



State Budget Stress Testing

*How Utah Budget-makers are Shifting the
Focus from a Balanced Budget
to Fiscal Sustainability*

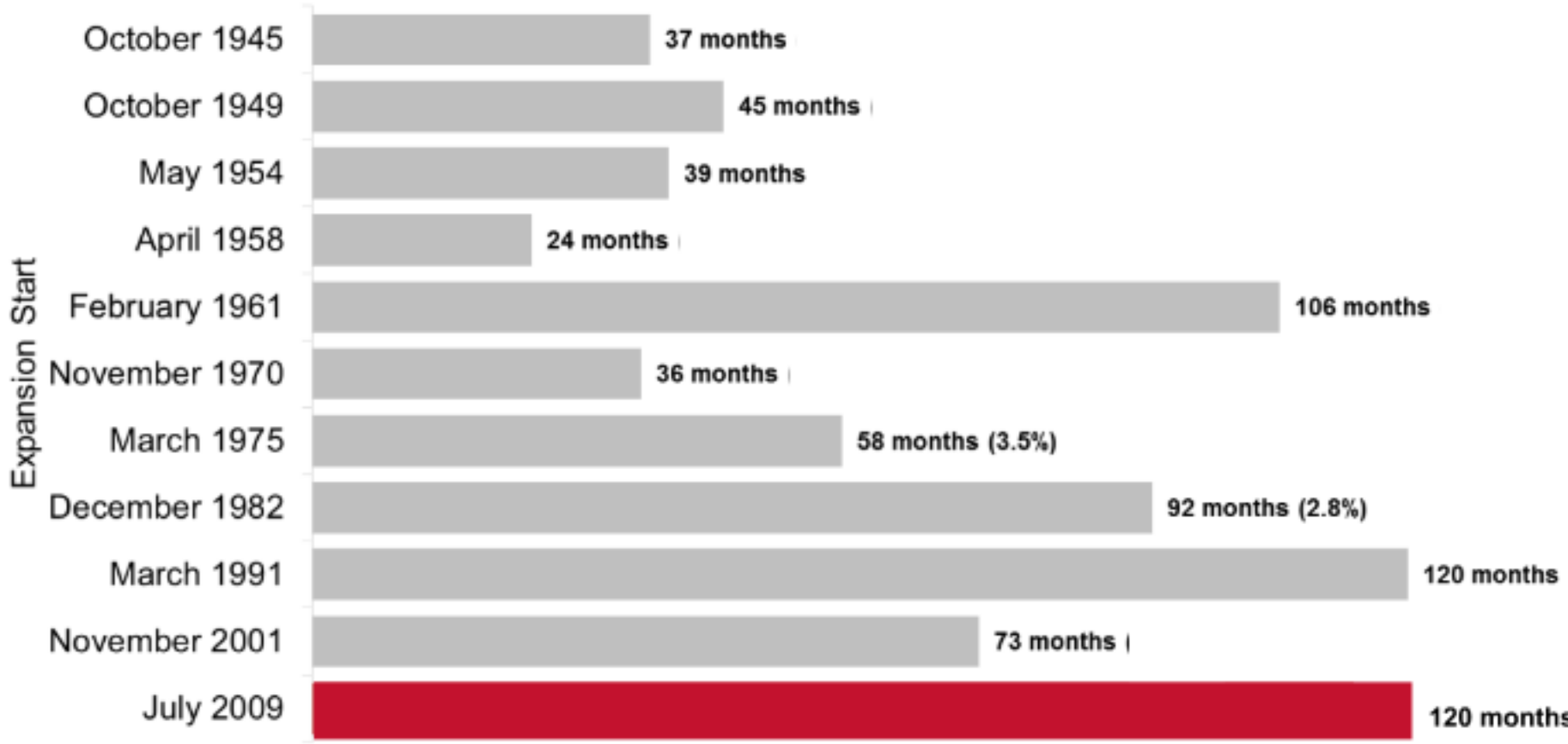
2019 NCSL Budget & Tax Academy
June 27, 2019

Juliette Tennert, Director of Economic and Public Policy Research

INFORMED DECISIONS™

U.S. economic expansion to become longest on record

Duration of United States Economic Expansions

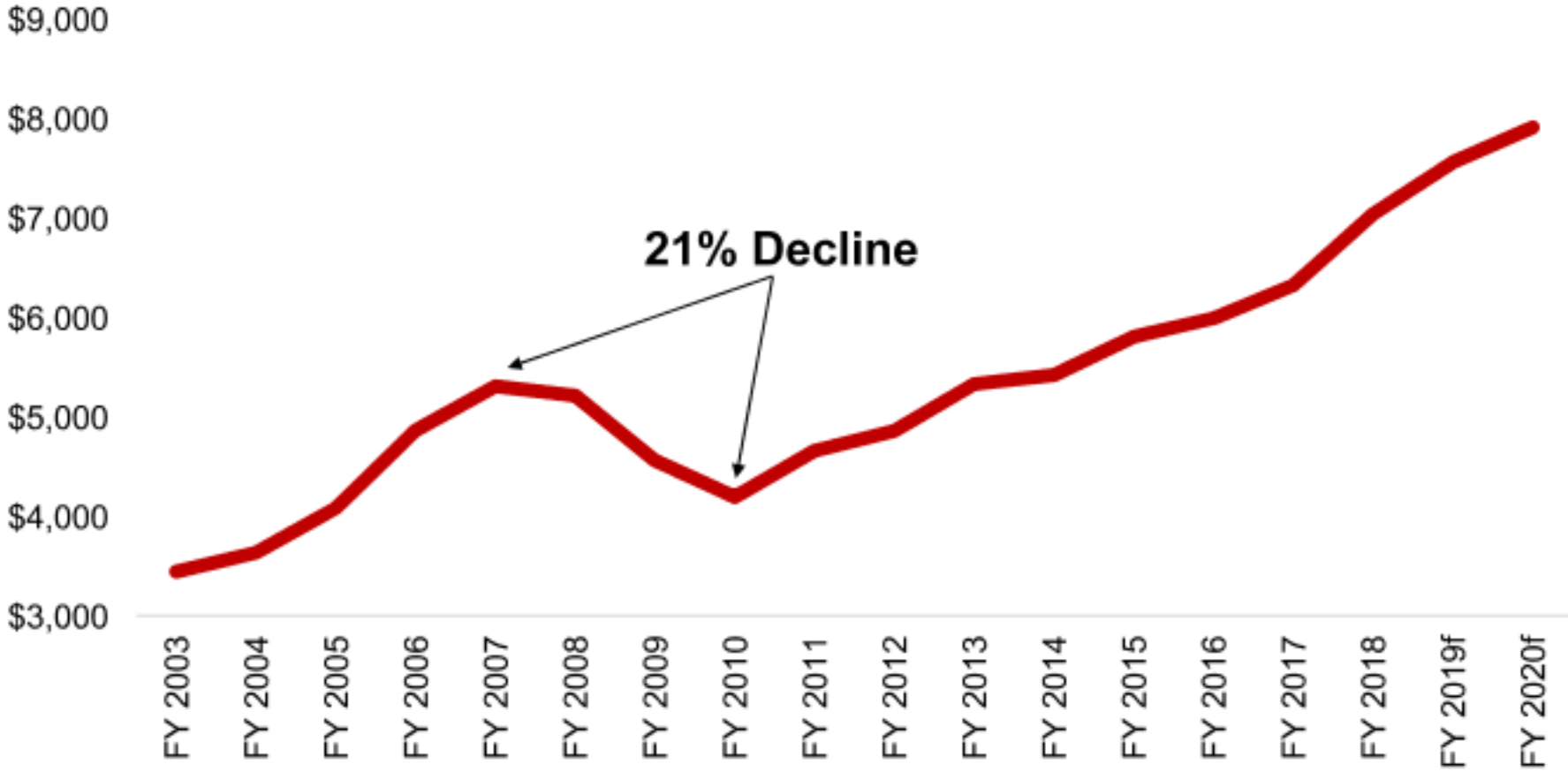


Source: National Bureau of Economic Research

Great Recession's impact on Utah's Budget

Utah State Fund Revenue Collections

Unrestricted General Fund and Education Fund, \$ millions

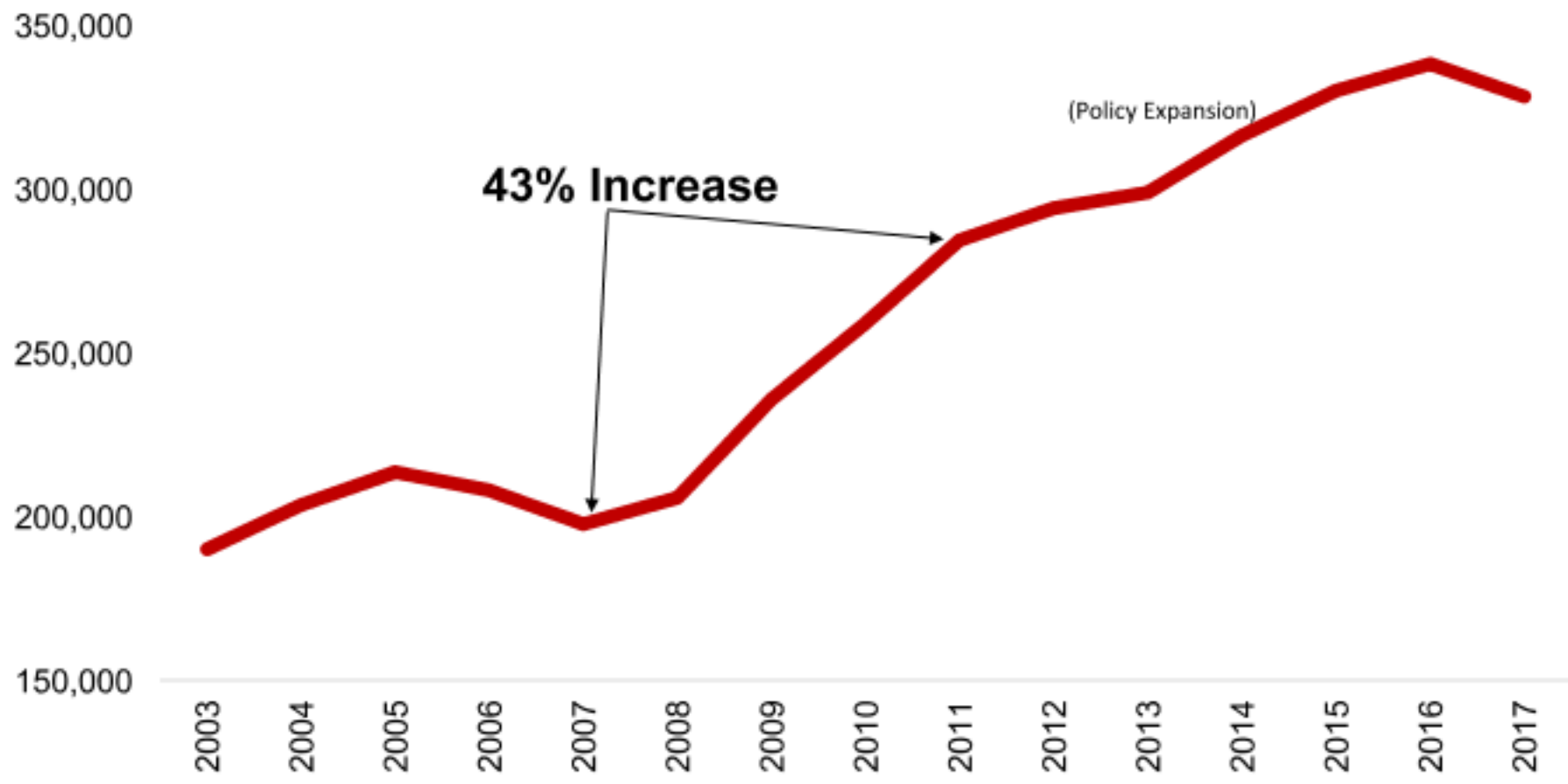


Note: Y-axis does not begin at zero.
Source: 2019 Economic Report to the Governor

Great Recession's impact on Utah's Budget

Utah Medicaid Enrollment

Average monthly enrollment, adults and children



Note: Y-axis does not begin at zero.
Source: Utah Office of the Legislative Fiscal Analyst

Are state budgets prepared for the next downturn?

GOVERNING

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FINANCE

The Week in Public Finance: Some States Are Less Prepared for a Recession Than a Decade Ago

But according to two analyses, a majority of states have nearly enough savings to weather a downturn.

BY LIZ FARMER | SEPTEMBER 21, 2018 AT 3:00 AM



How Utah is promoting fiscal sustainability

Utah Code Ann. § 36-12-13(e)

Beginning in 2017 and repeating every three years after 2017, to prepare the following cycle of analyses of long-term fiscal sustainability:

- (i) in year one, the **joint revenue volatility report** required under Section 63J-1-205;
- (ii) in year two, a **long-term budget** for programs appropriated from major funds and tax types; and
- (iii) in year three, a **budget stress test** comparing estimated future revenue to and expenditure from major funds and tax types under various potential economic conditions;

What is a budget stress test

State budget stress tests evaluate the **sufficiency** of reserves and other budget contingencies to cover recession-spurred revenue **shortfalls** and countercyclical **cost hikes**

Why a budget stress test

Utah Budget-maker's Goals

Think **beyond the 2-year budget cycle** to:

- ü Manage the business cycle
- ü Set sustainable expectations and meet them
- ü Avoid crisis-driven policy decisions

Source: Utah Office of the Legislative Fiscal Analyst

How Utah implements a budget stress test

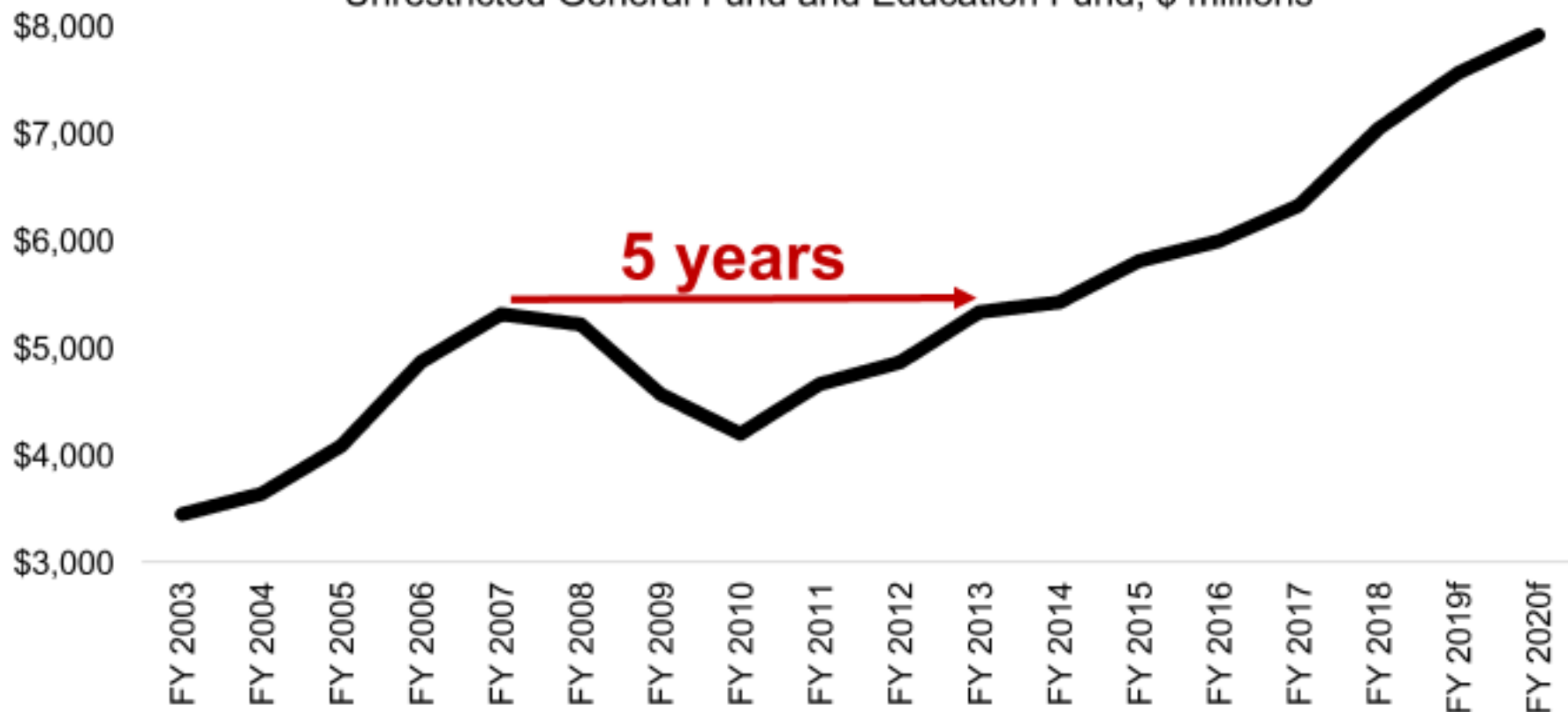
Utah Budget Stress Test Steps

1. **Define** the period of analysis and economic assumptions for stress scenarios
2. **Identify** revenue and expenditure components at risk and estimate total value at risk under stress scenarios
3. **Inventory and categorize** reserves and other budget contingencies by ease of accessibility
4. **Compare** total value at risk to total contingencies to evaluate overall resilience of state budget

1: Define the period of analysis and economic assumptions for stress scenarios

Utah State Fund Revenue Collections

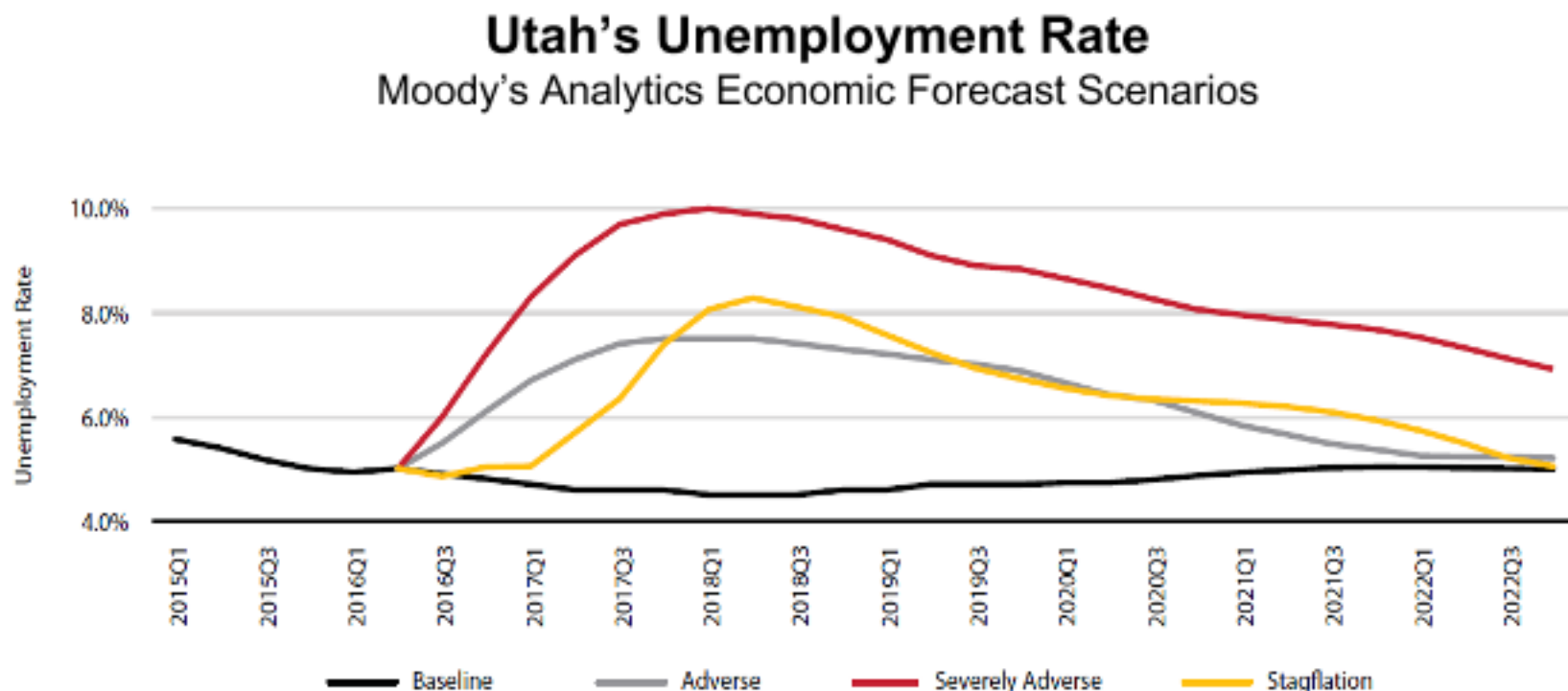
Unrestricted General Fund and Education Fund, \$ millions



Note: Y-axis does not begin at zero.

Source: 2019 Economic Report to the Governor

1: Define the period of analysis and economic assumptions for stress scenarios



Derived using 2016 Dodd-Frank Supervisory Stress Test Scenarios

Source: Moody's Analytics

2: Identify revenue and expenditure components at risk and estimate total value at risk under stress scenarios

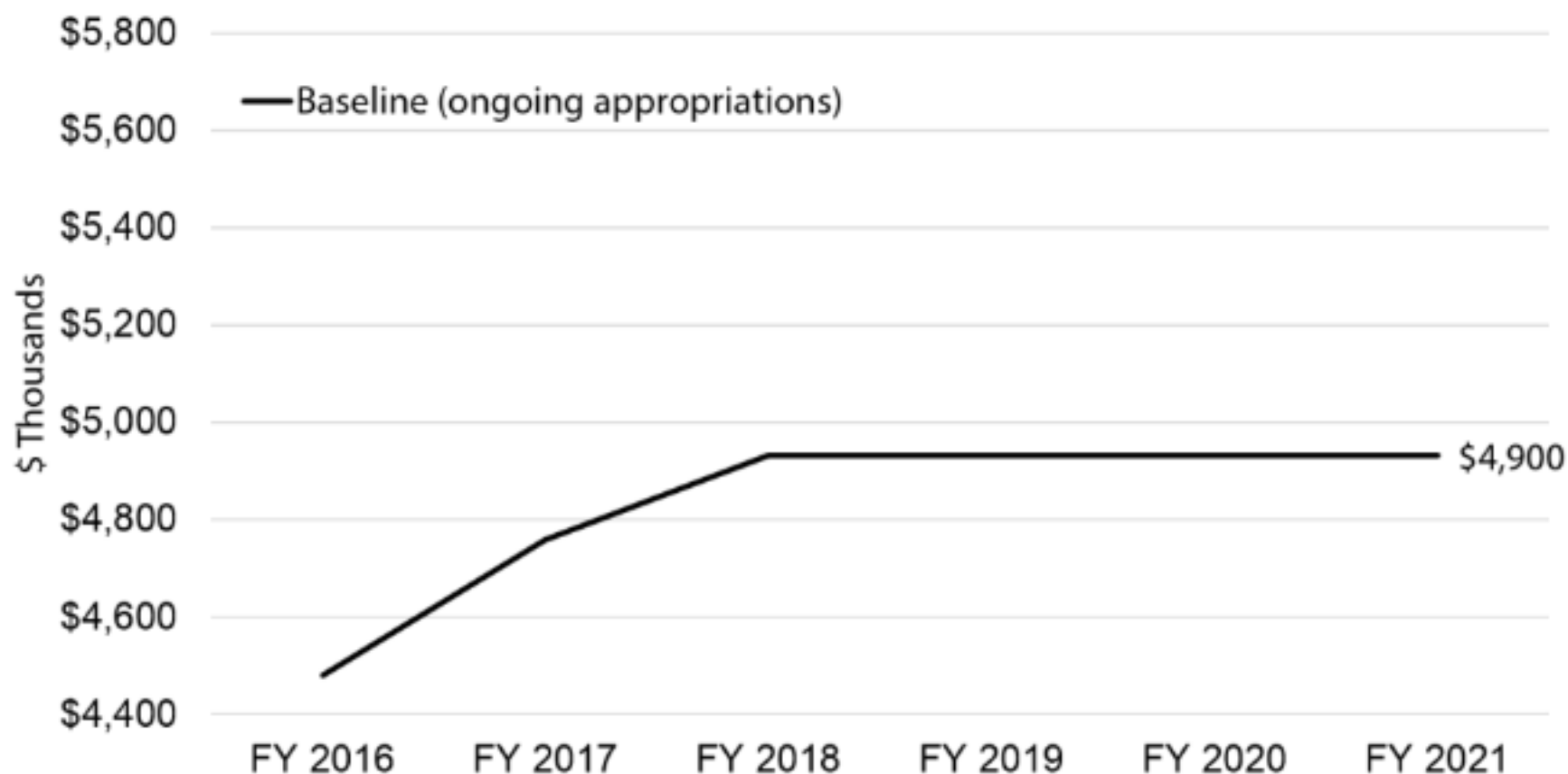
Components in Utah Budget Stress Test

REVENUES	EXPENDITURES
State Funds: Education Fund (income tax) Unrestricted General Fund	Countercyclical: Medicaid Higher Education Pension Contributions High Priority: Public Education Growth

2: *Identify revenue and expenditure components at risk and estimate total value at risk under stress scenarios*

State Expenditures at Risk

Total Medicaid, Higher Education, Public Pension, and Public Education Expenditures



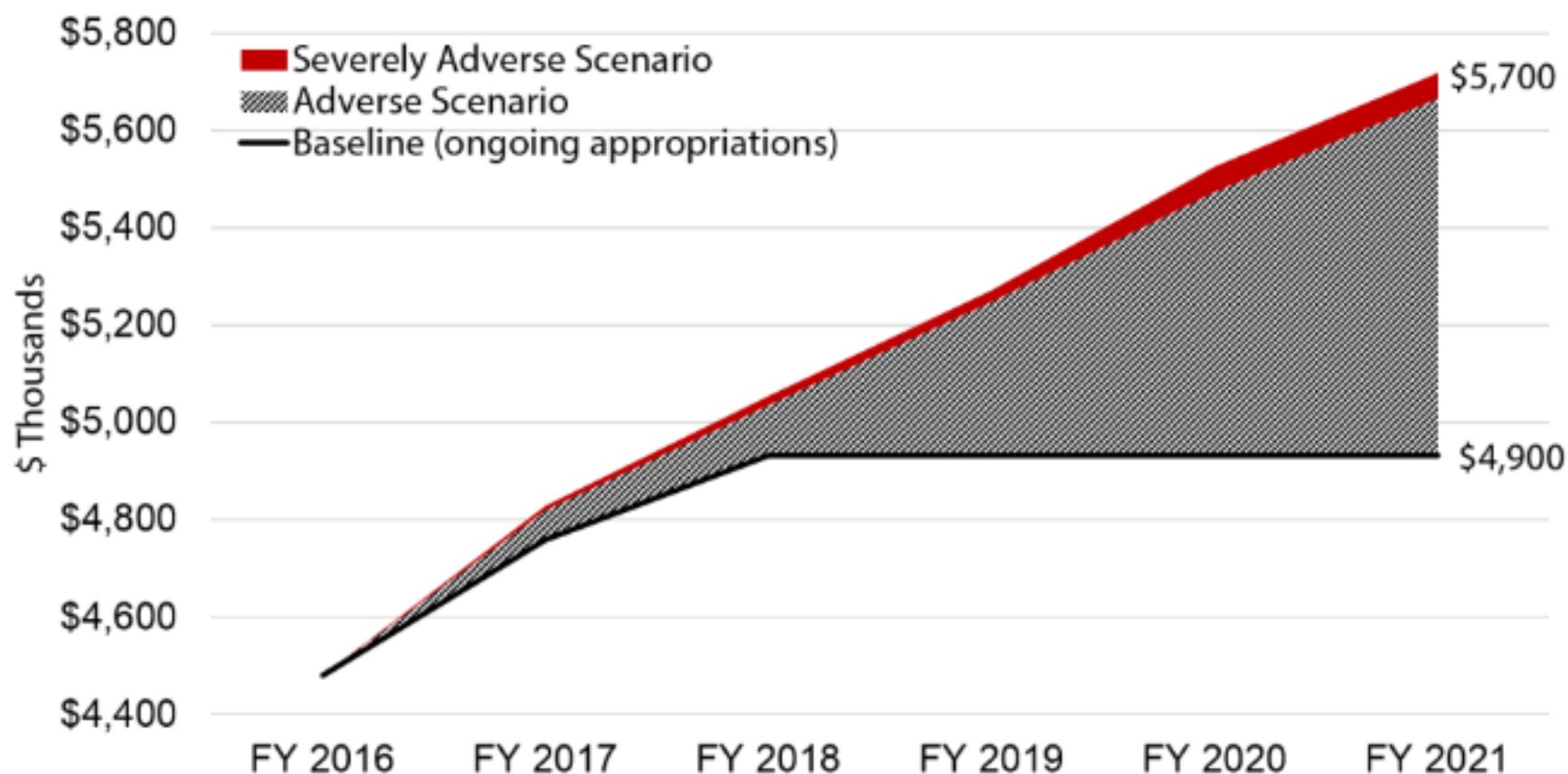
Note: Y-axis does not begin at zero

Source: Kem C. Gardner Policy Institute analysis of Utah Office of the Legislative Fiscal Analyst 2017 Budget Stress Test

2: *Identify revenue and expenditure components at risk and estimate total value at risk under stress scenarios*

State Expenditures at Risk

Total Medicaid, Higher Education, Public Pension, and Public Education Expenditures



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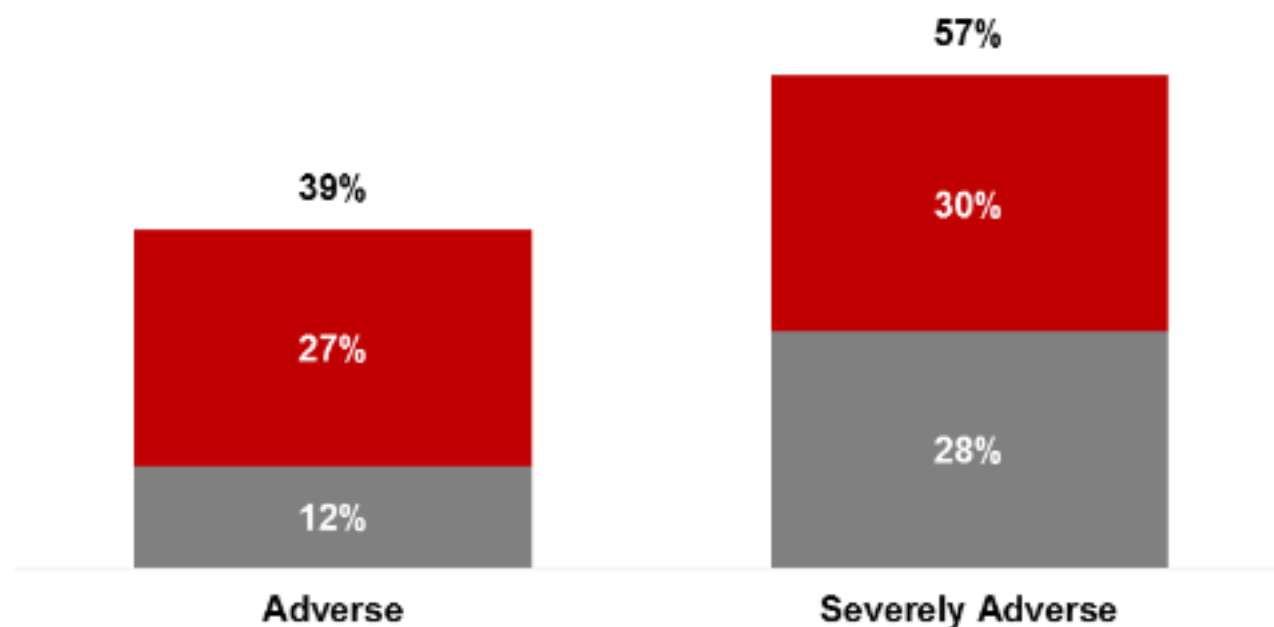
Source: Kem C. Gardner Policy Institute analysis of Utah Office of the Legislative Fiscal Analyst 2017 Budget Stress Test

2: *Identify revenue and expenditure components at risk and estimate total value at risk under stress scenarios*

Total Value at Risk

Cumulative total as a percent of FY 2017 Appropriations

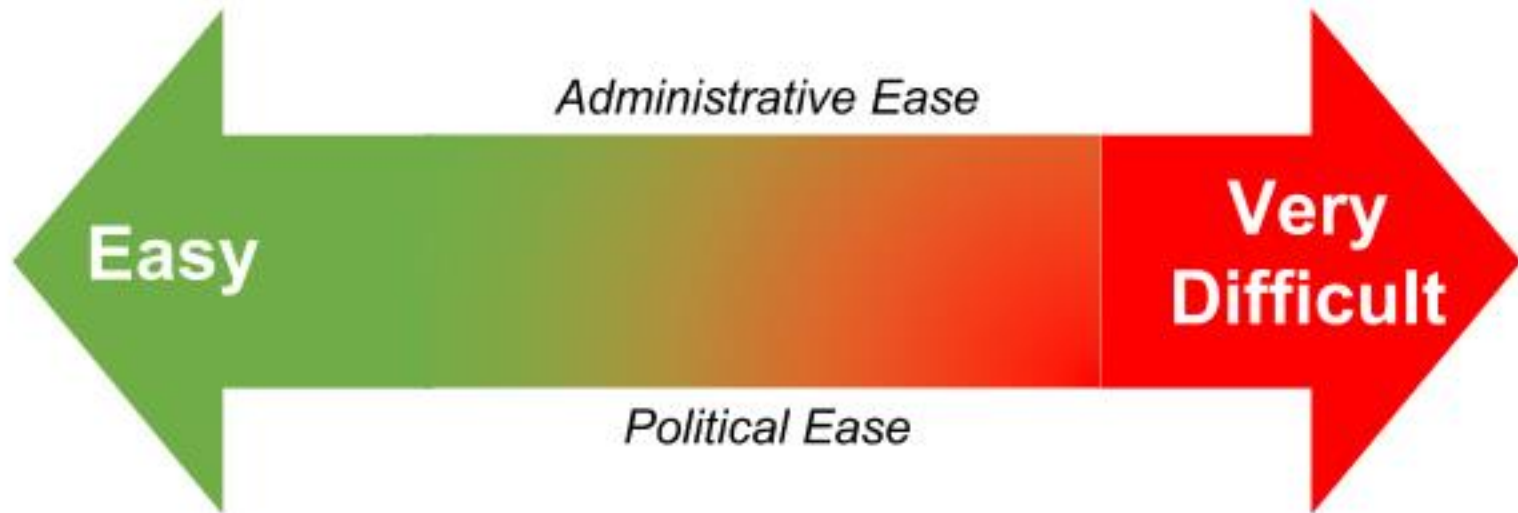
- Cost Hikes
- Revenue Shortfall



Source: Kem C. Gardner Policy Institute analysis of Utah Office of the Legislative Fiscal Analyst 2017 Budget Stress Test

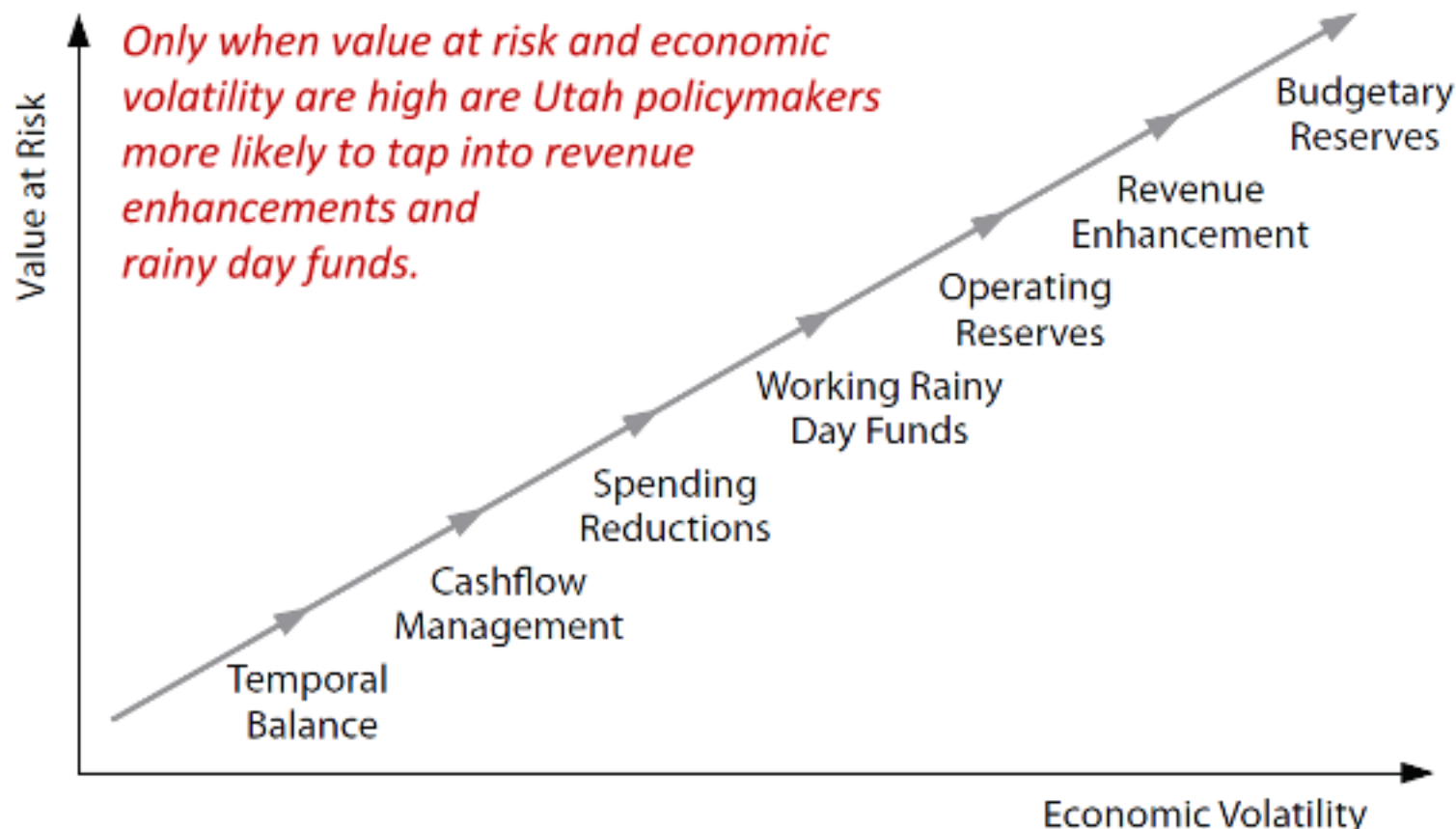
3: Inventory and categorize reserves and other budget contingencies by ease of accessibility

Continuum of Contingency Accessibility



3: Inventory and categorize reserves and other budget contingencies by ease of accessibility

Utah's Fiscal Toolkit

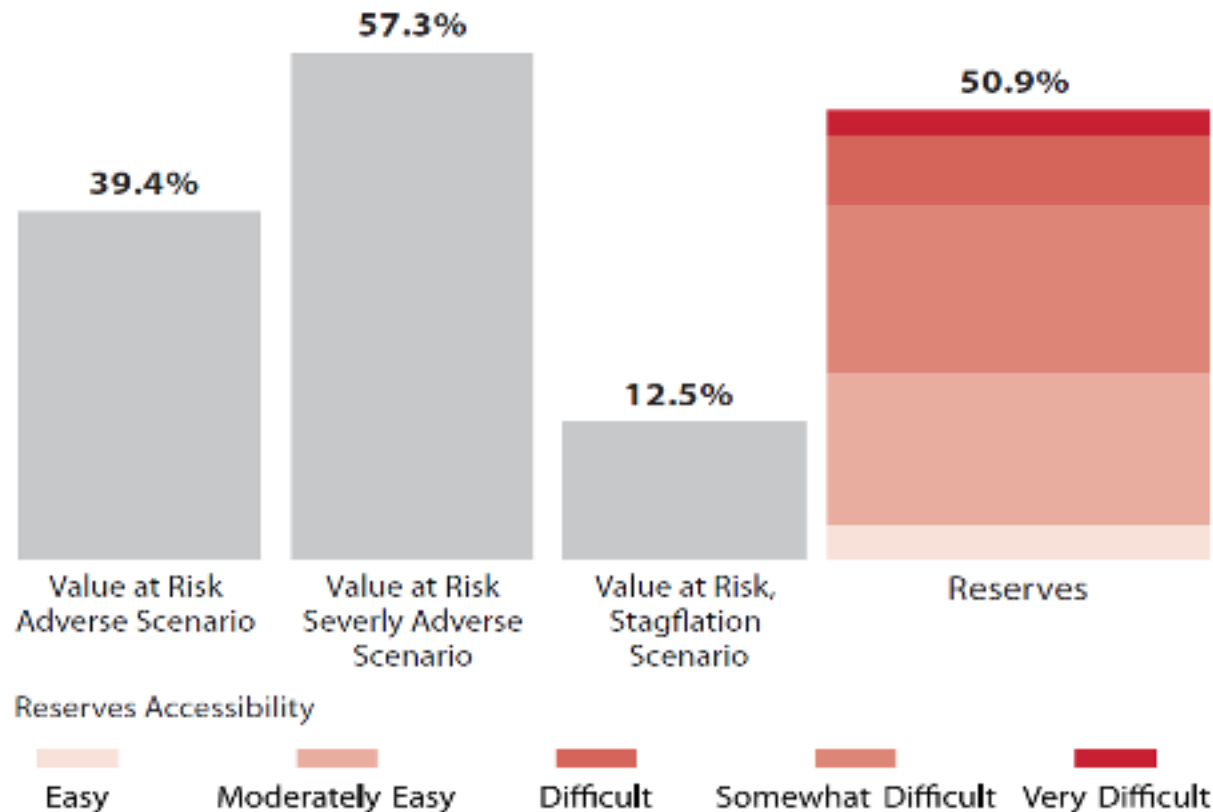


Source: Utah Office of the Legislative Fiscal Analyst data

4: Compare total value at risk to total contingencies to evaluate overall resilience of state budget

State of Utah Budget Stress Test Results

Percent of FY 2017 Appropriations



Juliette Tennert
Director of Economic and Public Policy Research
juliette.tennert@utah.edu | 801-585-3362

Kem C. Gardner Policy Institute

Thomas S. Monson Center | 411 E. South Temple Street
Salt Lake City, UT 84111 | 801-585-5618 | gardner.utah.edu

DAVID ECCLES SCHOOL OF BUSINESS
UNIVERSITY OF UTAH

