State and Federal Fiscal Overview and Outlook

FEDERAL FUNDING STABILIZATION AND AFFORDABILITY SUBCOMMITTEE

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The views expressed are my own

Economic Uncertainty

Many Conditions Beyond Control of State Governments

- Weather
- Trade
- Shipping
- Conflicts/War
- Energy
- Markets
- Consumer Behavior

Federal Trends Affecting States

- Decreasing federal grants
- Reductions in non-defense discretionary spending
- Energy Impacts (War)
- Uncertainty (Tariffs)
- Covid Era Stimulus

  Almost Gone

OBBBA Medicaid cuts:

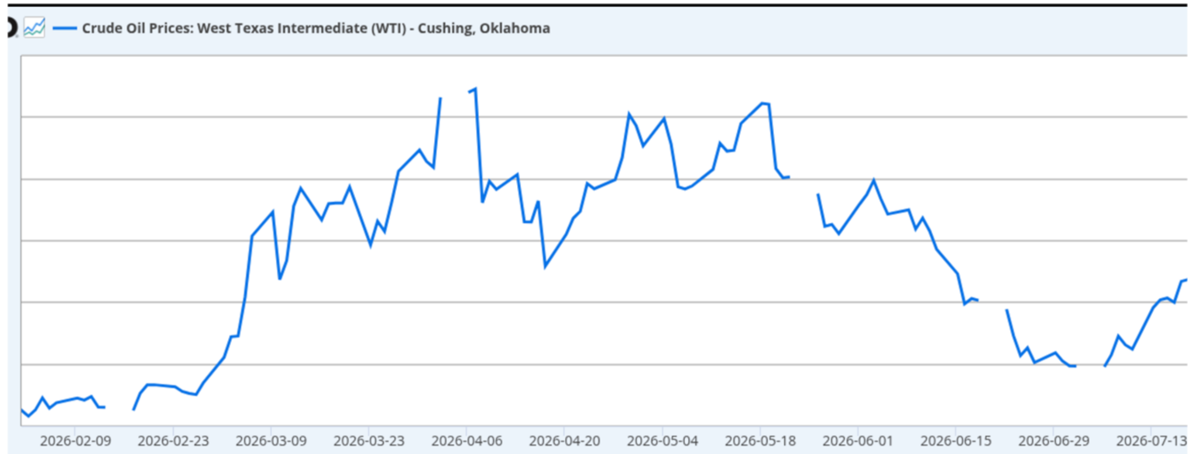
Estimated to fall by **$911 billion** over 10 years (about 14% of projected federal Medicaid expenditures)

SNAPSHOT:

The ECONOMY

- **Inflation** [3.5%]
- **Rates** [3.5-3.75]
- **Growth** [1.5-2~%]
- **Stock Market Up** [8%+~]
- **Unemployment/ Labor Market** [4.3~%]

Energy Price Uncertainty



Tariff Uncertainty

Average tariff rate

11–12% average effective/statutory tariff rate as of late July 2026 — down modestly from the Section 122 period, but with further increases possible, depending on further Administration actions

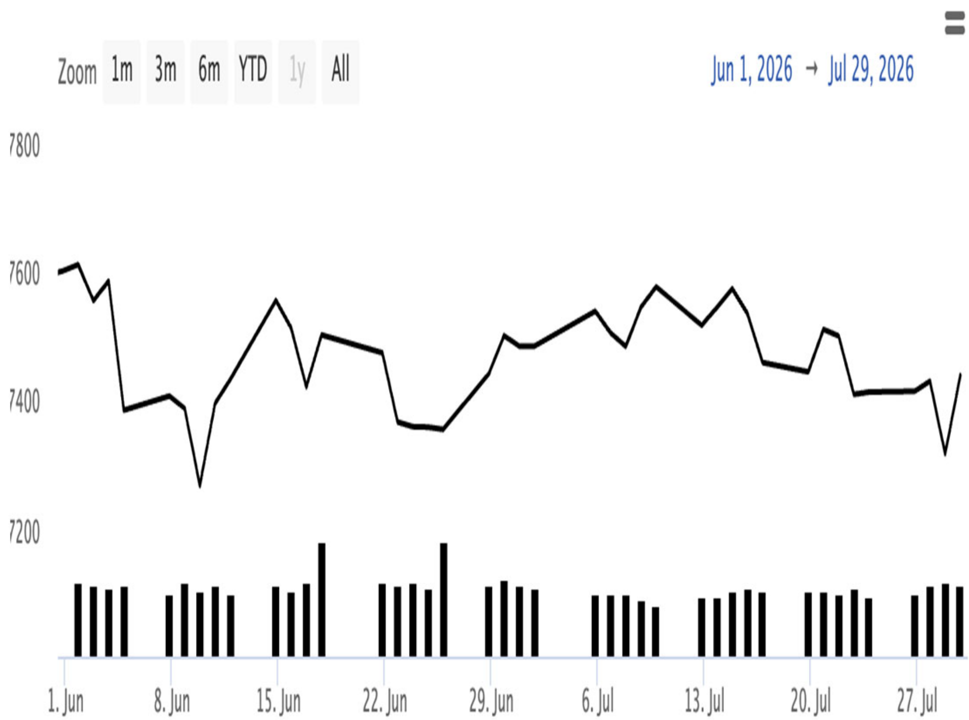
Yale Budget Lab: 12.1% as of July 21

End of the year: 9.8% (if things wind down as scheduled) or 12.8% (if further Section 301 tariffs are fully implemented).

Economic impact estimates

- Budget Lab: Household costs of **$550–$1,100 annually**; ten-year revenue: **$1.3–$2.0 trillion**.
- Tax Foundation: average household tax increase in 2026 of **roughly $900–$1,500**; Tariffs estimated to reduce long-run GDP by about 0.4%.
- Tax Policy Center: average burden of about **$920 per household** in CY 2026

Markets – *Income Tax Will Benefit*



- Market stats
  - 10% ~ January+
- "Magnificent Seven" *Apple, Amazon, Microsoft, Meta, Alphabet, Tesla and Nvidia*

States/Localities Are Different

States cannot absorb significant cost increases in a short period of time

- Limited ability to borrow
- Competition, not nations
- Required to balance
- Less broad revenue producing targets

Pressures on State Revenues

Federal Decreases

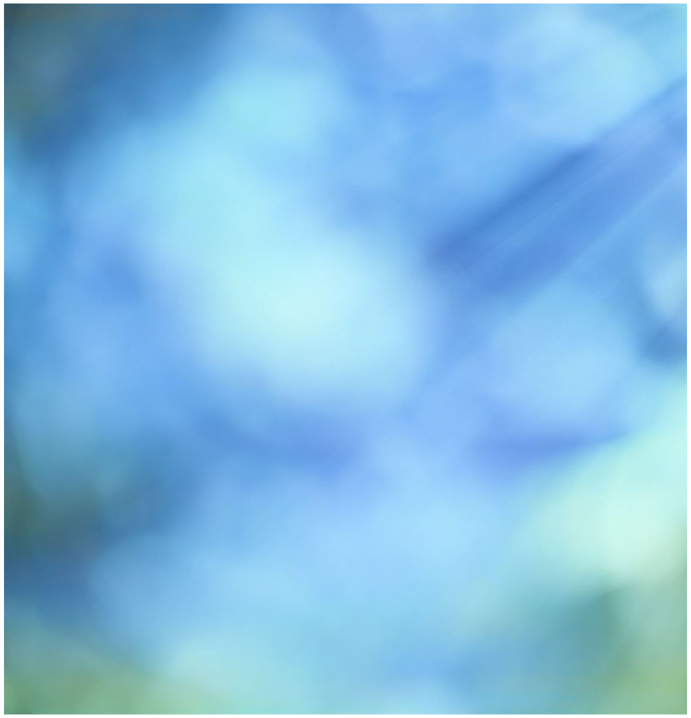
- No Assistance if Downturn

Lottery Revenues Stable/Decline/Gaming?

Corporate Volatile

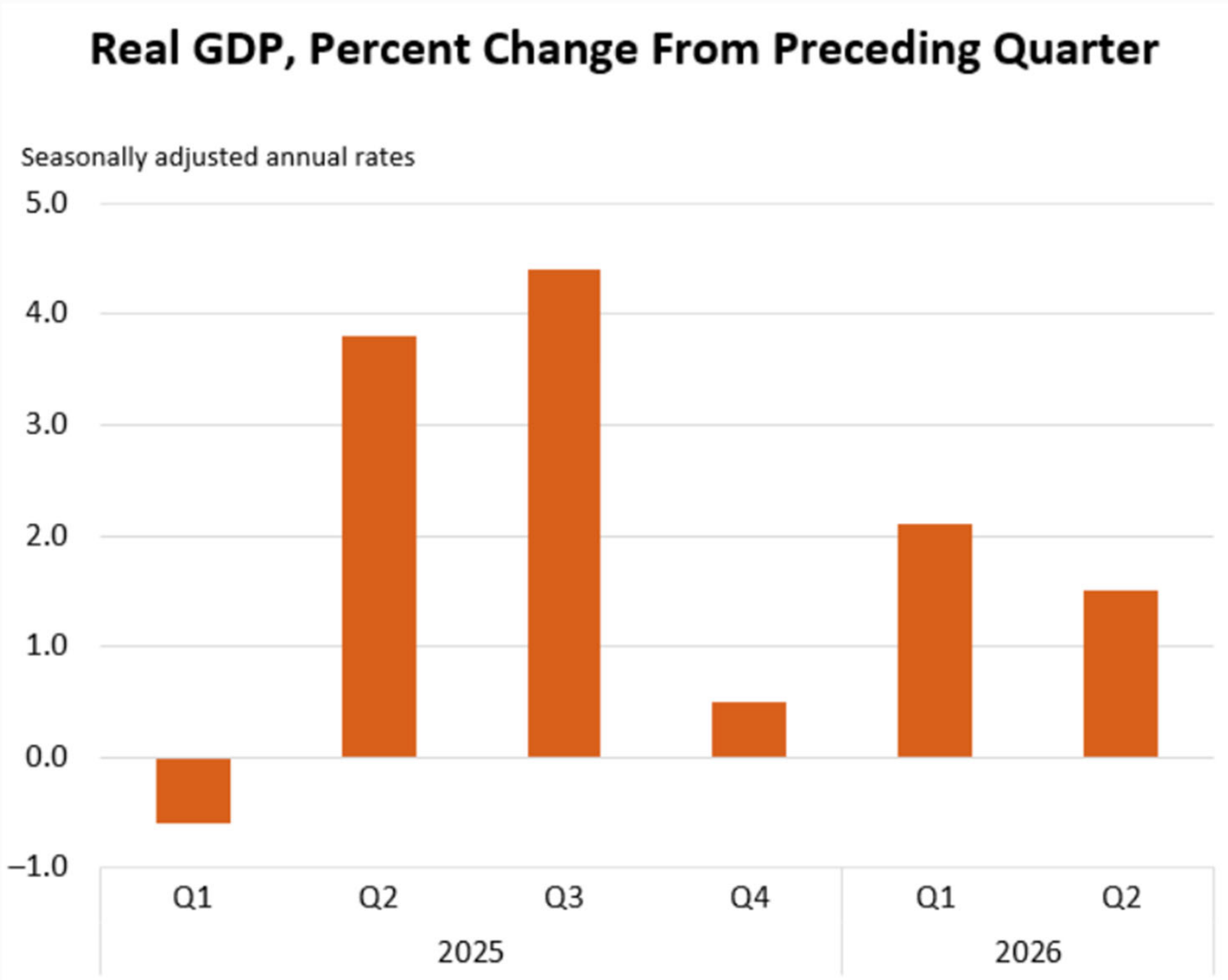
Rainy Day Funds Stable/Declining

Sales Tax Lackluster



Consumers/Retail

- July 16 2026 Release: Solid .2% increase in June
- Driven by the Wealthiest
- Furniture, electronics, and restaurants increased (discretionary)



Economic Growth

- GDP 2%
- Higher prices – 4+%
- Savings rate declining
- Few Layoffs

Inflation

- PCE 3.5%
- Steady Interest Rates
- 6.4% Mortgage Rate
- Housing Prices Stabilizing

2026 housing market balancing for buyers and sellers

Employment

- Unemployment rate 4.3%
- Healthcare
- 162,800,000 Working
- 164,500,000 (January)
- Not a bump from World Cup

Labor Force

Participation Rate below 62%

Annual growth 1.4% - Now: Near Zero

- WHY?

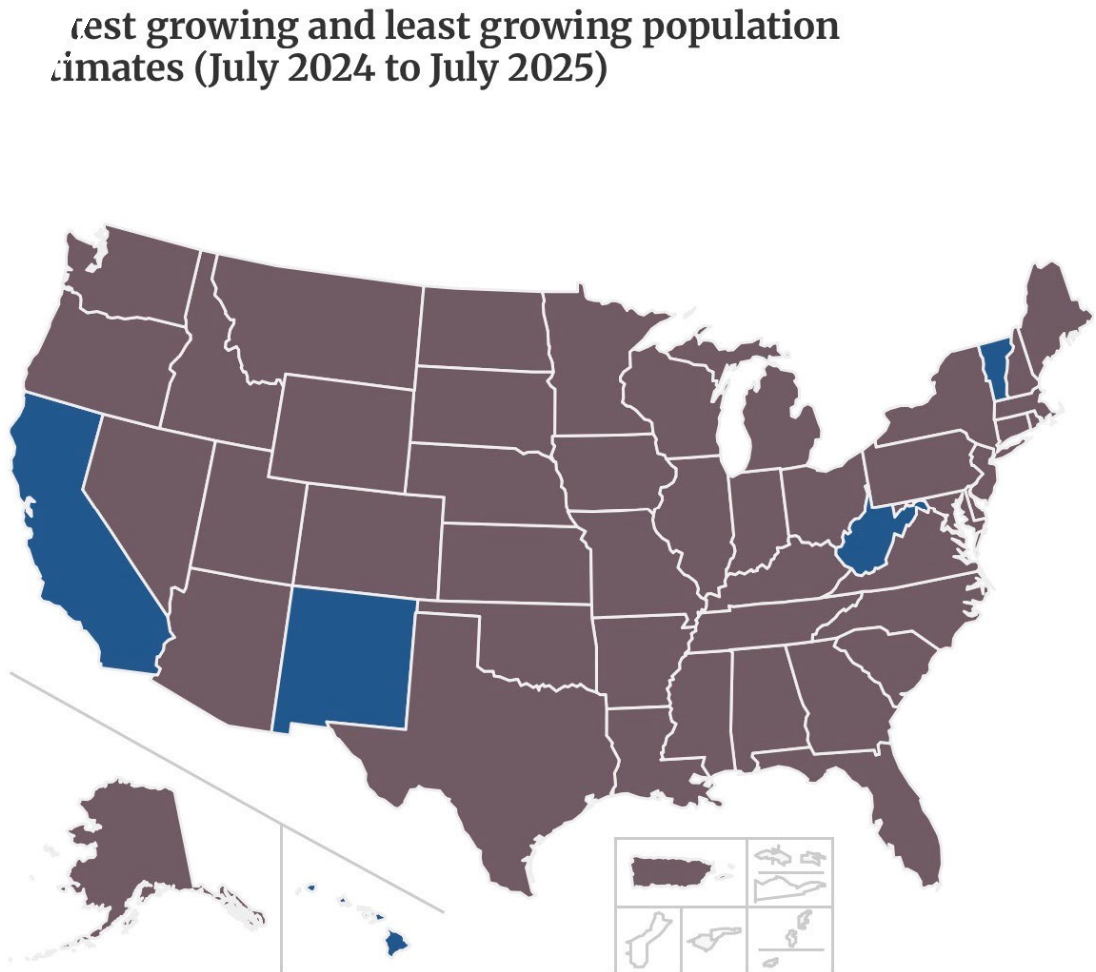
Aging

Less Immigration

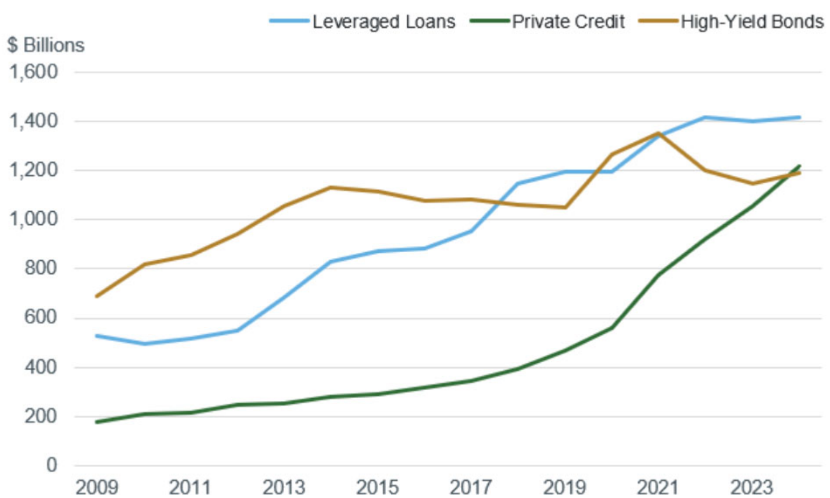
Caregiving, Economic

Demographics

- Over 60: 26%
    - NM: 28%
- Under 18: 21%
    - NM: 20%



Private Debt



…private credit funds—alternative investment managers, life insurers, and certain partnerships—still operate with <u>limited public reporting</u>

Raises concerns about systemic risk, defaults in one large fund could ripple through interconnected counterparties

Trends

- Uncertainty, Uncertainty, Uncertainty
- Midterms will increase policy predictability
- Volatile energy prices until stabilization in the Middle East
- Interest rate increase
- Forecasts: Continued modest economic growth
- Highest risks: high prices, market corrections

THANKS !

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