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Evidence-Based Practices for Managing the Economic Cycle

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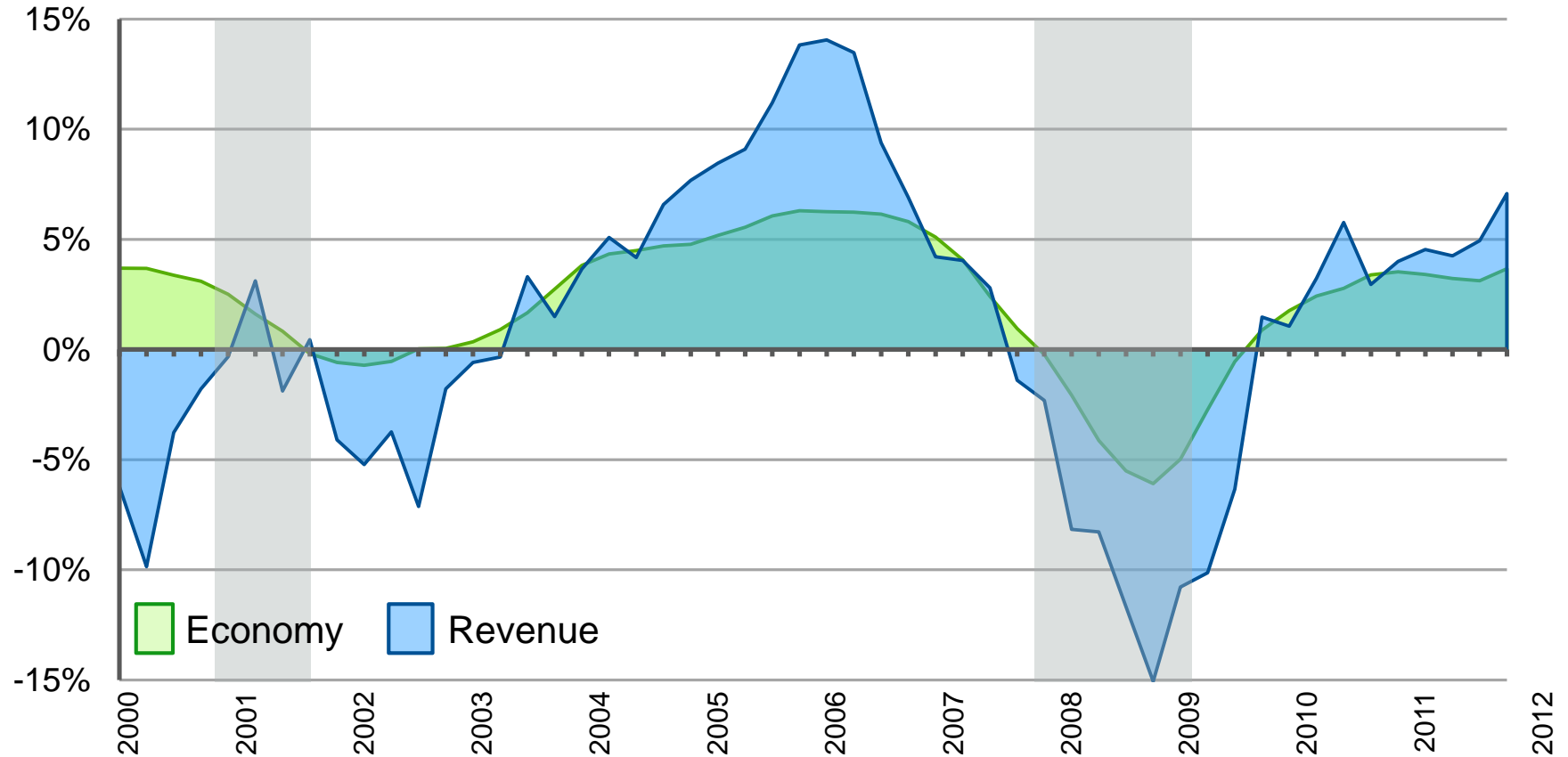
Overview

- Revenue volatility in Utah
- Improving Utah's savings policies
- How much should states save
- Capital budgeting and volatility

Tax & economic performance

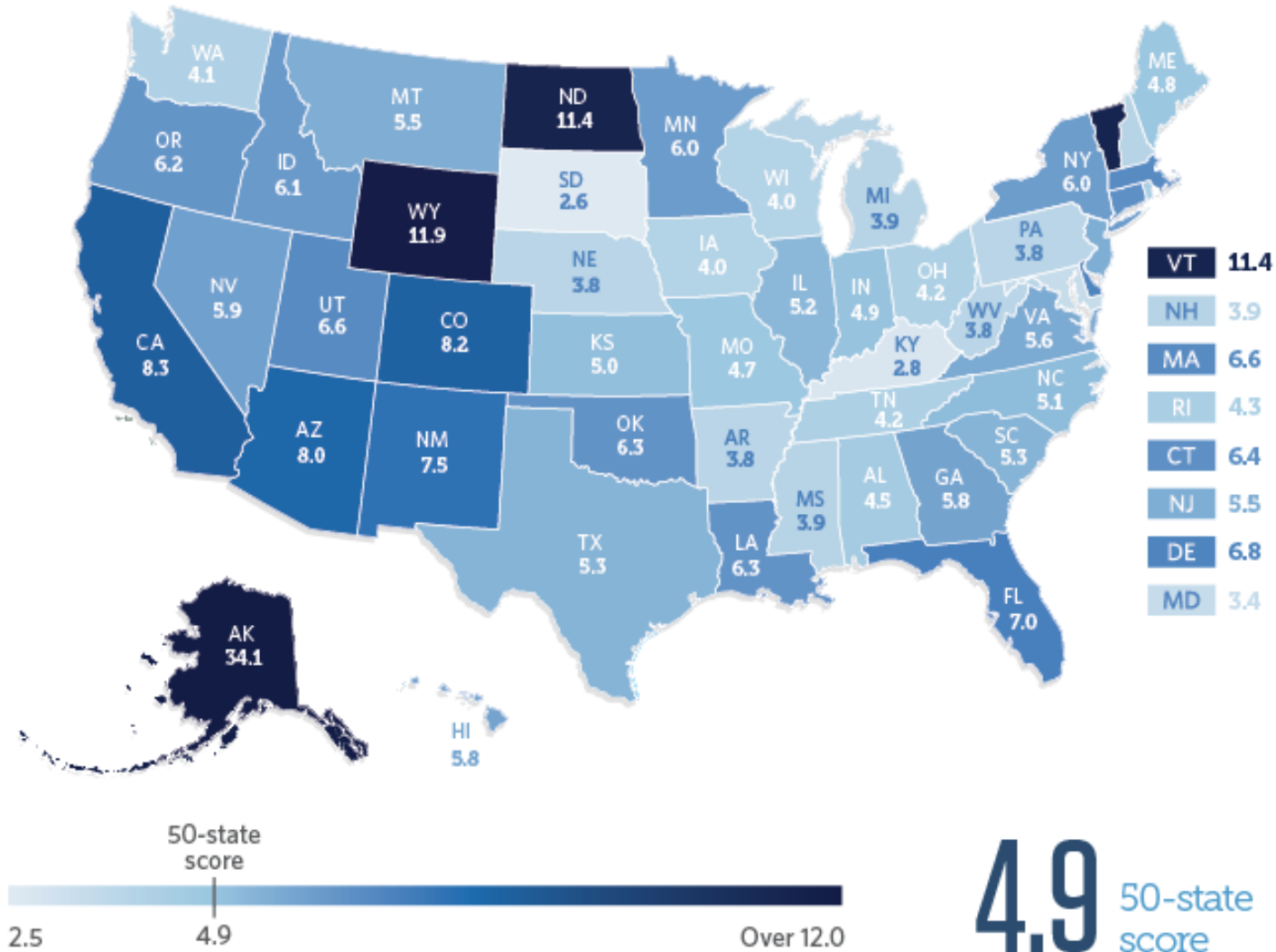
Utah economic performance versus tax collections, 2000-12

Year over year growth

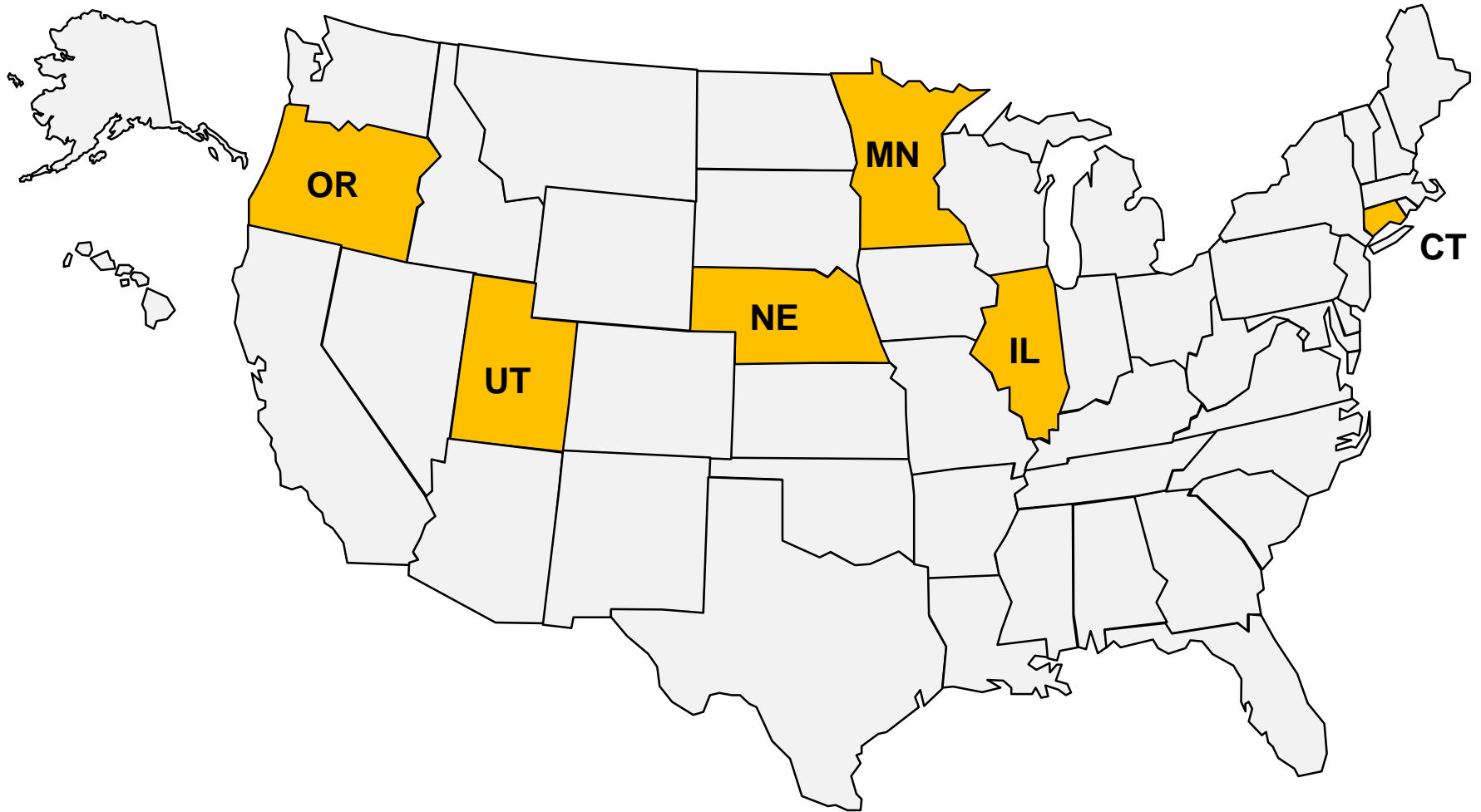


Source: State coincident index, Federal Reserve Bank of Philadelphia; State tax collections, Rockefeller Institute of Government, SUNY, Albany, N.Y.

United States revenue volatility



States that have legislated volatility studies since 2008



Studied federal funds volatility and deposit rules tied to above-trend



Figure 28 - Federal Revenue Business Cycle

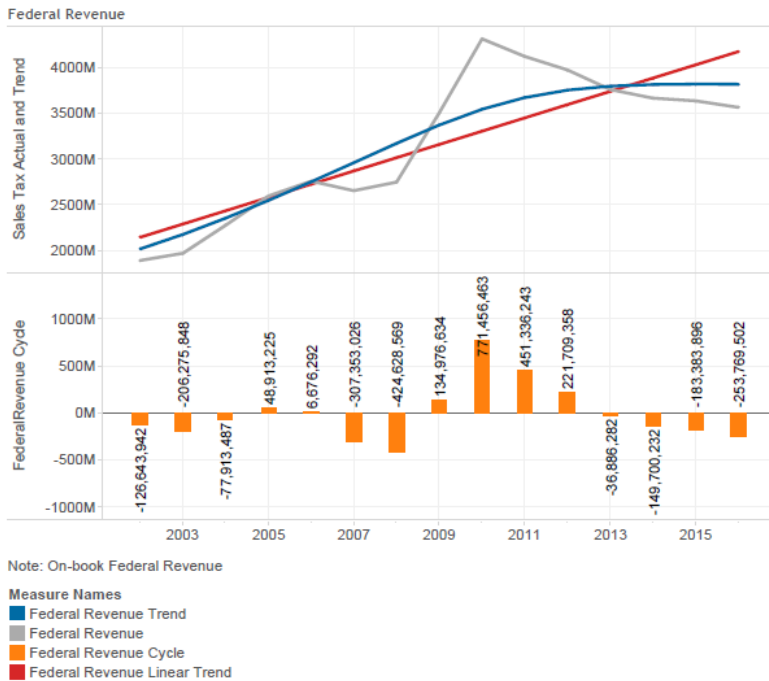
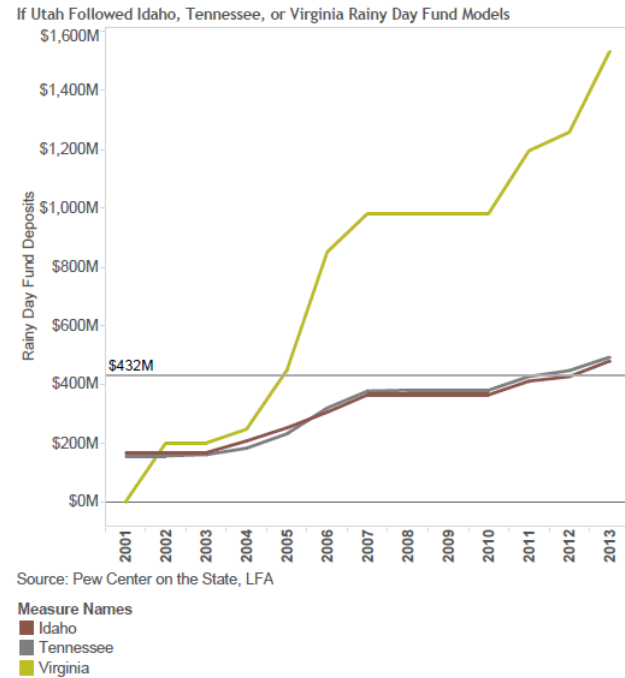


Figure 29 - Rainy Day Fund Balances if Utah Followed Idaho, Tennessee, or Virginia

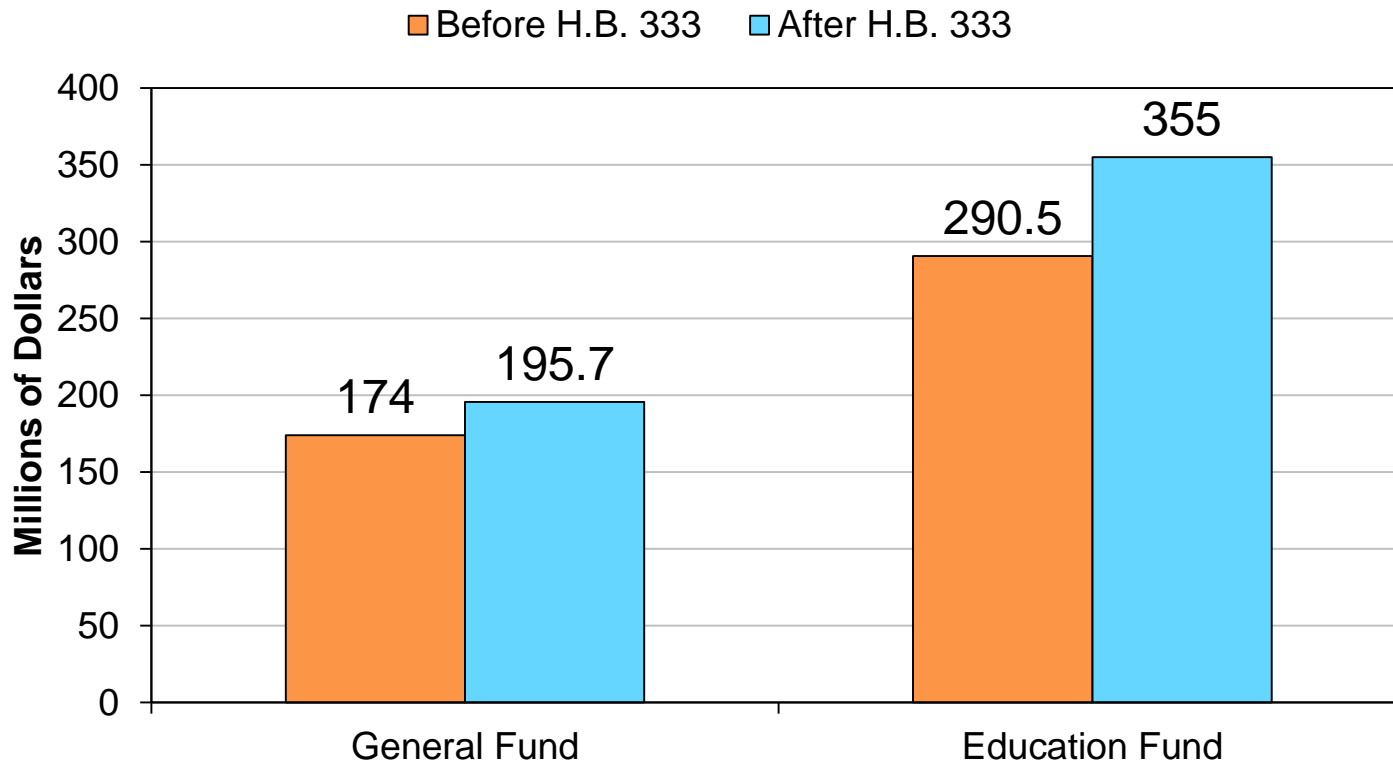


Source: Utah LFA 2014 Volatility Study

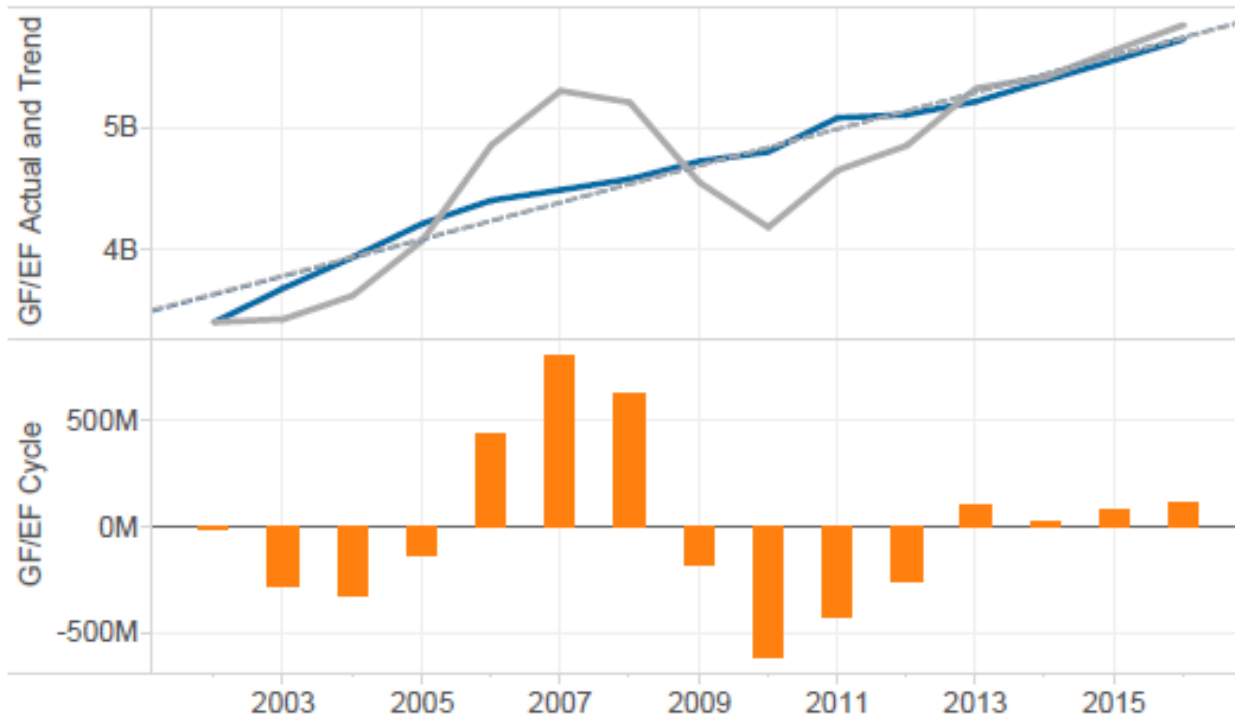
Increased the rainy day fund caps based on study of volatility



Utah's increased reserve targets, before and after H.B. 333



Considered above-trend revenue as one-time



Note: dotted line represents the linear trend.

Measure Names

- GF/EF
- GF/EF Trend
- GF/EF Cycle

Source: Utah LFA 2014 Volatility Study

Ways Utah can improve volatility management



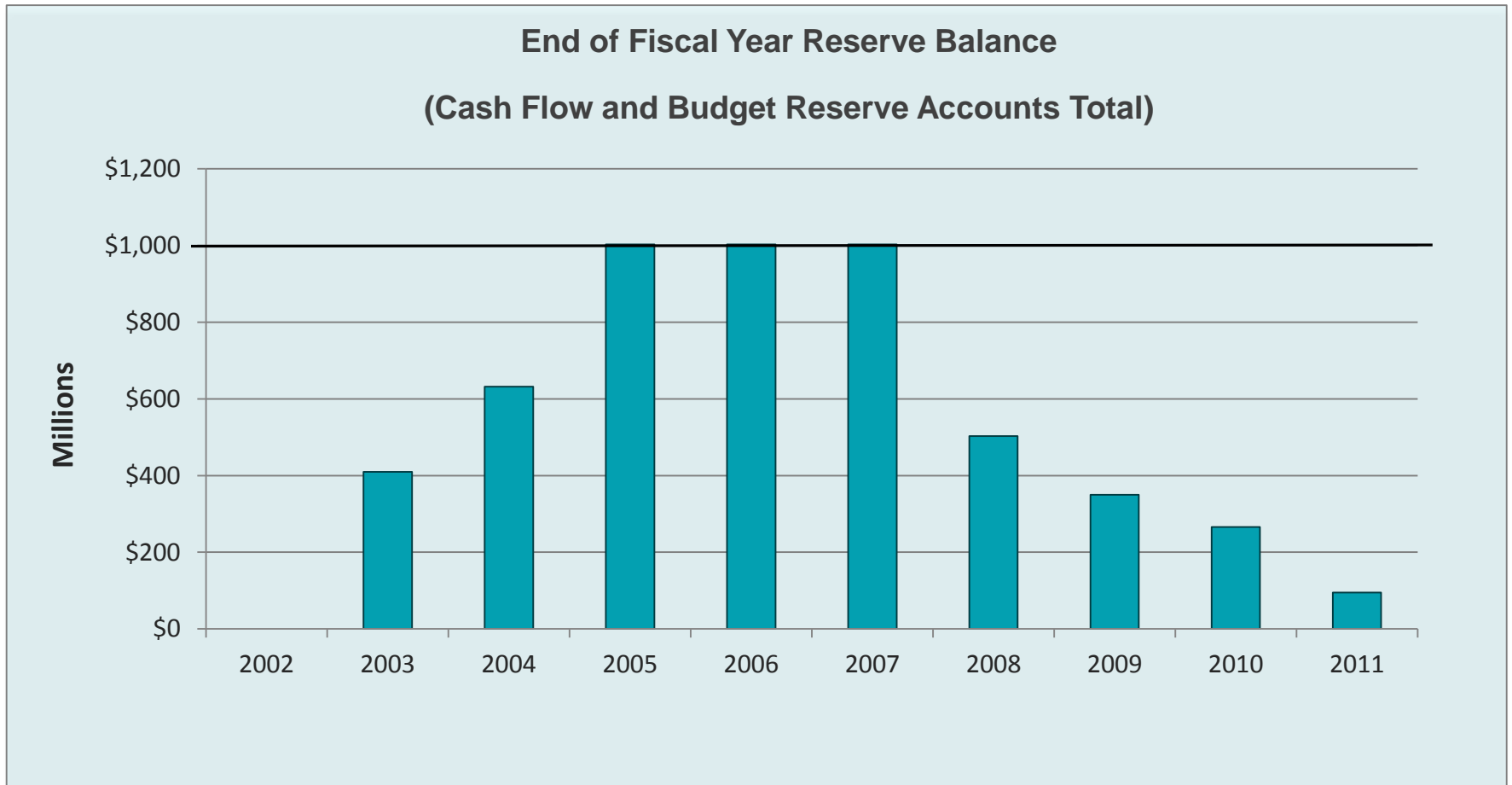
● Reserve deposit rules

- Current practice: percentage of surplus
- *Improved practice: percentage of above-trend*

● Reserve withdrawal conditions

- Current practice: to resolve a budget deficit
- *Improved practice: revenue or economic declines*

Like many states, Minnesota hit its reserve cap well before recession



Minnesota decided to evaluate why it saves and began to assess risk tolerance



- Why are we saving?
- How long should we be saving for?
- How much risk can we tolerate?

Wyoming looked at Minnesota approach



- Unlike many states, Wyoming struggles with the question of whether they have saved enough – or too much
 - Held \$1.8 billion in their main reserve fund as of the end of FY2015, enough to cover more than half their biennial budget
- Approached Pew to request that we adapt Minnesota’s methodology to their state
- Two major policy questions:
 - What level of coverage do they wish to provide for their budget?
 - How many years worth of revenue downturns do they wish to protect against?

Utah has taken an innovative approach to budgeting for capital projects

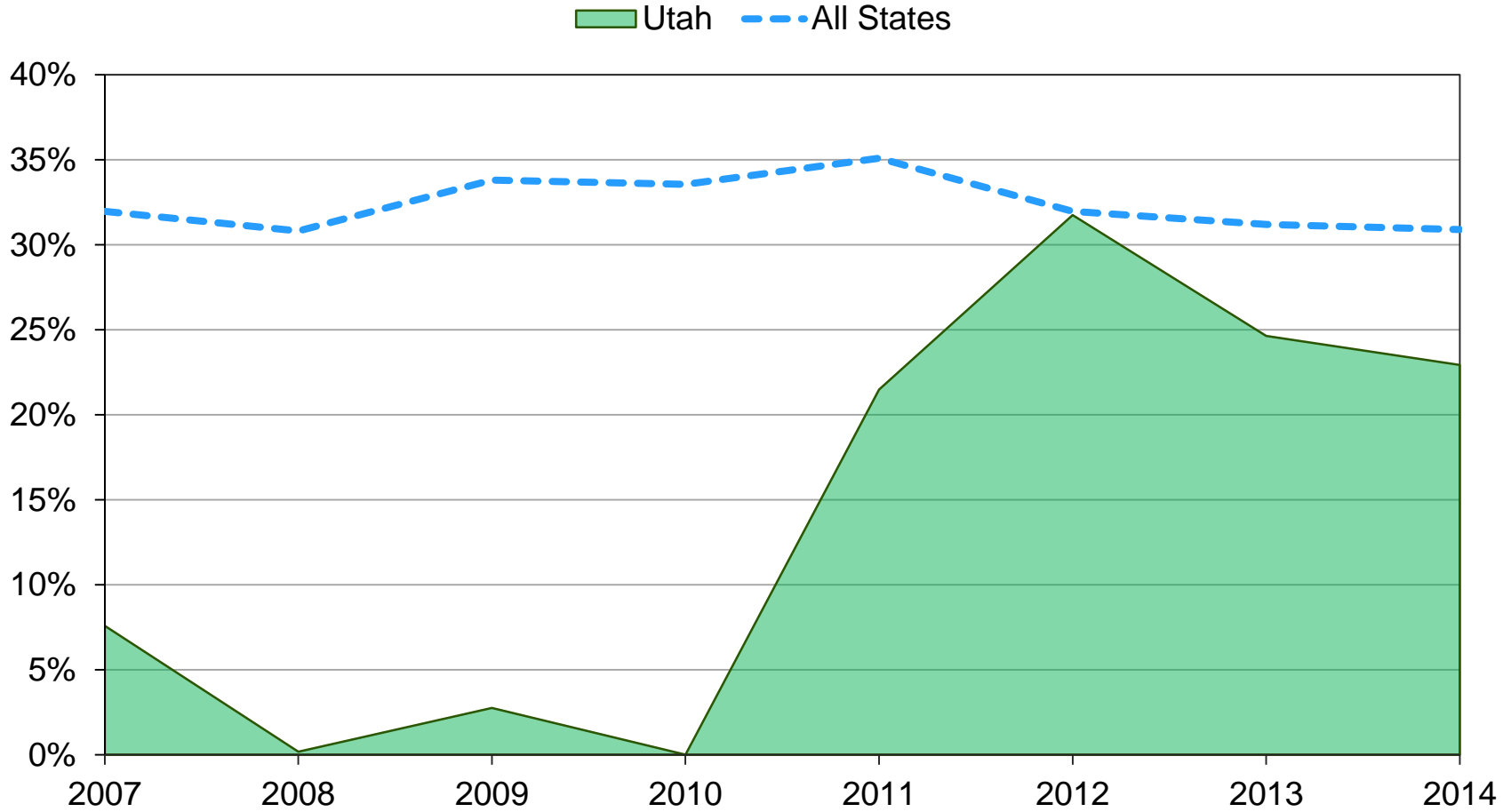


Source: Utah Department of Transportation
I-15 Corridor Expansion

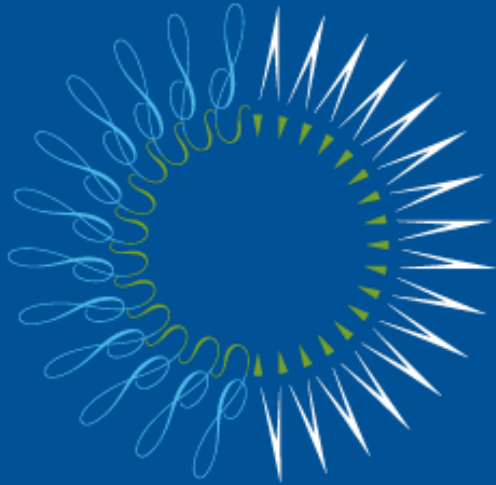
Considering volatility in capital budgeting



Share of capital investment paid for with bond proceeds



Source: NASBO



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