

Sustainable Budget Strategies: A 50-State Outlook

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Why states need to plan for budget resilience, long-term

- Recent surpluses reflect temporary factors that are dissipating
- As they adopt tax cuts and spending increases, states need to focus more on the long-term effect of today's decision on tomorrow's finances
- Both structural imbalances and temporary shortfalls pose risks
- Analytical tools can measure whether states are on a sustainable path

Analytical tools for fiscal sustainability

Long-term budget assessments: Analyze several years of projected revenue and spending to determine whether states face chronic budget deficits and, if so, why

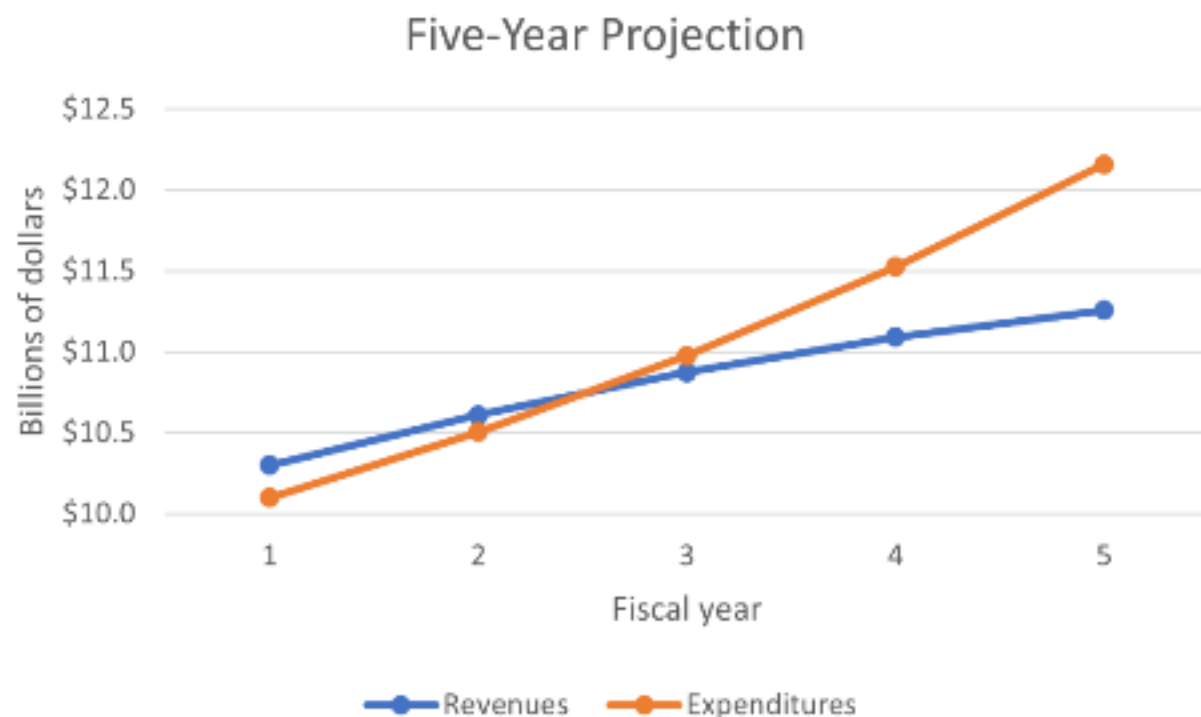
Budget stress tests: Estimate the size of temporary budget shortfalls that would result from recessions or other economic events and assess whether states are prepared for these events

Key elements of a long-term budget assessment

Identify key revenue and spending categories

Project budget balance in these categories at least three fiscal years into the future

Use projections to provide analysis of ongoing fiscal sustainability



Key elements of a budget stress test

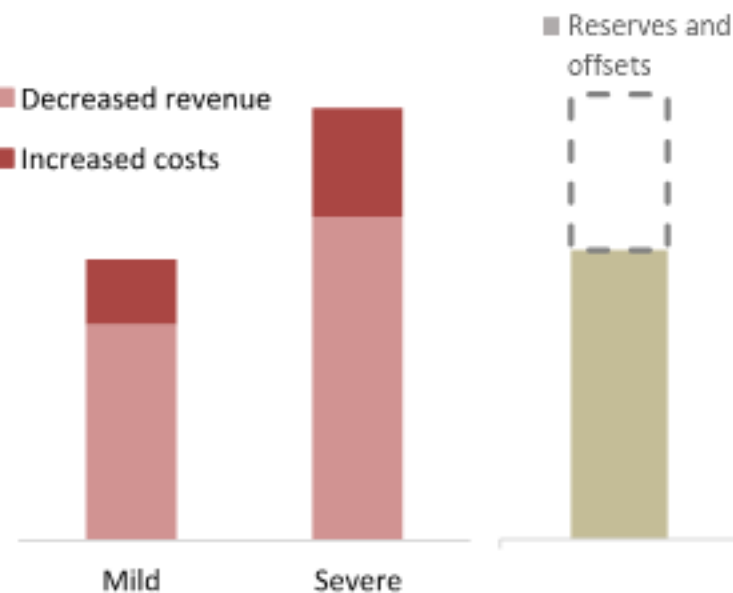
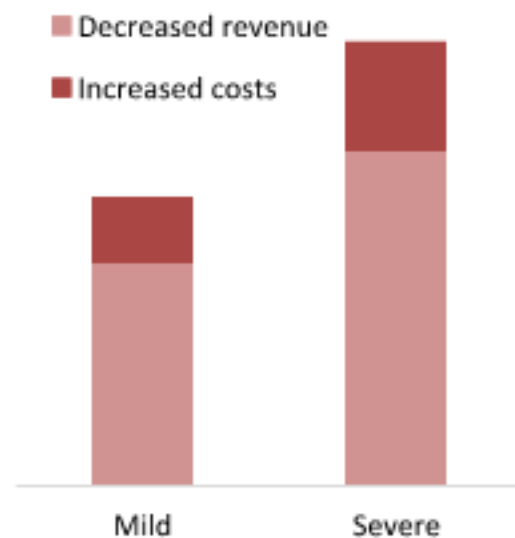
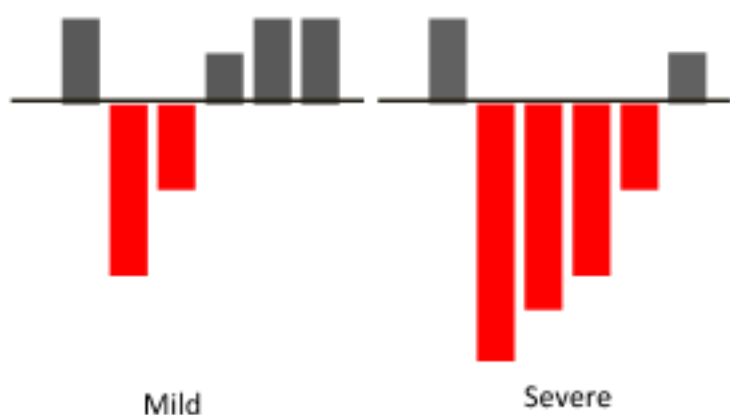
Identify a possible temporary scenario or range of scenarios that could cause budget stress



Analyze the potential effects of the stress scenario or range on general budget conditions



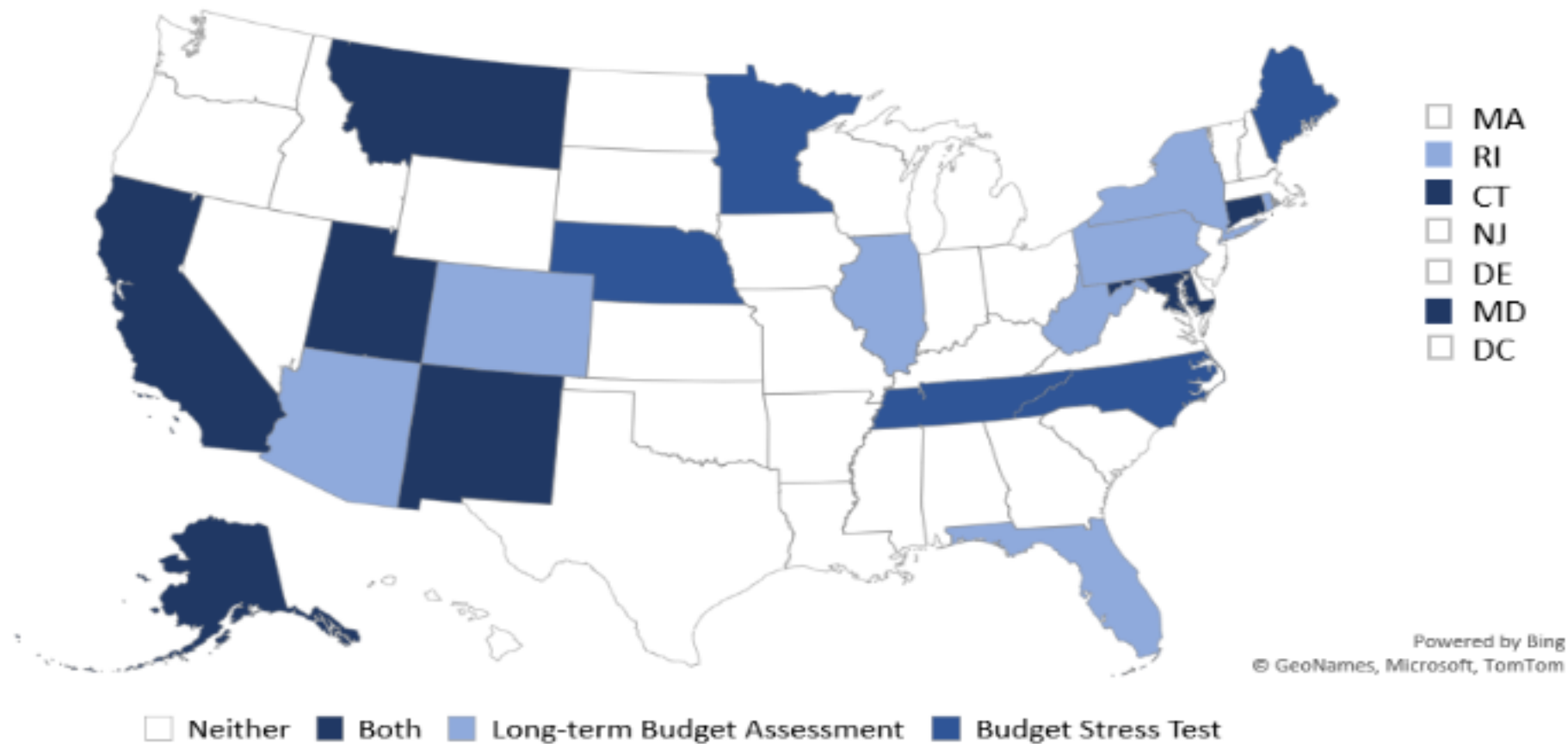
Compare the negative effects of the scenario to available or needed contingencies for addressing such effects



Key findings

- Increasingly, long-term budget assessments and budget stress tests are established fiscal management tools
- A heterogeneous group of states use these analytic tools
- These analyses have proved their value for informing policy decisions
- States that produce one or both analyses still have room to improve
- Even states without these tools often have building blocks

Overall use of tools across states



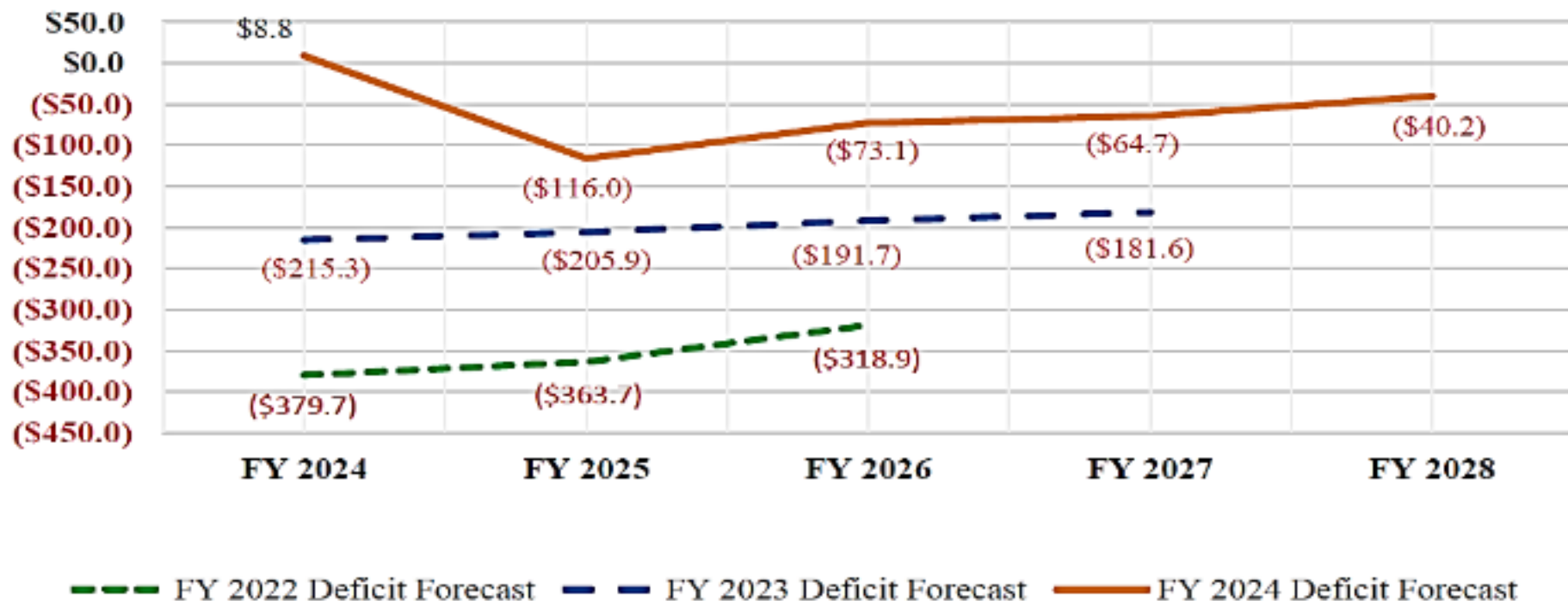
Based on Pew's research as of May 26, 2023

How these tools are making a difference

- Several states, such as Minnesota, use budget stress tests to set reserve levels
- After New Mexico's long-term budget assessment projected eventual structural deficits, lawmakers directed hundreds of millions of dollars to endowments and trusts funds to provide ongoing revenue to close the gap
- Utah has used its stress test to create a plan for closing temporary budget gaps and then put this plan into action, limiting negative consequences for residents and the economy

Rhode Island's long-term budget assessment

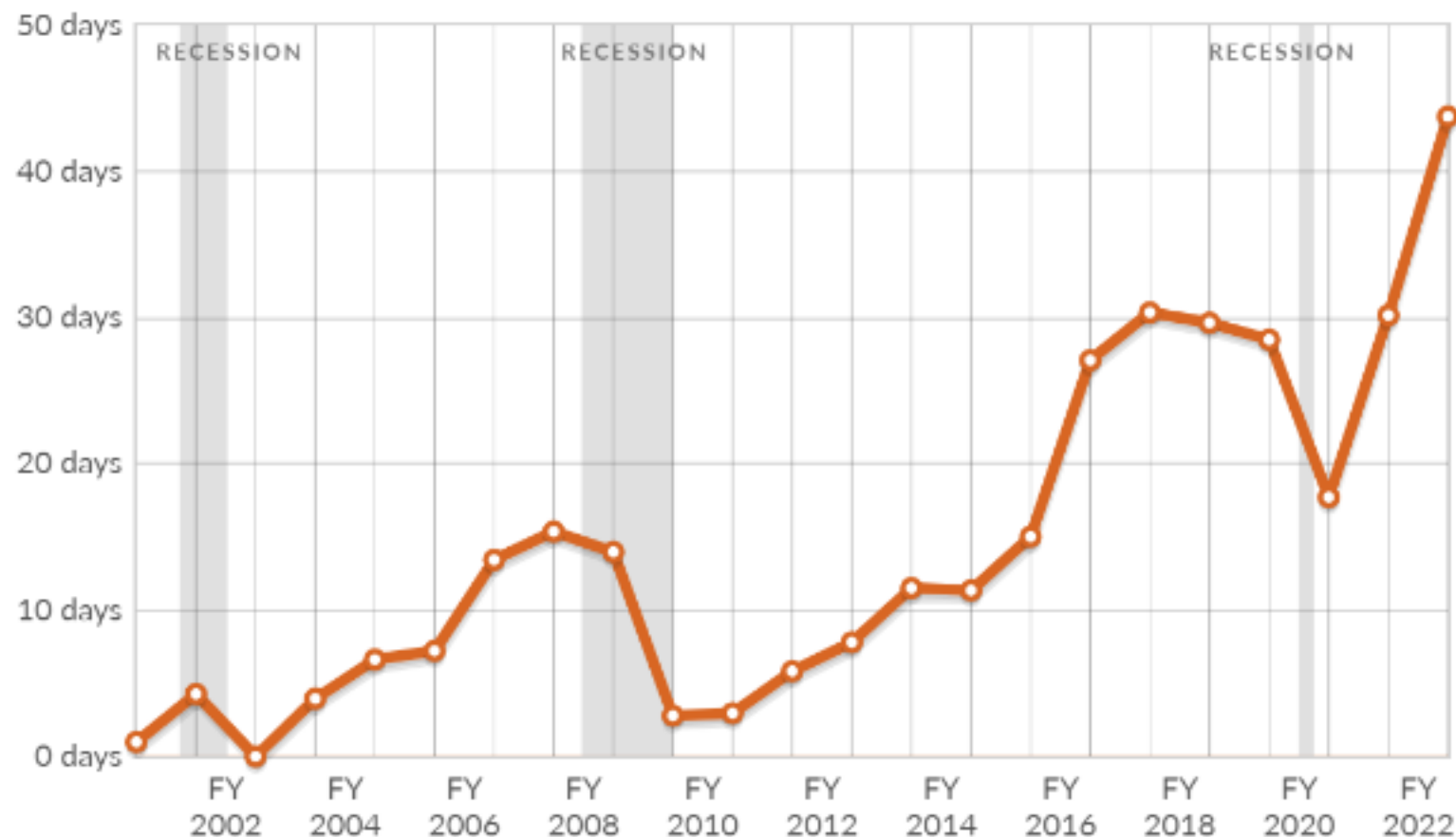
Structural Budget Deficit FY 2022, FY 2023 & FY 2024 Forecasts



Source: [Rhode Island Office of Management and Budget](#)

Stress tests have helped North Carolina increase savings

Days the state could run on its rainy day fund alone by fiscal year



Source: [The Pew Charitable Trusts, Fiscal 50](#)

Q&A session with Representative Llew Jones

Highlighting Montana's fiscal tools and strategies

Discussion Questions

- Do you think your state is financially prepared to weather future economic downturns? Why or why not?
- What type of data is most helpful and in what ways should it be presented to encourage long-term thinking among policymakers when it comes to making budget decisions?
- Does your state produce a long-term budget assessment and/or budget stress test?
 - If so, how do these tools inform decision-making?
 - If not, do you have data to understand whether your state's budget is structurally balanced and how a potential recession could affect revenue and spending?

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