UTAH STATE LEGISLATURE

Stress Testing the Utah State Budget

Executive Appropriations Committee

December 13, 2016

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Why?

1. Manage the business cycle
2. Set sustainable expectations and meet them
3. Avoid crisis-driven policy decisions

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How?

Revenues

Experience

Scenario Assumptions

Estimated Revenue

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New on the Revenue Side

- Used "what if" economic scenarios purchased from Moody's Analytics
  - Fed DFAST Adverse
  - Fed DFAST Severely Adverse
  - Stagflation
- Expanded from two to five year timeframe
- Assumes baseline grows for 12 months after recession begins, then flattens as governments begin to respond

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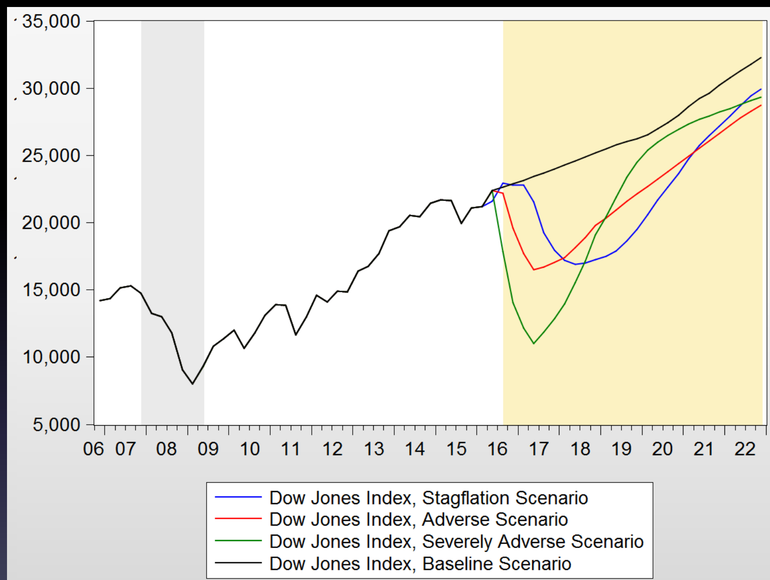

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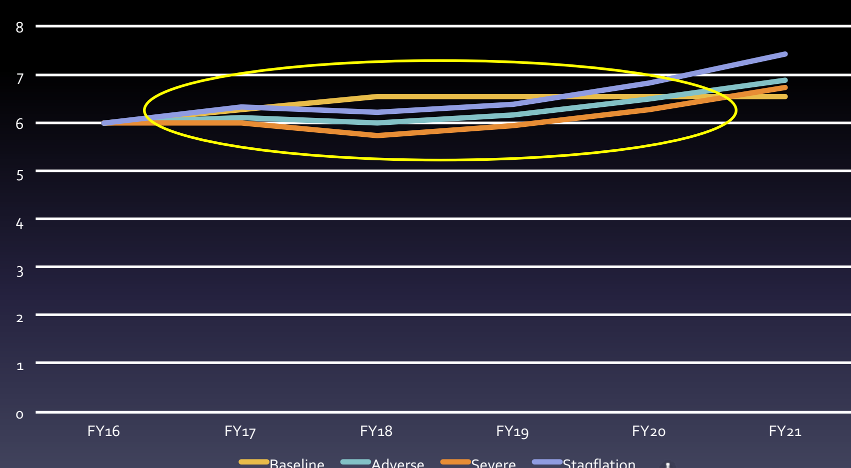
Revenue-side Risk ($b)



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How?
Expendıtures

Experience

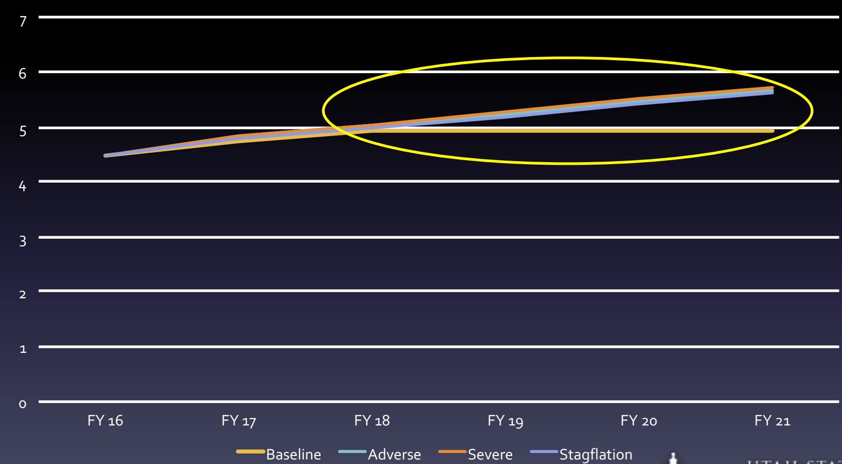
Scenario Assumptions

Estimated Costs

New on the Spending Side

- Same new scenarios and timeframe as revenue side
- Modeled enrollment driven programs (Medicaid, higher ed, public ed), but added employee retirement costs

Spending-side Risk ($b)



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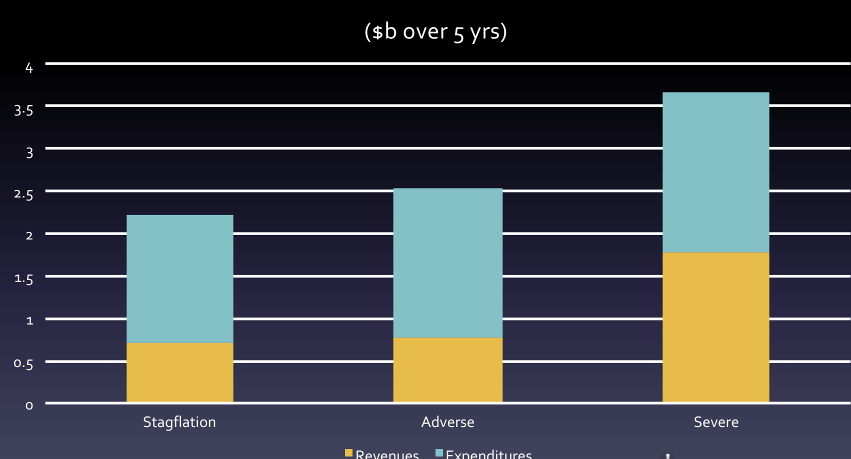
Total Value at Risk



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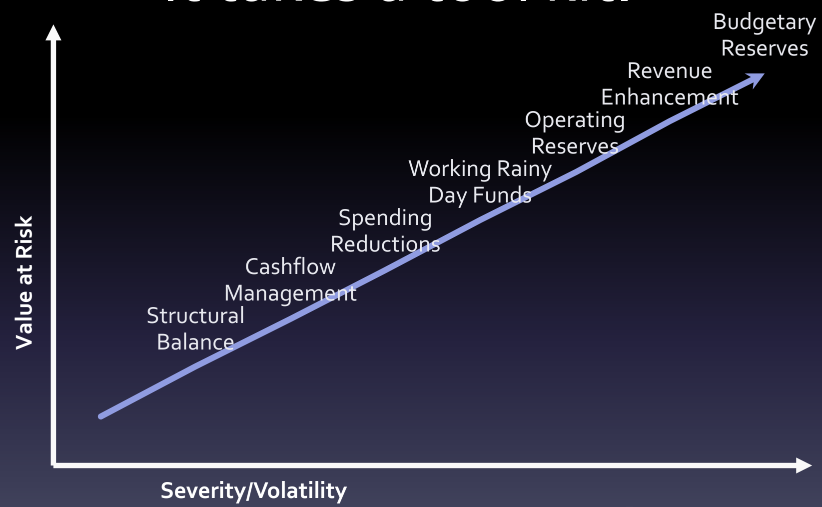
It takes a tool kit.



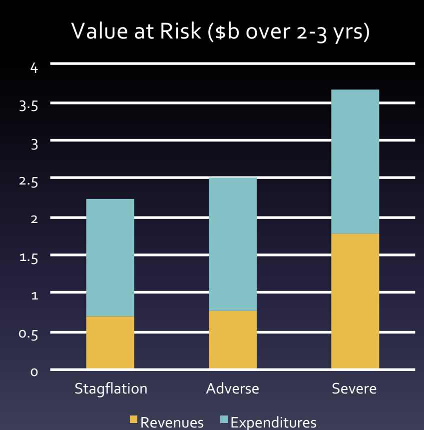
New on Buffers

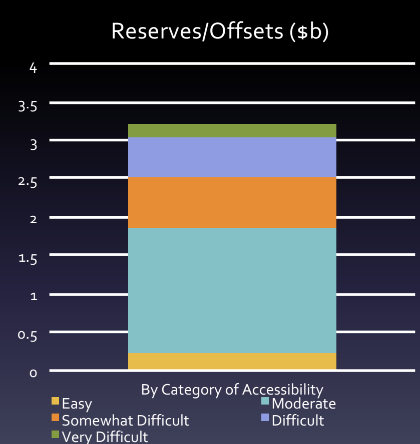
- Removed the Permanent School Fund as a potential buffer
- Counted ongoing sources for every year in which they are available, adjusted for debt repayment in early years
- Considered cuts and tax increases

Inventory of Buffers

- Easily Accessible: Unappropriated balances, operating reserves, buildings working rainy day fund
- Moderately Accessible: Nonlapsing balances, roads working rainy day fund, capital improvements relief valve
- Somewhat Difficult to Access: Capital improvements corpus, restricted fund balances
- Difficult to Access: Formal rainy day funds
- Very Difficult to Access: Permanent trust funds

Risk vs. Buffers





Cuts and Taxes

Session	FY	Budget Cuts	Revenue Increases	Revenue Multiplied	Shortfall	Cut % Shortfall	Rev % Shortfall	GF/EF Budget	Cut % Budget	Rev % Budget
2008S2	2009	$161			$354	45.5%	0.0%	$5,574	2.9%	0.0%
2008S2	2010	$251			$272	92.3%	0.0%	$5,413	4.6%	0.0%
2009	2009	$116	$2	$6	$521	22.3%	1.2%	$5,413	2.1%	0.1%
2009	2010	$317	$59	$177	$685	46.3%	25.8%	$5,162	6.1%	3.4%
2010	2010	$70			$208	33.7%	0.0%	$4,845	1.4%	0.0%
2010	2011	$75	$43	$43	$482	15.6%	8.9%	$4,770	1.6%	0.9%
		$990	$104	$226	$2,522	39.3%	9.0%	$31,177	3.2%	0.7%

- 1% of baseline revenue used in scenarios = $324 m

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Conclusions

- 5 year risk between $2.3 b and $3.7 b
- Informal buffers = $2.5 b
- Formal buffers = $0.5 b
- Cuts/Revenue ~ $0.3 b - $1.3 b
- Bonding erodes largest informal buffer (working rainy day fund)
- Working rainy day fund creates future commitments

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