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Fitch Rtgs: Federal Coronavirus Aid Key Short-Term Boost to US States

Fitch Ratings-New York-19 March 2020: The federal government is funneling billions of dollars to US states to offset the growing implications of the coronavirus but the scope of states' fiscal pressures and the ultimate effect on ratings is uncertain, says Fitch Ratings. Since early March, the federal government has provided nearly $1 billion in direct public health aid for US states and local governments, opened up access to the $40 billion federal Disaster Relief Fund (DRF) and enacted legislation providing billions more to states through a 6.2 percentage point (pp) increase in the Medicaid matching rate. For context, the US Census Bureau estimates states collected $257 billion in tax revenue in first-quarter 2019.

Lower-rated states, such as Illinois rated 'BBB', New Jersey rated 'A' and Connecticut rated 'A+', are more vulnerable to the adverse economic conditions posed by the coronavirus pandemic. This is due to lower levels of financial resilience than other states, which Fitch rates in the 'AA' or 'AAA' categories, indicating exceptionally strong or a very strong capacity for payment of financial commitments. A sustained period of disrupted economic activity would test all states' resilience and pressure ratings. Shutdowns in many parts of the country signal an unprecedented decline in economic activity for an unknown period and the full scope of necessary public health spending remains unclear. Fitch is reaching out to all rated states to assess their initial responses and any near-term credit pressure points.

The three federal aid measures will provide an important boost to state budgets, particularly for lower-rated states, although revenue losses and crisis spending may quickly escalate and remain high for some period. On March 6, Congress and President Trump enacted the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (H.R. 6074) allocating $8.3 billion for domestic ($6.7 billion) and international ($1.6 billion) relief efforts. The bill included $950 million in aid to state and local health departments, including tribal entities, with half to be distributed within 30 days and the remainder available through Sept. 30, 2022. This aid flows through the Centers for Disease Control and appears likely to be distributed based on states' need.

On March 13, following requests from members of Congress and Washington's governor, the president declared a Stafford Act national emergency. The declaration authorizes use of the DRF to reimburse states and locals at a 75% rate for related spending. On Feb. 29, the Federal Emergency Management Agency reported the DRF balance at $42.643 billion.

On March 18, Congress and the president enacted a second bill, the Families First Coronavirus Response Act (H.R. 6201) that includes potentially the most significant fiscal aid for states, including the territories and the District of Columbia, a 6.2pp increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national emergency. FMAP is the rate at which the federal government reimburses states for Medicaid spending.

Medicaid is one of the largest line items in state budgets with the Medicaid and Children's Health Insurance Program (CHIP) Payment Access Commission reporting states spent $230 billion in federal fiscal year 2018, while the federal government contributed nearly $400 billion. The Center on Budget and Policy Priorities estimates the H.R. 6201 increase could provide $35.7 billion in federal aid over a full year, or roughly $9 billion each quarter.

In prior downturns, FMAP increases played important roles in supporting state budgets and credit quality. The 2009 federal stimulus bill increased FMAP by 6.2pp for all states, with provisions for additional increases based on states' unemployment rates leading to FMAP rate increases of at least 9pp and as high as 15.56pp. In total, the Kaiser Family Foundation (KFF) estimated the 2009 FMAP increase provided $103 billion to states. In 2003, Congress increased the FMAP rate 2.95pp providing $10 billion in aid to offset the 2001 recession according to KFF. The ultimate value of the H.R. 6201 FMAP rate increase will depend on states' Medicaid spending, which could be notably higher than in prior downturns given the public health nature of the pandemic.

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