

The consequences of fiscal uncertainty and potential solutions

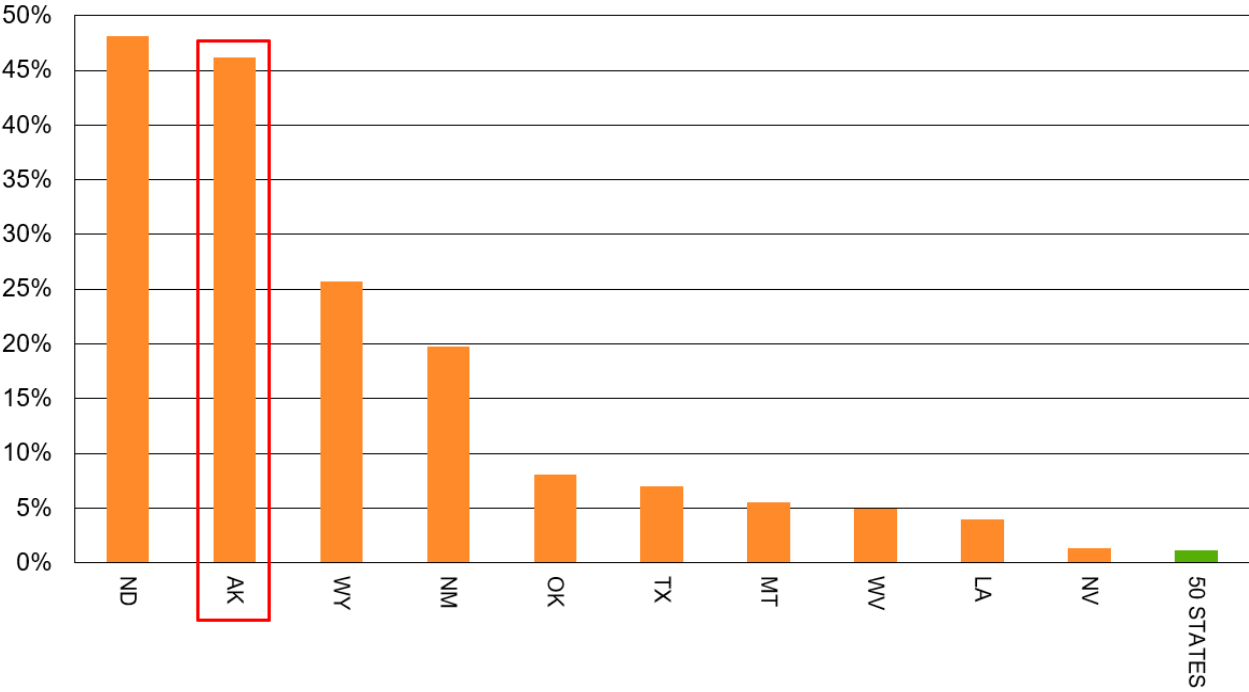
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The Pew Charitable Trusts
September 24, 2021

Today's agenda

1. How Alaska compares
2. The costs of fiscal uncertainty
3. Strategies and solutions

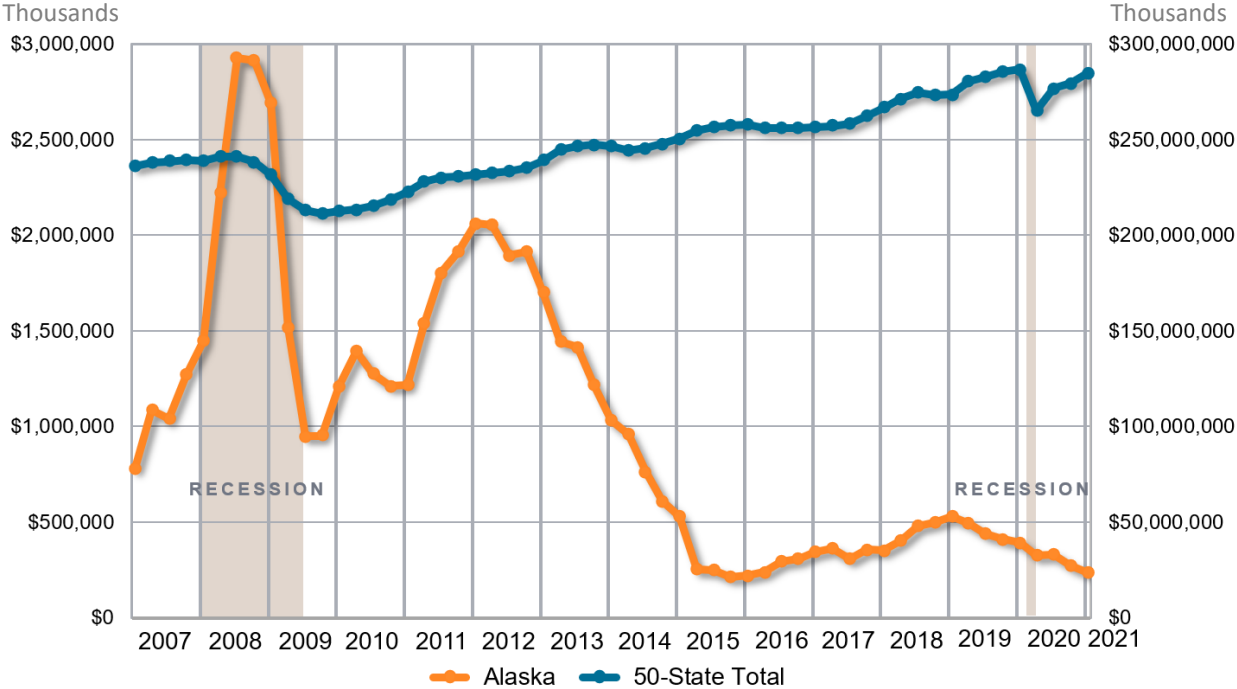
Severance tax revenue as a share of total tax revenue

Fiscal year 2020



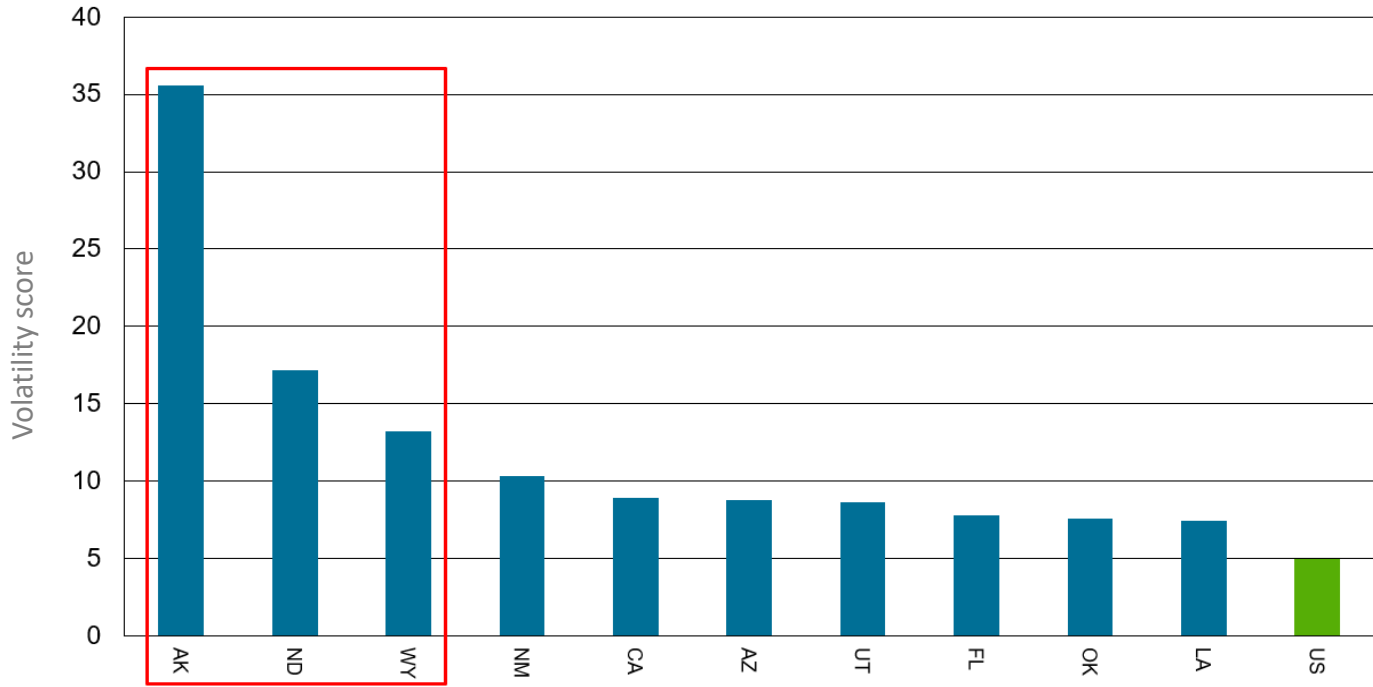
Quarterly total tax revenue collections, adjusted for inflation

50-state total and Alaska



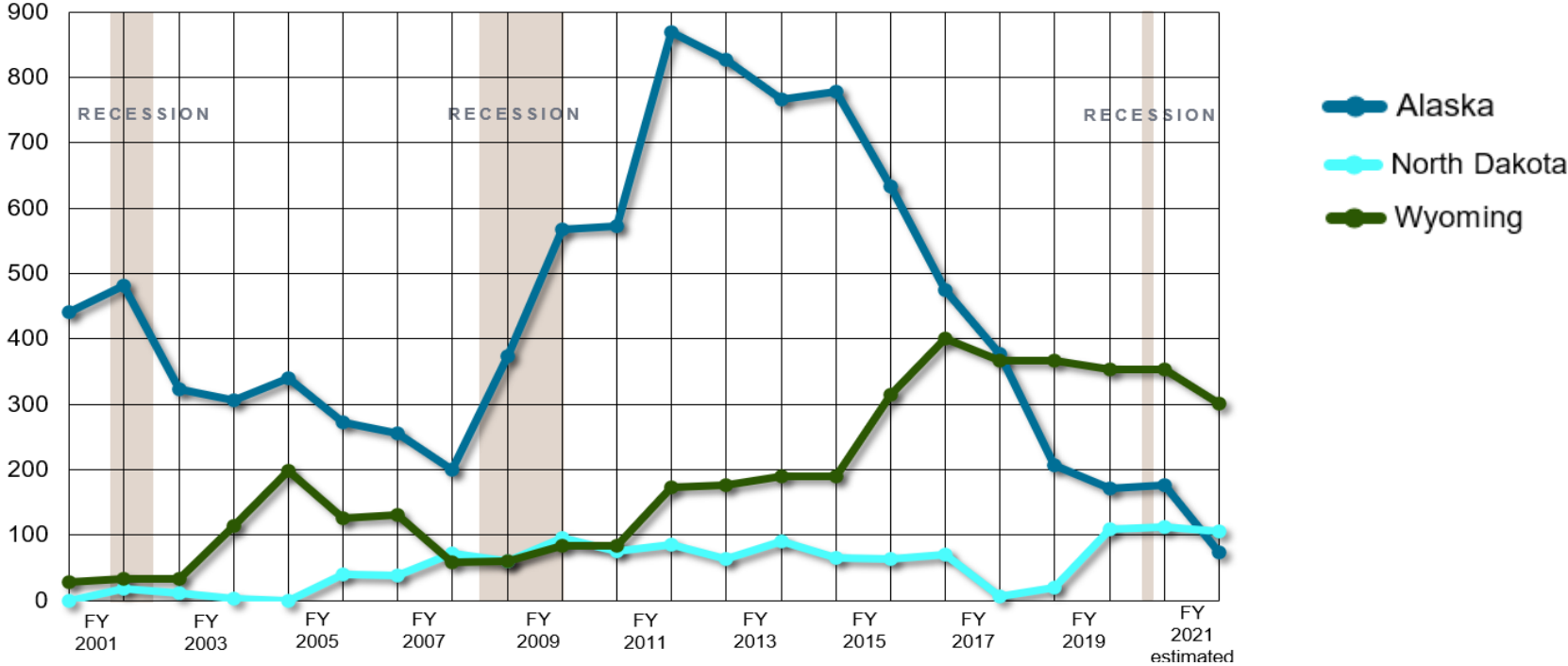
Tax revenue volatility by state

Fiscal year 2001-2020



Days states could run on rainy day funds alone

Alaska, North Dakota, and Wyoming FY 2000-21



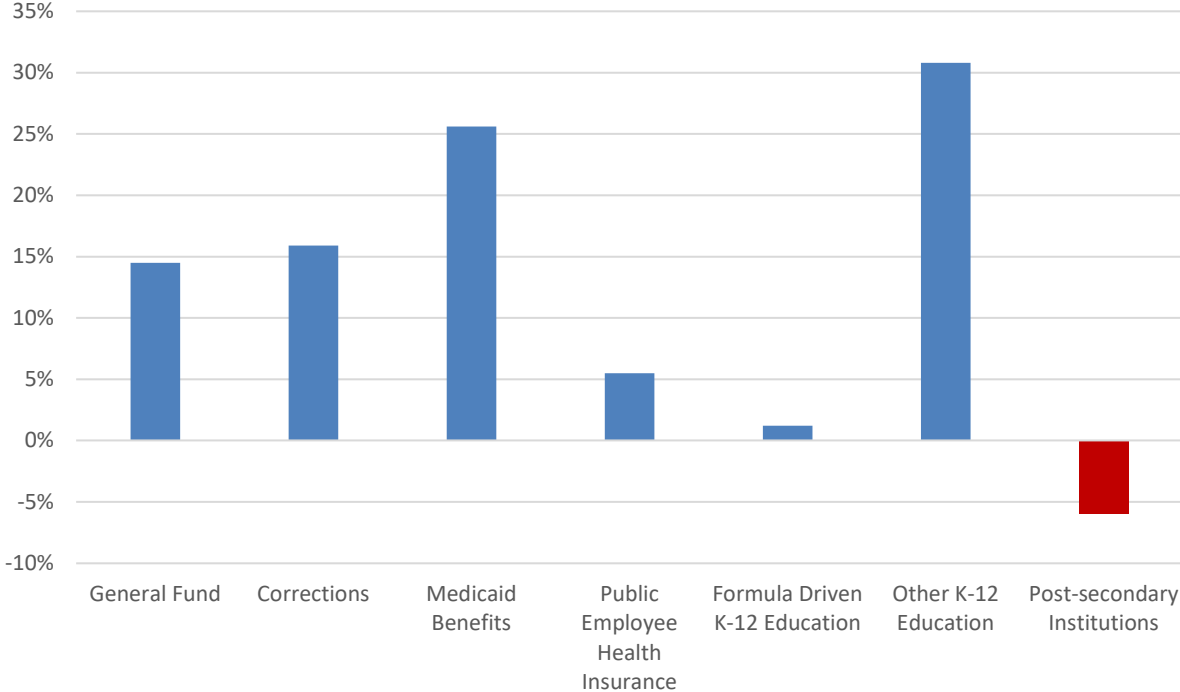
Fiscal uncertainty, structural budget imbalances can hinder state priorities

States may be unable to:

- Invest in state policy priorities
- Effectively manage temporary setbacks, such as recessions
- Keep promises to businesses and residents
- Prepare for future challenges

Kentucky's leaky bucket

Growth in Kentucky general fund expenditures, FY 2016-20



Source: Kentucky Chamber of Commerce

California's wall of debt

Outstanding borrowing as of May 2011

(\$ in Billions)

Deferred payments to schools and community colleges	10.4
Economic Recovery Bonds	7.1
Loans from Special Funds	5.1
Unpaid costs to local governments, schools and community colleges for state mandates	4.3
Underfunding of Proposition 98	3.0
Borrowing from local government (Proposition 1A)	1.9
Deferred Medi-Cal Costs	1.2
Deferral of state payroll costs from June to July	0.8
Deferred payments to CalPERS	0.5
Borrowing from transportation funds (Proposition 42)	0.4
Total	\$34.7

Source: Governor's Budget Revision

Fiscal hurdles can lead to broken promises

News coverage from New Jersey, Illinois

**New Jersey's debt to companies grows to
\$785 million**

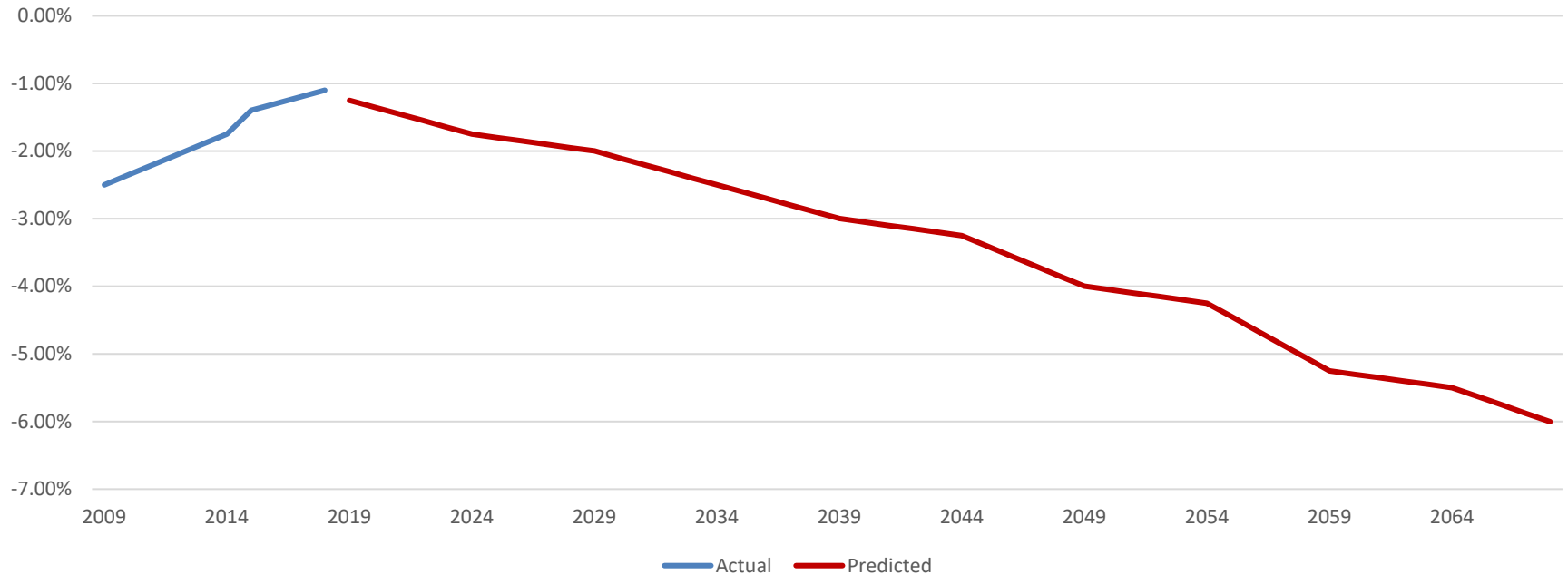
Source: The Record

**Illinois' unpaid bill backlog hits a record
\$16 billion**

Source: Reuters

State, local gov'ts face long-term structural challenges

State, local operating balance as a percentage of GDP over time



Source: U.S. Government Accountability Office

Many factors threaten long-term budget balance

1. Rising health care costs
2. Changing state demographics, an aging population
3. Long-term liabilities
4. Increasing frequency of natural disasters
5. Economic and technological changes

Two key fiscal goals for all states

1. Prepare for temporary shocks
2. Achieve structural balance

What states can do to manage fiscal uncertainty

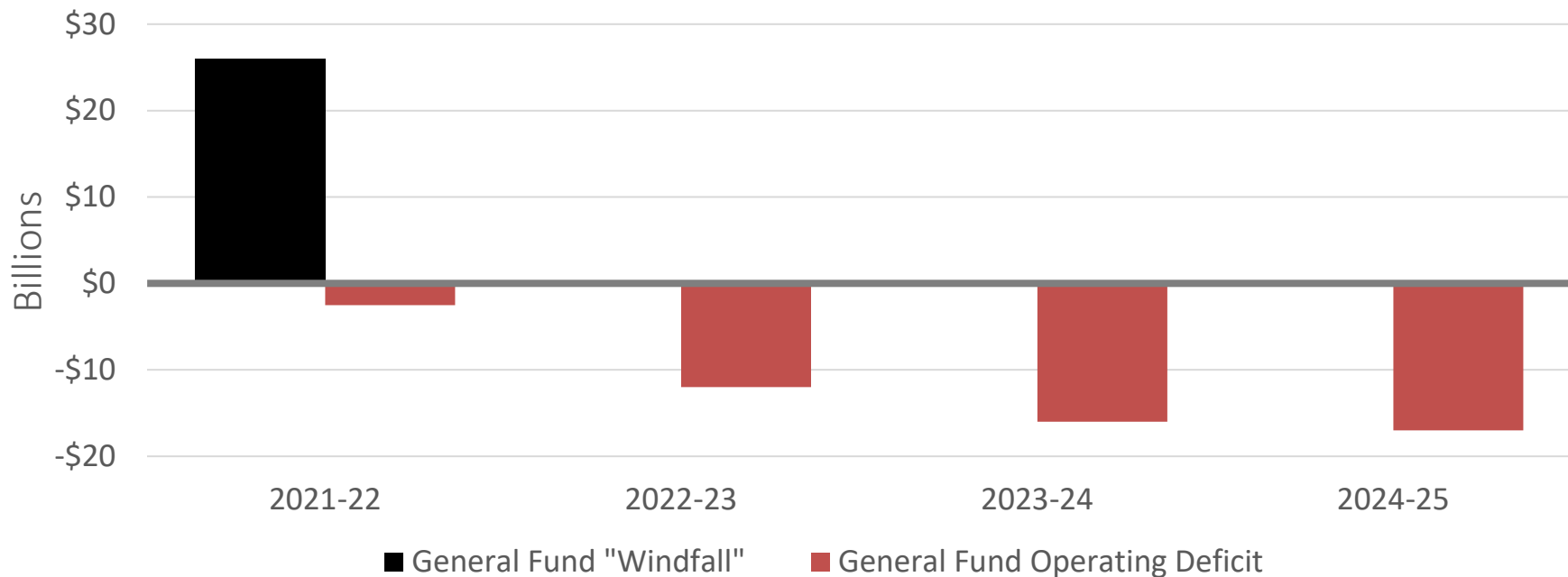
1. Produce high-quality, long-term revenue and spending projections
2. Routinely stress test state budgets
3. Develop contingency plans for closing mid-year budget gaps
4. Re-examine reserve levels and policies to ensure savings are sufficient and accessible

Key components of high-quality budget projections

1. Consider baseline revenue/spending + potential/upcoming policy changes
2. Use a current services baseline, accounting for caseload growth and demographic changes
3. Distinguish between one-time and ongoing revenue and expenditures to calculate structural balance
4. Account for a range of economic scenarios
5. Be transparent about assumptions

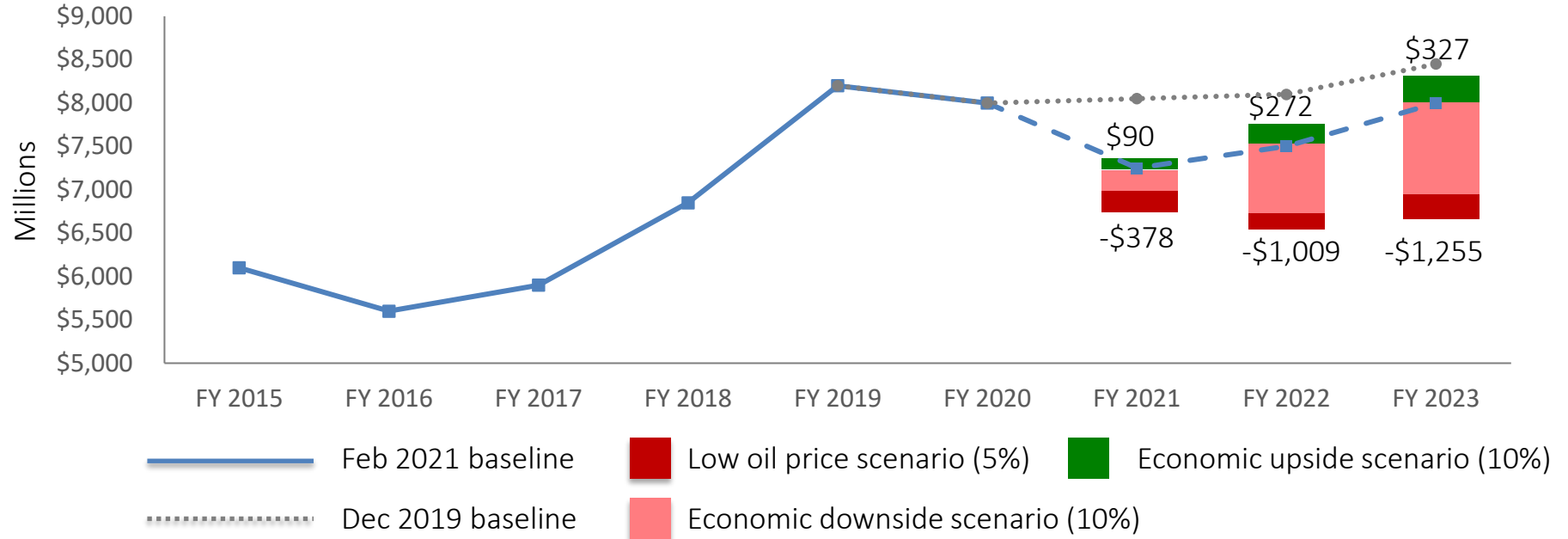
California: Multi-year forecasts can show imbalances

California budget deficit projection, November 2020



Source: California Legislative Analyst's Office

New Mexico: Revenue projections include multiple scenarios



Source: New Mexico Legislative Finance Committee

Stress tests have multiple uses

Well-designed stress tests can inform key budget decisions

1. Set savings targets
2. Design budget balancing toolkits
3. Inform long-term budget planning

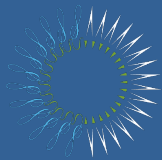
Key rainy day fund policy decisions

1. Deposit rules
2. Withdrawal rules
3. Repayment rules
4. Optimal size

Key takeaways

Considerations for Alaska

1. Alaska faces unique challenges, in addition to the long-term risks that are common across states
2. Structural budget problems ultimately require structural solutions
3. Delaying action has costs
4. Proven analytical tools can help inform the state's decisions



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