Economic Uncertainty: Impacts on State and Local Budgets

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what does REMI say? [sm]

Areas of Uncertainty

- Tariffs

- Slow growth/recession due to uncertainty

- Federal government spending

- Immigration

- Federal tax policy

- Interest rates

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Slow Growth/Recession Due to Uncertainty

- IMF downgraded U.S. growth forecast by 0.9% to 1.8% in 2025

- Goldman Sachs has a 40% probability of recession, JP Morgan at 60%

- Blue Chip consensus forecast from over 2% at end of February to about 0.5% now

- GDPNow has -2.2% quarter growth (-.1% taking out import/export of gold)

- Variety of factors related to uncertainty, especially U.S. fiscal policy uncertainty

what does REMI say? sm

Agenda

Introduction

Tax-PI Methodology

Scenario 1: Lower US GDP Growth

Scenario 2: Reduced Immigration

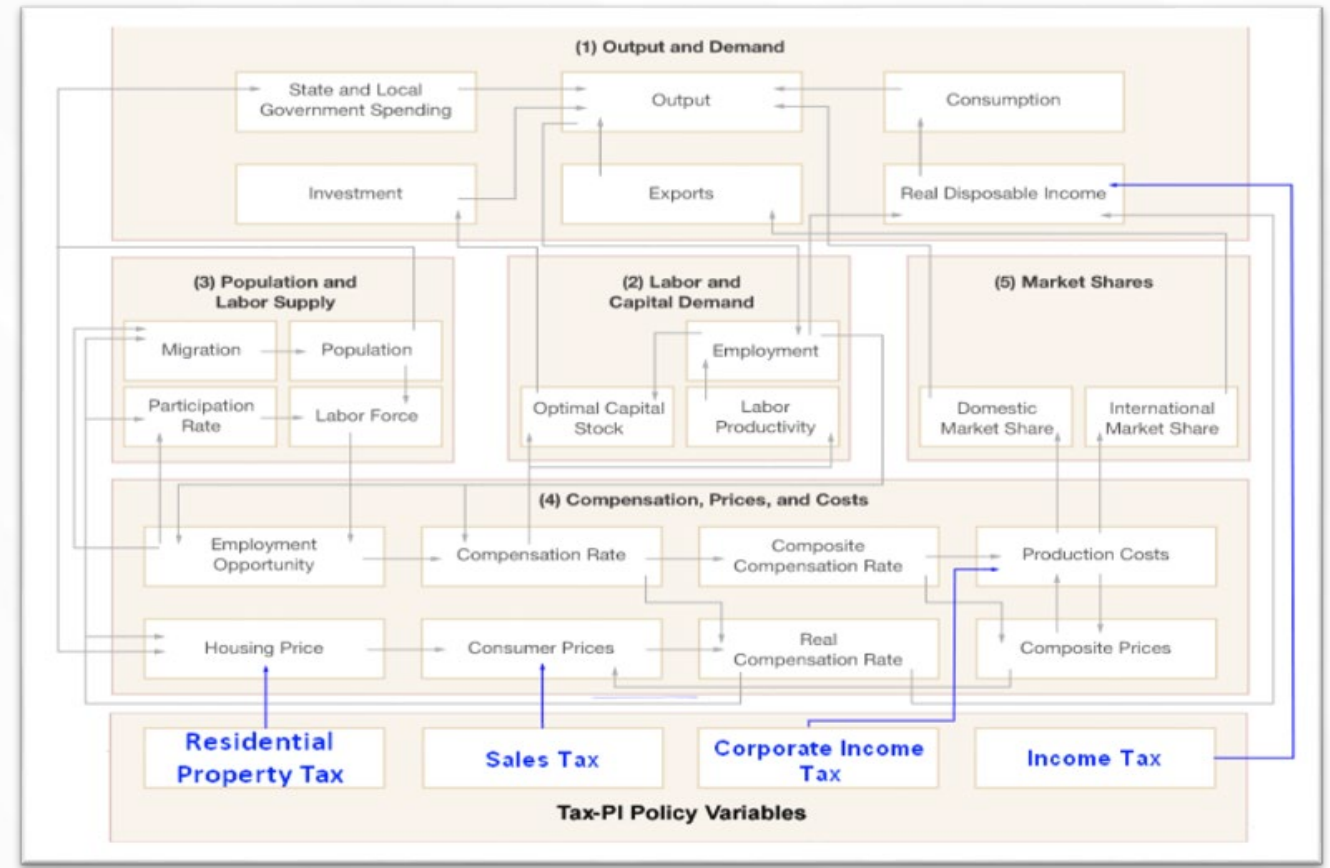Scenario 3: Federal Job Cuts

Conclusion/Q&A

what does REMI say? [sm]

Model Simulation: REMI Tax-PI

REMI Tax-PI is the only commercially available dynamic macroeconomic and fiscal impact analysis tool.

Tax-PI allows users to understand the deep linkages and relationship between a budget and its economic foundation.

Using REMI Tax-PI to Forecast State-Level Economic and Fiscal Effects of Lower U.S. Growth

- Using REMI Tax-PI to forecast state-level economic and fiscal effects

- Tax-PI also estimates the total revenue and spending effects of economic changes

- Method
  - Create a calibrated budget based on regional data
  - Create a regional control with this budget attached to forecast baseline budget levels
  - Run simulations on this regional control to see how policy affects your budget

Scenario 1 and 2 Model

The model:

- Tax-PI for NY State

- Regions: 12 region model
  - 10 sub-regions of New York, 1 rest of NYC metro, 1 rest of US

- Baseline forecast for US and regional economies

- Revenue forecast is driven by economic conditions
  - E.g income tax is driven by personal income

- Economic and revenue forecast for reach region in NY State and NYC metro

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Scenario 1: Lower US GDP Growth, Continued

- 1% reduction in US GDP growth compared to baseline

  - New National Control Forecast – 1% lower growth in 2025; 0.5% 2026; baseline 2027

  - Run new regional control with budget using lower-growth US forecast

  - Evaluate economic and fiscal effects (compare results for low-growth forecast to baseline forecast)

Model Simulation in Tax-PI

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Scenario 2: Reduced Immigration

- 50% reduction in inflow of international migration

  - New Regional Control with our calibrated budget

  - Run a simulation on this regional control using the international migration policy variable with all age/race/gender cohorts set to a 50% reduction

  - Evaluate economic and fiscal effects (compare simulation results to regional control with calibrated budget)

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What's Happening to Federal Workers?

Multi-pronged effort to reduce the federal workforce

- Deferred Resignation Program (~77,000 workers accepted)

- Firing probationary workers (fewer protections, SCOTUS recently upheld)

- Wider staffing, funding cuts (~60,000 so far, plans for another ~150,000; NIH)

- Eliminating departments and agencies (USAID, CFPB, Department of Education)

- Politically motivated firings and layoffs (DOJ, FBI, IGs)

- Creating a hostile work environment (5 things, "unproductive", RTO, uncertainty)

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Data

- Federal workforce reductions pulled from layoffs.fyi (as of April 7, minor adjustments)

CATEGORY						
∨ Department of Transportation (DO Count 4	∨ Sum 775	∨ Sum 0				
48	Federal Aviation Administration (FAA)	400		2/17/2025	DOGE Layoff		https://www.reuters.com/world...
49	Federal Transit Administration (FTA)			2/14/2025	DOGE Layoff	Unspecified number	https://www.cnbc.com/2025/0...
50	National Highway Traffic Safety Adminis...	32		2/14/2025	DOGE Layoff	4% of 800	https://www.reuters.com/world...
51	Unspecified agencies in DOT	343		2/14/2025	DOGE Layoff	Remainder of the 775-person Feb. 14-24 layoff not c...	https://storage.courtlistener.co...

CATEGORY								
				70	National Park Service (NPS)	1,000	2/19/2025	DOGE Layoff		https://apnews.com/article/tru...
∨ Department of the Treasury Count 6	∨ Sum 27,616		71	National Science Foundation (NSF)	168	2/18/2025	DOGE Layoff		https://www.npr.org/2025/02/...
52	U.S. Mint	8	72	Office of Personnel Management (OPM)	75	2/24/2025	DOGE Layoff		https://www.reuters.com/world...
53	Bureau of Engraving and Printing (BEP)	48	73	Office of Personnel Management (OPM)	70	2/13/2025	DOGE Layoff		https://federalnewsnetwork.co...
54	Bureau of the Fiscal Service (BFS)	169	74	Small Business Administration (SBA)	2,700	3/21/2025	DOGE Layoff	A 43% layoff is under consideration	https://www.sba.gov/article/20...
55	Internal Revenue Service (IRS)	20,000	75	Small Business Administration (SBA)	720	2/11/2025	DOGE Layoff		https://www.politico.com/news...
56	Internal Revenue Service (IRS)	7,315	76	Social Security Administration (SSA)	7,000	2/27/2025	DOGE Layoff		https://apnews.com/article/soc...
57	Office of the Comptroller of the Currenc...	76	77	U.S. Agency for Global Media (USAGM)	1,300	3/17/2025	DOGE Layoff		https://www.cbsnews.com/new...
			78	U.S. Digital Service (USDS)	50	2/14/2025	DOGE Layoff		https://www.nextgov.com/peo...
			79	U.S. Securities and Exchange Commissio...	500	3/21/2025	DOGE Layoff	10% of 5,000 employees leaving via buy-out program	https://www.politico.com/news...
			80	United States Postal Service (USPS)	10,000	3/14/2025	DOGE Layoff		https://apnews.com/article/us-...

CATEGORY						
∨ Deferred Resignation Program Count 1	∨ Sum 77,000	∨ Sum 0				
81	Deferred Resignation Program	77,000		2/13/2025	Deferred Re...	Employees who voluntarily resign get paid through ...	https://www.cnn.com/2025/02...

Methodology

- Model Inputs: Job Losses & Associated Salaries, by state

  - Two scenarios: Current Losses, Current & Planned Losses

- Study Period: 4 Years

  - Job losses held constant

  - Salaries inflated using model baseline salary forecasts for federal workers by state

- Tool: REMI PI[+] 70-industry, 51-region model of 50 states + D.C.

  - Industry detail roughly at 3-digit NAICS code level (intermediate)

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Results

- I will show the following types of results:

    - Employment

    - GDP

    - Personal Income

- I will show results for:

    - DMV Region (D.C., Maryland, and Virginia combined) – Incl. Population Impact

    - Entire U.S.

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Results

DMV Region

- Current Losses:

- Current & Planned Losses:

Result	2025	2026	2027	2028	Average
Employment	-118.9	-117.6	-118.4	-115.1	-117.5
GDP	-17.6	-17.5	-17.8	-17.6	-17.6
Personal Income	-13.3	-14.1	-14.9	-15.3	-14.4
Population	-28.7	-48.1	-64.0	-76.3	-54.3
Employment & Population in Thousands; GDP & Personal Income in Billions of 2025 Dollars					

Result	2025	2026	2027	2028	Average
Employment	-182.5	-178.1	-178.7	-173.1	-178.1
GDP	-28.2	-27.8	-28.2	-27.7	-28.0
Personal Income	-19.8	-20.8	-22.0	-22.5	-21.3
Population	-38.4	-64.1	-85.2	-101.7	-72.4
Employment & Population in Thousands; GDP & Personal Income in Billions of 2025 Dollars					

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Results

Entire U.S.:

- ## Current Losses:

Result	2025	2026	2027	2028	Average
Employment	-542.3	-465.5	-449.6	-413.7	-467.7
GDP	-75.8	-65.9	-64.2	-59.9	-66.4
Personal Income	-49.0	-46.2	-46.7	-45.5	-46.8
Employment in Thousands; GDP & Personal Income in Billions of 2025 Dollars					

- ## Current & Planned Losses:

Result	2025	2026	2027	2028	Average
Employment	-1,105.1	-946.4	-914.6	-841.2	-951.8
GDP	-156.7	-136.2	-132.9	-124.1	-137.5
Personal Income	-97.9	-91.9	-92.9	-90.3	-93.2
Employment in Thousands; GDP & Personal Income in Billions of 2025 Dollars					

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Discussion

- In the Current Losses scenario, the DMV region experiences:

  - 25% of the Employment impact (5% of baseline U.S. employment)

  - 27% of the GDP impact (5% of baseline U.S. GDP)

  - 31% of the Personal Income impact (5% of baseline U.S. Personal Income)

    - Larger impact associated with loss of Population to the rest of the U.S.

    - More job loss in the DMV (>1%) than the U.S. (<0.25%) drives out-migration

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Thank you for attending!

For more information, please contact
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