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?
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?
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

- Decreased revenue
- Increased costs

Mild recession | Severe recession
ASSESS EXISTING OPTIONS

- Mild recession
  - Decreased revenue
  - Increased costs

- Severe recession
  - Decreased revenue

IDENTIFY GAP
BUDGET STRESS-TESTING

- Include all major cyclical budget drivers?
- Consider multiple scenarios?
- Produced regularly?
- Connected to a plan for closing gaps?
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?