Stress Testing the Utah State Budget

National Conference of State Legislatures
August 8, 2016
Jonathan Ball, Legislative Fiscal Analyst
What?

“Plan for the worst and hope for the best.”
Why?

Markets are Volatile

Governments are Stable (?)
U.S. GDP ($m) & Recessions
Expectations...
Real Per-pupil State Appropriations

Pre-Recession
Post-Recession
Proposed
Trend

1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017
$0 $1,000 $2,000 $3,000 $4,000 $5,000

8/8/16 Office of the Legislative Fiscal Analyst
5
Expectations...

Real State Spending Per Child Down by 6% since the Great Recession (in 2014 dollars)

On a per-child basis, real state spending was still 6% below pre-recession levels in FY 2014.
Expectations...

UEN Ongoing State Appropriations

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2008</td>
<td>$19,981,700</td>
</tr>
<tr>
<td>FY2015</td>
<td>$18,413,500</td>
</tr>
</tbody>
</table>

*Figures are approximate and subject to change.*
Why?

1. Manage the business cycle
2. Set sustainable expectations and meet them
"Trend" Revenue
(HB 311 and HJR 11, 2014 GS)

1. Tax collections are volatile

2. Trends are predictable - HB311 asks staff for them

3. Above-trend collections are a windfall - HJR11 asks EAC to consider that

4. HB311 and HRJ11 combined create a state fiscal health dashboard
How?

Revenues

Experience  Scenario Assumptions  Estimated Revenue
How?

Expenditures

Experience → Scenario Assumptions → Estimated Costs
How?

Revenues

- Modeled major tax types (sales, income, corporate)
- Used Federal Reserve DFAST economic indicators for Adverse and Severely Adverse scenarios

Expenditures

- Modeled enrollment driven programs (Medicaid, higher ed, public ed)
- Used 2001 and 2009 as proxies for Adverse Severely Adverse
How?

Revenues ($b)

Expenditures ($b)

FY13 FY14 FY15 FY16 FY17

Baseline Adverse Severe

Baseline Adverse Severe

8/8/16 Office of the Legislative Fiscal Analyst
### Results

**Value at Risk ($b over 2-3 yrs)**

- Adverse: 1.0
- Severe: 2.5

**Reserves/Offsets ($b)**

By Category of Accessibility:

- Easy: 0.5
- Moderate: 1.0
- Somewhat Difficult: 1.5
- Difficult: 2.0

---

Office of the Legislative Fiscal Analyst

8/8/16
Pitfalls

• Takes money off the table
• Ruins certain political narratives
• Relies on Fed Reserve scenarios for banks
• Too short-term
• Speculative
Utah’s Future Plans

- Diversify economic scenarios
- Lengthen timeframe from 2 to five years
- Communicate probabilities
- Require in statute?