

LONG-TERM FISCAL PLANNING

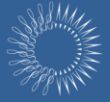
2022 NCSL REGIONAL FISCAL LEADERS
9 JUNE 2022

LONG-TERM FISCAL PLANNING

How structurally balanced is the budget?

How prepared is the state budget for a downturn?

Which emerging challenges need to be addressed?



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HOW STRUCTURALLY BALANCED IS THE STATE BUDGET?

WHAT IS STRUCTURAL BALANCE?

- GFOA: “A true structurally balanced budget is one that supports financial sustainability for multiple years into the future.”

[Source: GFOA](#)

WHAT IS STRUCTURAL IMBALANCE?

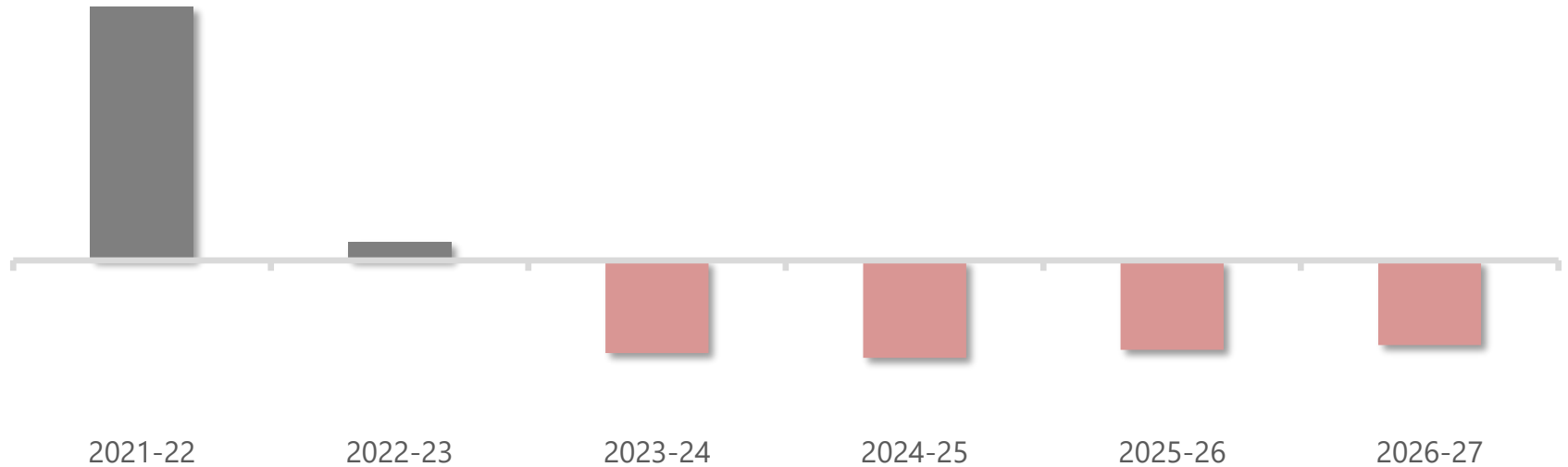
- Over time, expenses consistently exceed revenues because ongoing spending commitments rise without new ongoing revenue or ongoing revenue is cut without corresponding spending cuts.
- Can be driven by policy or by external factors.
- A state can meet statutory requirements for annual or biennial balance and still have a structural imbalance.

EXAMPLE: PENNSYLVANIA

- Section 604-B (a)(2) of the Administrative Code of 1929 specifies that the Independent Fiscal Office (IFO) shall “provide an assessment of the state’s current fiscal condition and a projection of what the fiscal condition will be during the next five years. The assessment shall take into account the state of the economy, demographics, revenues and expenditures.”

[Source: PA IFO](#)

PENNSYLVANIA'S STRUCTURAL IMBALANCE



[Source: PA IFO](#)

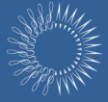
LONG-TERM BUDGET PROJECTIONS

Include all major budget drivers?

Capture future impact of current decisions?

Produced regularly?

Provide context and analysis?



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HOW PREPARED IS THE STATE BUDGET FOR A DOWNTURN?

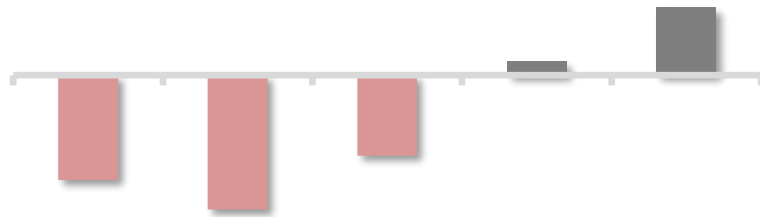
PREPARING FOR DOWNTURNS

Adjust rainy day fund target and deposit rules

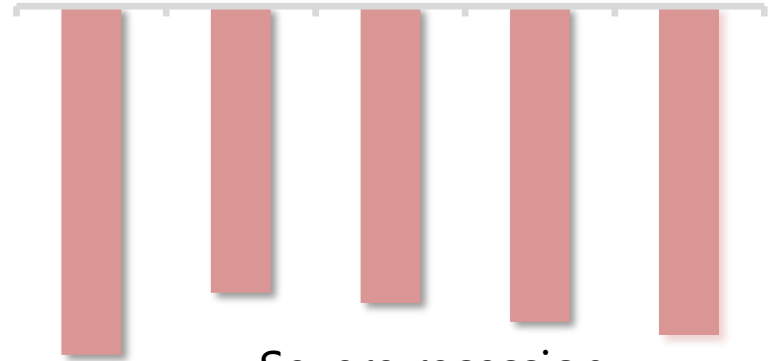
Develop contingency plan for mid-year gaps

Outline and prioritize fiscal toolkit

CONSIDER SCENARIOS (EXAMPLE: MAINE)



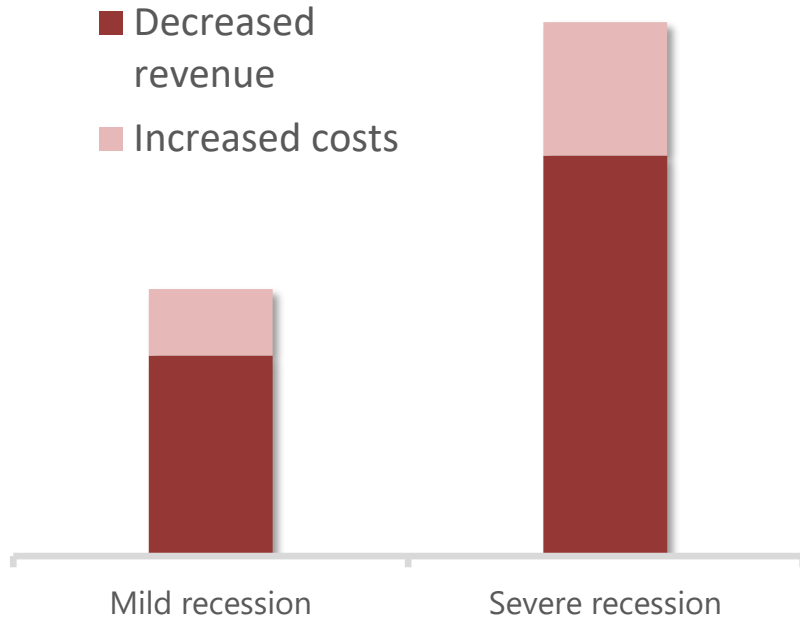
Moderate recession



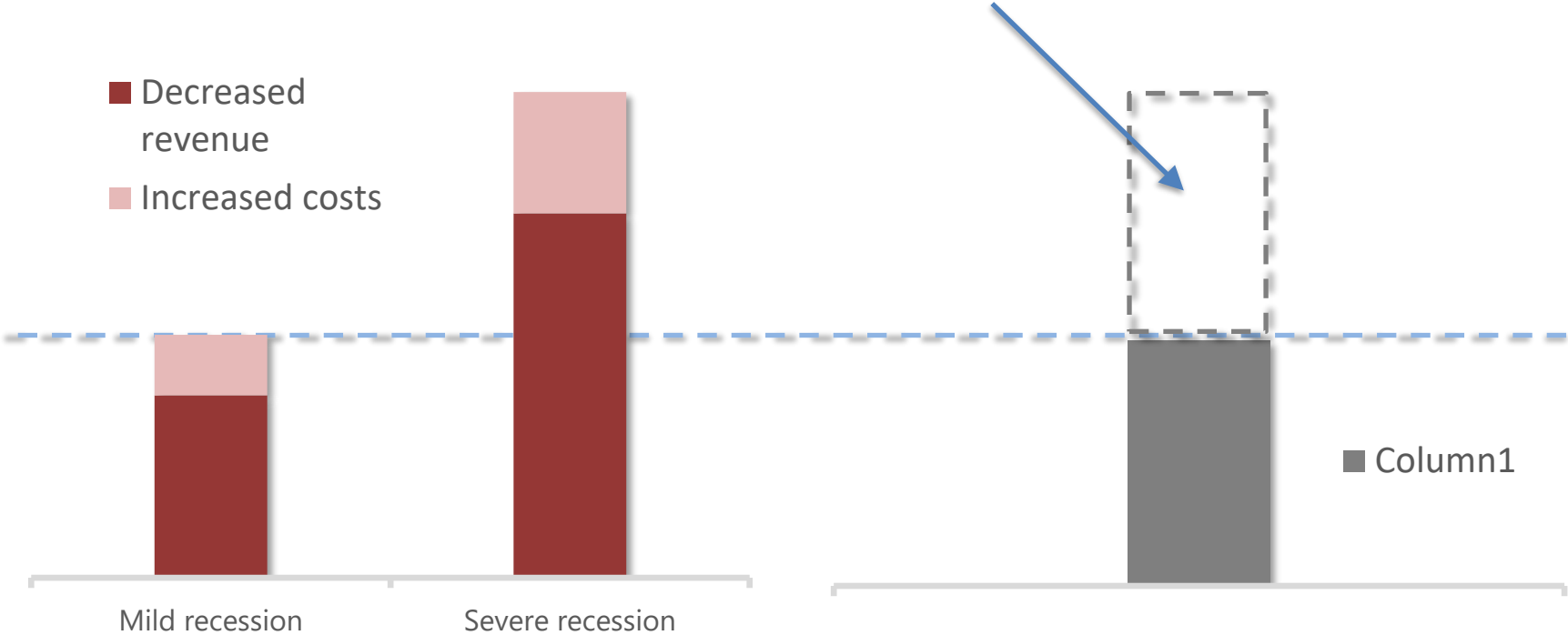
Severe recession

[Source: ME CEFC/RFC](#)

CALCULATE VALUE AT RISK



IDENTIFY GAP



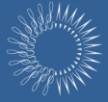
BUDGET STRESS-TESTING

Include all major cyclical budget drivers?

Consider multiple scenarios?

Produced regularly?

Connected to a plan for closing gaps?



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WHICH EMERGING CHALLENGES NEED TO BE ADDRESSED?

EMERGING CHALLENGES

Demographics

Technology/economy

Disasters

Legacy costs

EXAMPLE: MONTANA

- The Financial Modernization and Risk Analysis (MARA) study is authorized by HB 330, section 3: (1) A committee of members of the Legislative Finance Committee and appointed members shall study the long-term future budget and revenue needs with changing economics and demographics.

[Source: MT MARA](#)

QUESTIONS FOR BREAKOUT GROUPS

What are the barriers to long-term planning?

How has analysis helped overcome those barriers?

What are the gaps in your state?

How can Pew and NCSL be helpful in closing gaps?