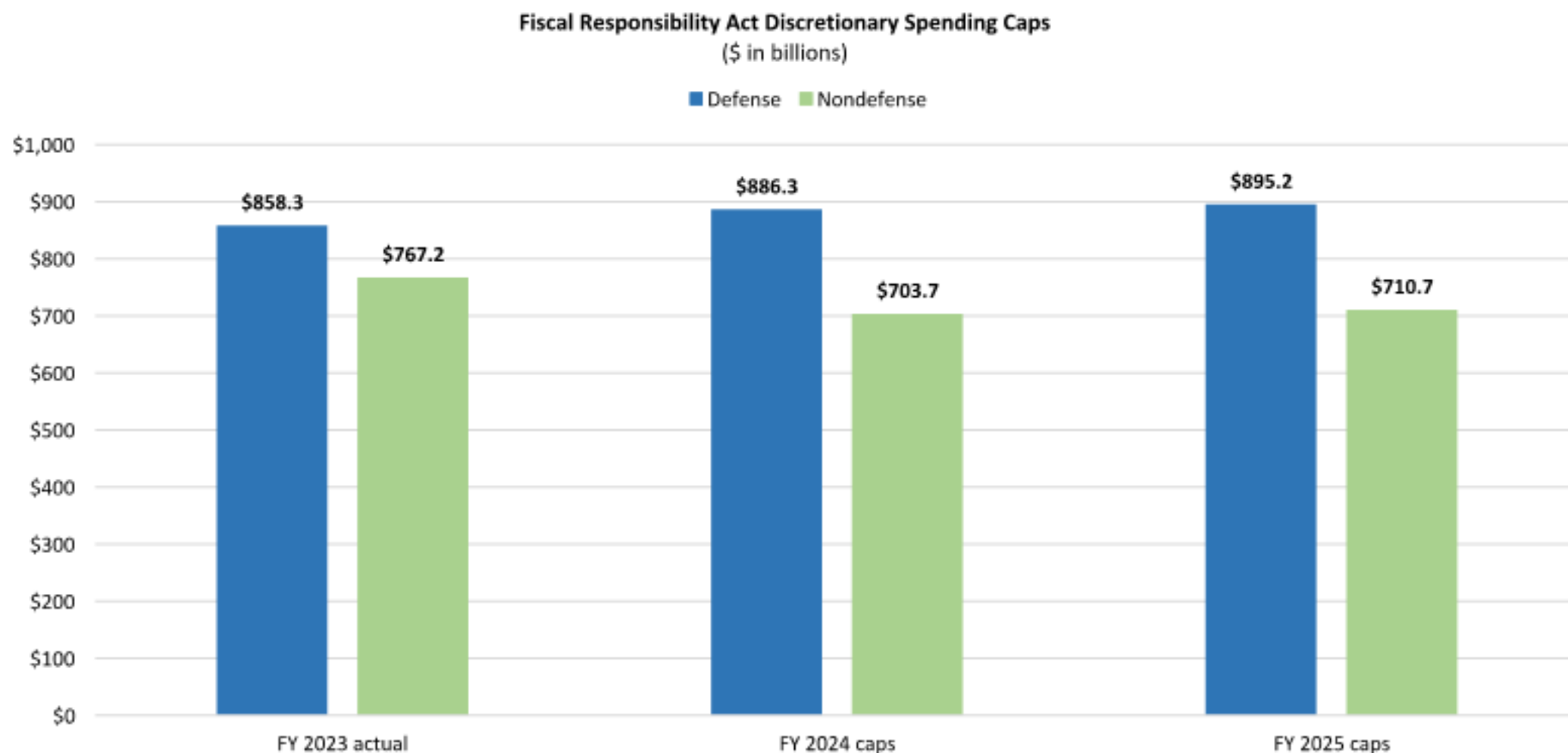


Pondering the Future of State-Federal Fiscal Relations

The Here and Now

- Fiscal Responsibility Act (FRA) recap
 - Caps, adjustments to caps, emergency spending not counted toward caps
 - Latter two added about \$125 billion in FY 2024 spending
- FY 2024 enacted budget
- FY 2025 budget process
- What's on our radar for the coming months

FRA recap



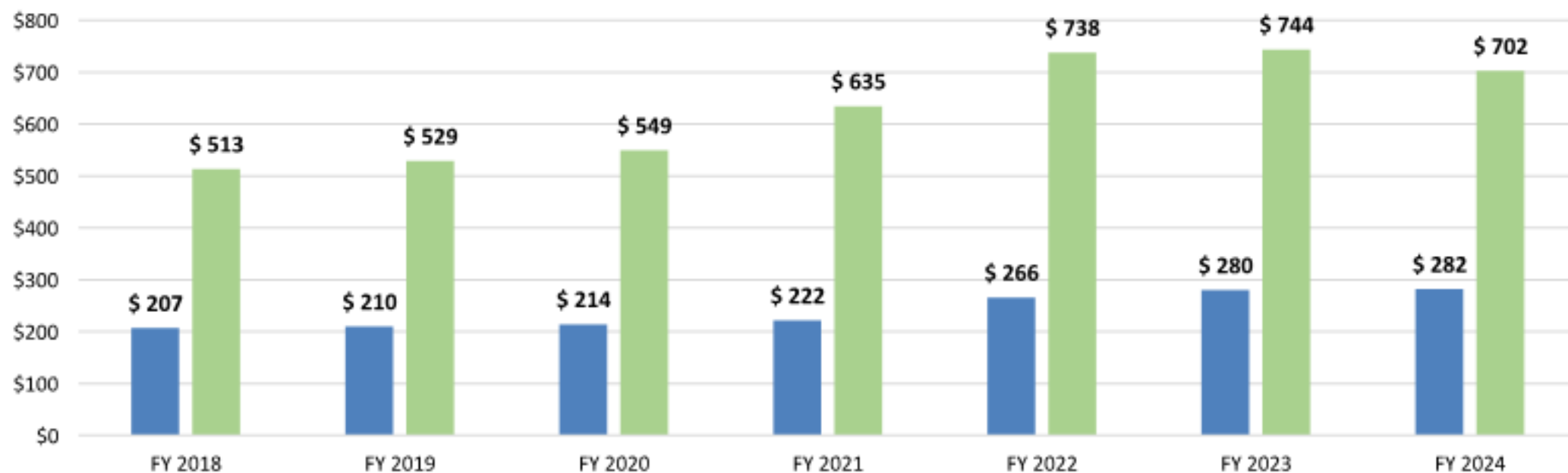
Source: Congressional Budget Office

FY 2024 was benign

Funding Trends for State Grant Programs

(\$ in billions)

Discretionary Mandatory



Source: FFIS, Jim Martin Table

FY 2024 highlights

- Modest increase in discretionary (1%); decline in mandatory (-6%)
- Large number of rescissions of unobligated funds
 - Provided room under FRA caps
- HHS funding extensions/Medicaid changes (FFIS [*Issue Brief 24-06*](#))

FY 2025 outlook: going nowhere fast

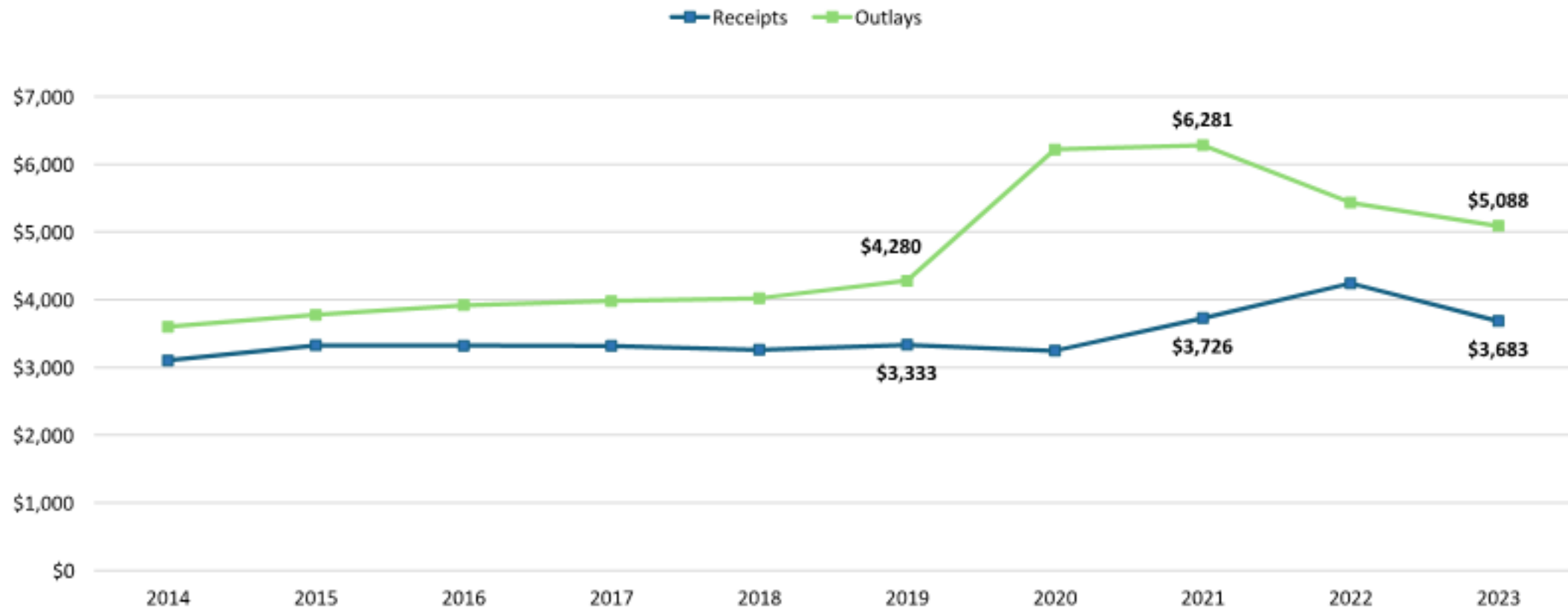
- Plenty of action but little progress.
- President's budget and appropriations process reflect political messaging.
- FRA caps and side agreement are being revisited.
- FY 2025 will almost certainly begin with a CR in place.
- Ultimate outlook will depend on the November elections.

A Broader View

- What are the trends in federal revenues, spending, and debt?
 - What are the driving forces?
- How does aid to state and local governments figure in?
 - Mandatory versus discretionary
 - Health versus everything else
- How might this inform future actions?
 - Tailwinds and headwinds that will affect future decisions

Federal revenues and outlays are misaligned

Federal Receipts and Outlays in Constant 2017 Dollars
(\$ in billions)

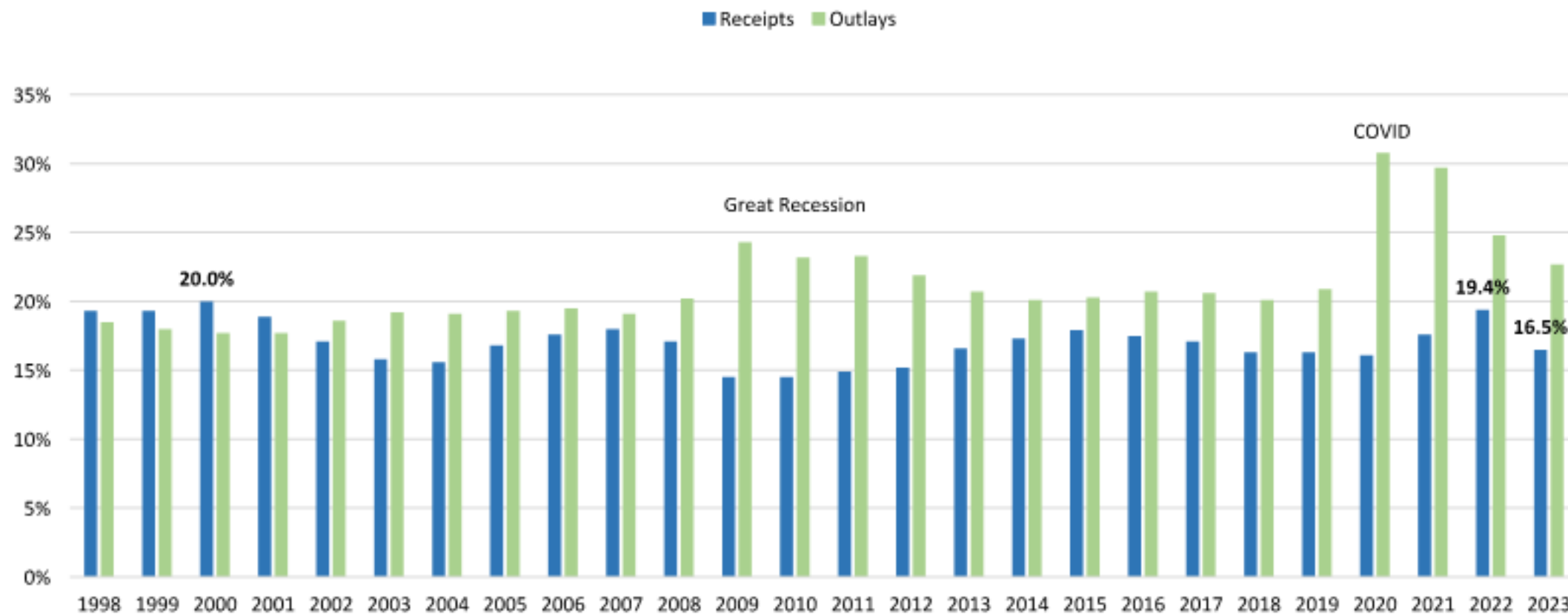


Source: FY 2025 President's Budget, Historical Table 1-3

p.s., It was not always thus

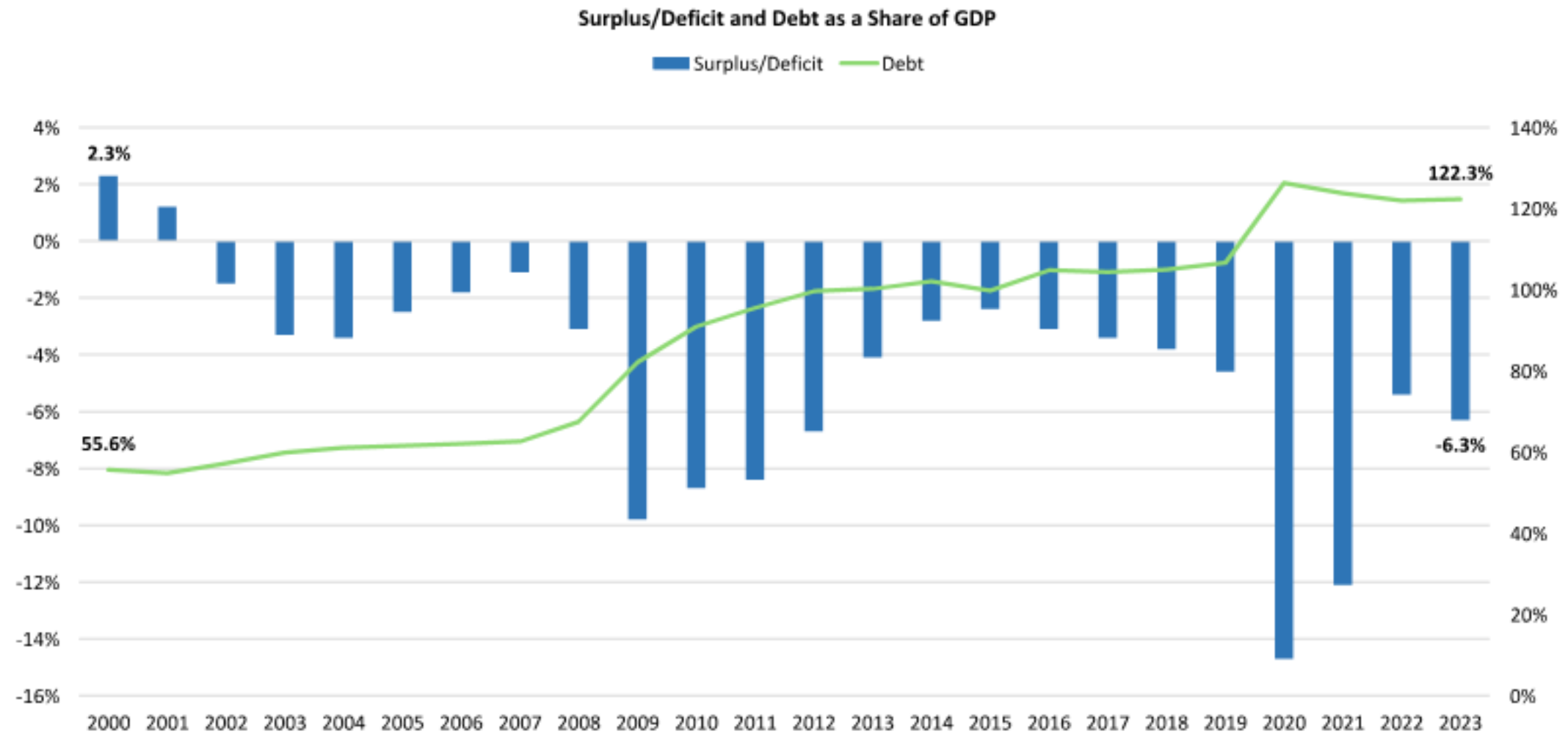


Receipts and Outlays as a Share of GDP



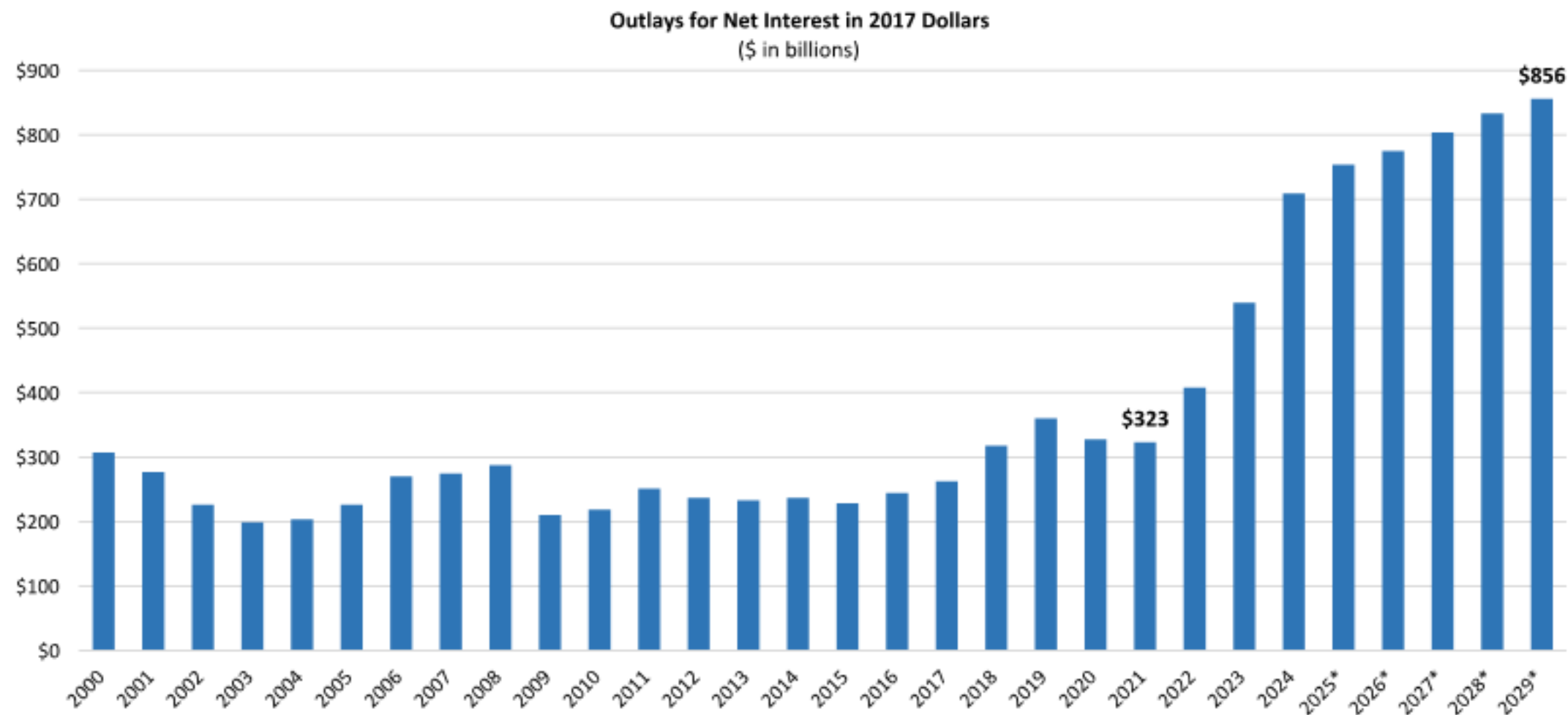
Source: FY 2025 President's Budget, Historical Table 1-3

Deficits are large and debt is growing



Source: FY 2025 President's Budget, Historical Tables 1-3 and 7-1

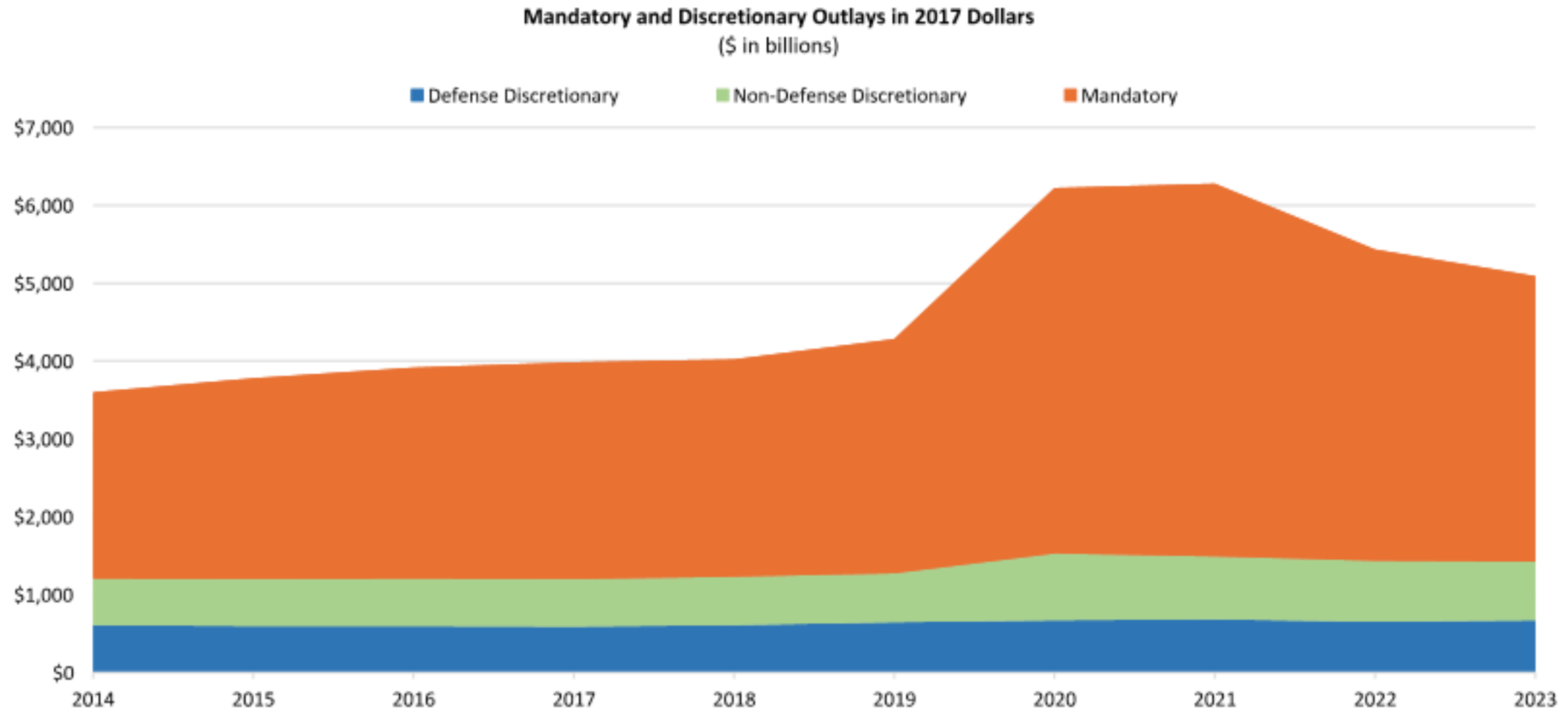
Interest on the debt is rising a lot



*Projections in president's FY 2025 budget

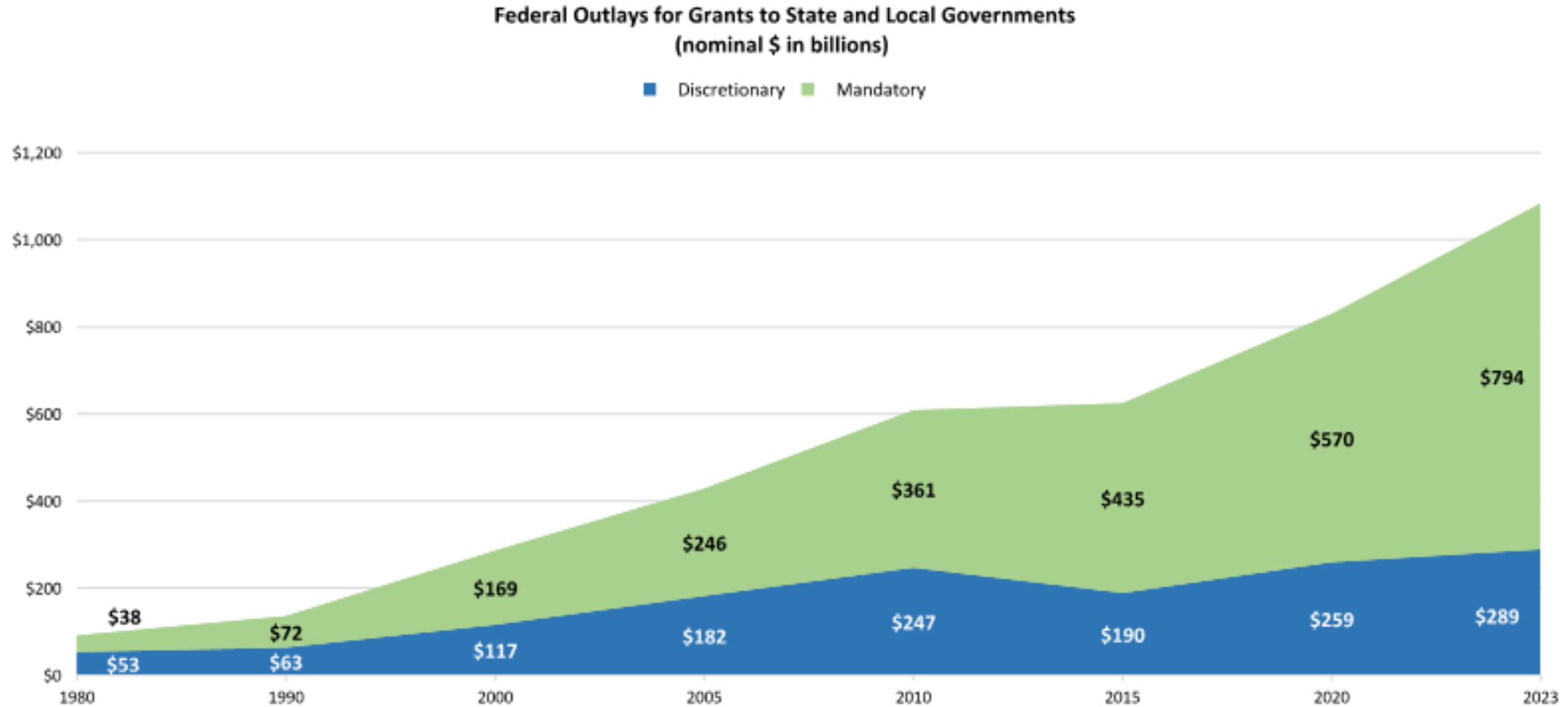
Source: FY 2025 President's Budget, Historical Table 8-2

What's driving spending growth



Source: FY 2025 President's Budget, Historical Table 8-2

A similar pattern for grants

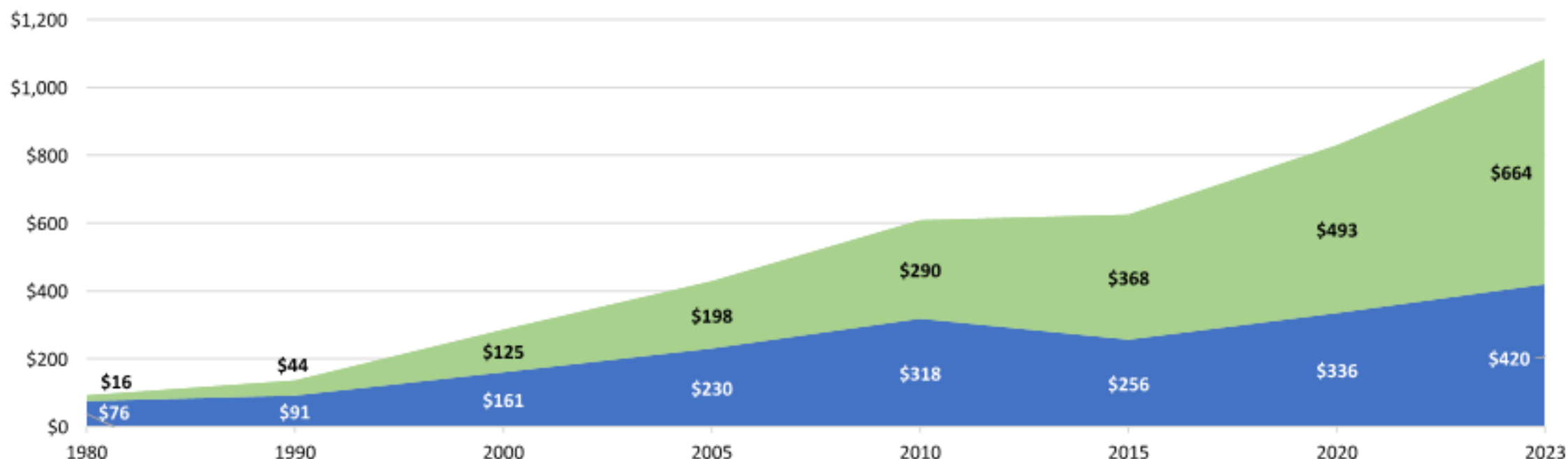


Source: FY 2025 President's Budget, Analytical Perspectives Table 8-1

Put somewhat differently

Federal Outlays for Grants to State and Local Governments
(nominal \$ in billions)

Everything Else* Health



*Includes income security, transportation, education, training, employment, social services, community development, natural resources, environment, agriculture, justice, general government, other.

Source: FY 2025 President's Budget, Analytical Perspectives Table 8-1

How this informs the future

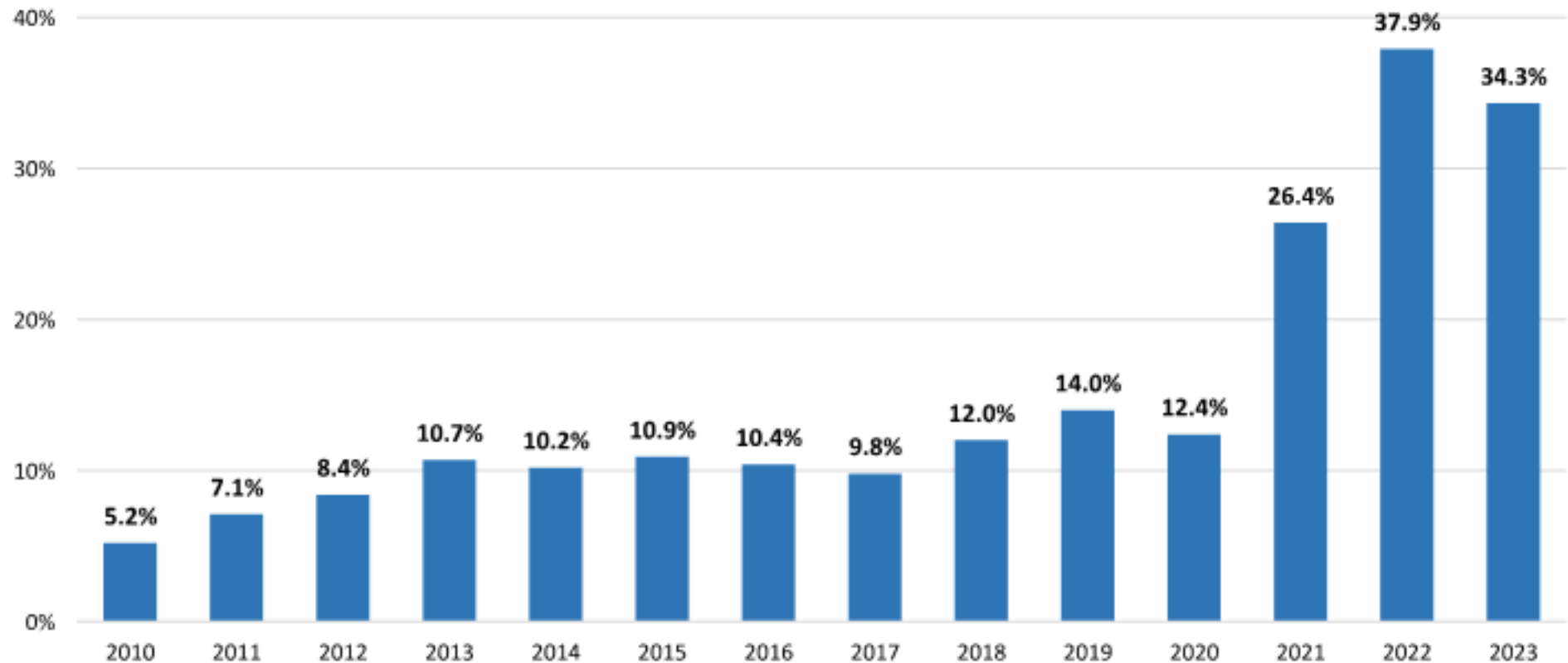
- Tailwinds that support the status quo
 - Mandatory programs are hard to change
 - Discretionary not so much, but there's little money and programs may have powerful constituencies
 - Grants to state and local governments are an efficient fiscal stimulus

- Headwinds that suggest things could be different next time
 - Federal fiscal condition
 - Robust state balances
 - Lack of state solidarity

Headwind: robust state balances



Total State Balances as a Percent of General Fund Spending



Source: NASBO, Fall 2023

A brief review of past fiscal relief

	Amount (\$ in billions)	Summary
FYs 2003-2004	\$20.0	
Medicaid	\$10.0	2.95 additional FMAP
Flexible grant	\$10.0	\$5 billion in each of FY 2003 and FY 2004
Great Recession (ARRA)	\$327.9	
Medicaid	\$105.1	6.2 additional FMAP with additional multiplier based on unemployment rate
State Fiscal Stabilization Fund	\$53.6	\$39.5 education; \$8.8 other; \$5 billion incentive grants (education-related policies)
Other	\$169.2	Scores of formula and competitive grant programs received funding
COVID-19	\$1,529.9	
Medicaid	\$127.6	6.2 additional FMAP
Coronavirus Relief Fund	\$150.0	COVID-related costs; local share
State and Local Fiscal Recovery Fund	\$350.0	Broad uses; local share
Other	\$902.3	Scores of formula and competitive grant programs received funding

What the crystal ball says

House/Senate	President	Potential Actions
R/R	R	Tax cuts; mandatory spending cuts (especially Medicaid, SNAP); rescission of IIJA and IRA appropriations and repeal of IRA tax policies
D/D	D	Tax increases (some targeting mandatory programs like Social Security); spending increases (especially in areas like early childhood and nutrition)
R/R	D	Many vetoes
D/D	R	Many vetoes
D/R or R/D	R or D	Gridlock with targeted opportunities for agreement

Bottom lines

- Everything else being equal, FY 2025 budget will likely look a lot like FY 2024.
- Election results will dictate outcomes, including raising the debt limit in early 2025.
- The biggest problem/challenge is health care spending.
- Trust funds are also in trouble.
- While deficits “may not matter,” rising interest payments could crowd out other spending or lead to even larger deficits and more debt.
- The prospect for federal fiscal relief depends on the timing and severity of a downturn plus state and federal fiscal conditions.
 - Such relief is not just about helping states.

Questions?

- **Get the latest updates** by joining the email list.

Email eableman@ffis.org (Ethan Ableman)

- **View publications** at ffis.org.

Contact eableman@ffis.org for login help

- **Follow-up questions?**

Contact Andrew Olson: aolson@ffis.org