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# Stress Testing the Utah State Budget

Executive Appropriations Committee

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## Why stress test?

- Statute requires it – [UCA 36-12-13](#)
- Manage the business cycle
- Set sustainable expectations
- Avoid crisis-driven policy decisions



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## Challenges for state governments in economic downturns

- Unstable economic conditions impact government revenues
- Expenditure patterns can be countercyclical
- Expectations of stable government services



## Utah's stress testing process

- Decide on economic scenarios



## Utah's stress testing process

- Use regionalized and aged-forward Moody's Analytics economic scenarios over five-year timeframe

Scenario	Peak-to-trough decline in output	Peak unemployment	Return to full employment
<i>Baseline</i>	n/a	3.5%	Imminent
<i>Moderate recession</i>	1.4%	6.4%	2025 Q1
<i>Severe recession</i>	4.2%	9%	2032
<i>Stagflation</i>	3.3%	9%	Indefinite



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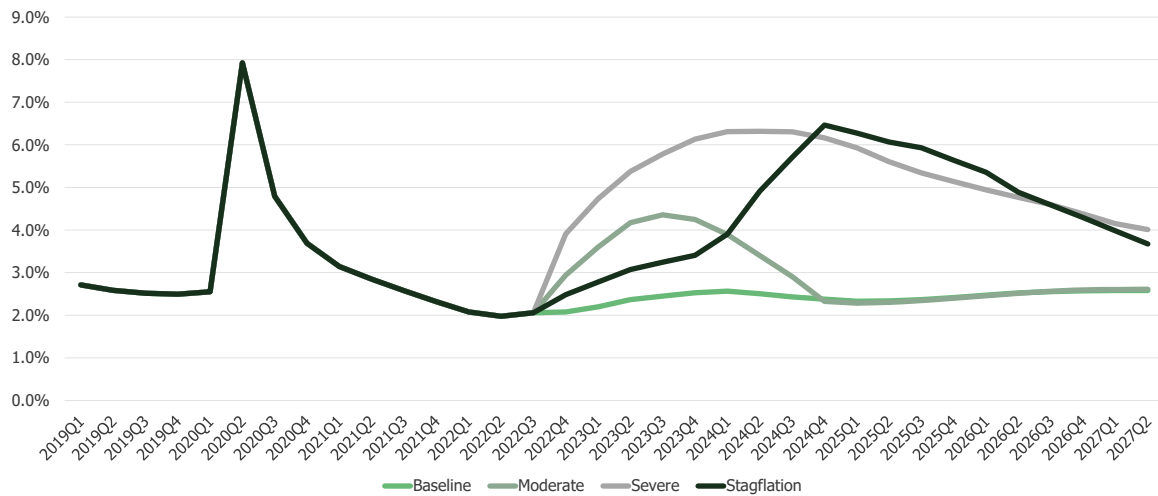
## Utah's stress testing process

- Decide on economic scenarios
- Each entity estimates revenues and expenditures using different models
  - Revenues: Sales tax (GF), individual income tax, corporate income tax, all other revenues
  - Expenditures: public education, higher education, Medicaid, retirement
- Come to consensus
- Assess buffers and ease of accessibility



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## Unemployment rate



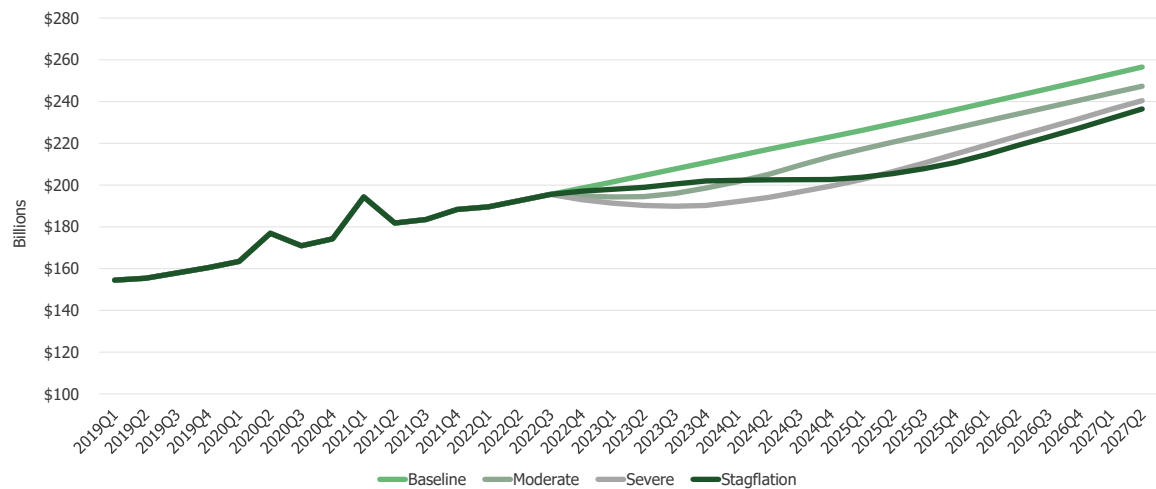
Source: Moody's Analytics

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## Personal income

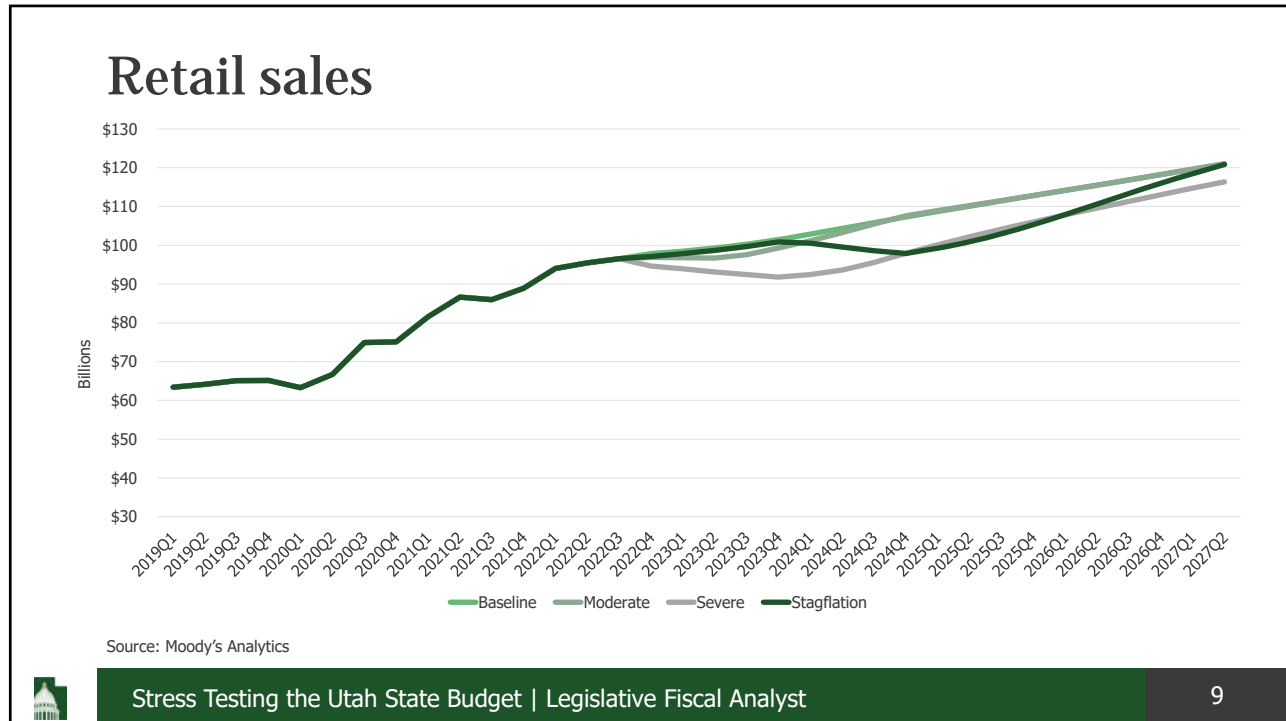


Source: Moody's Analytics

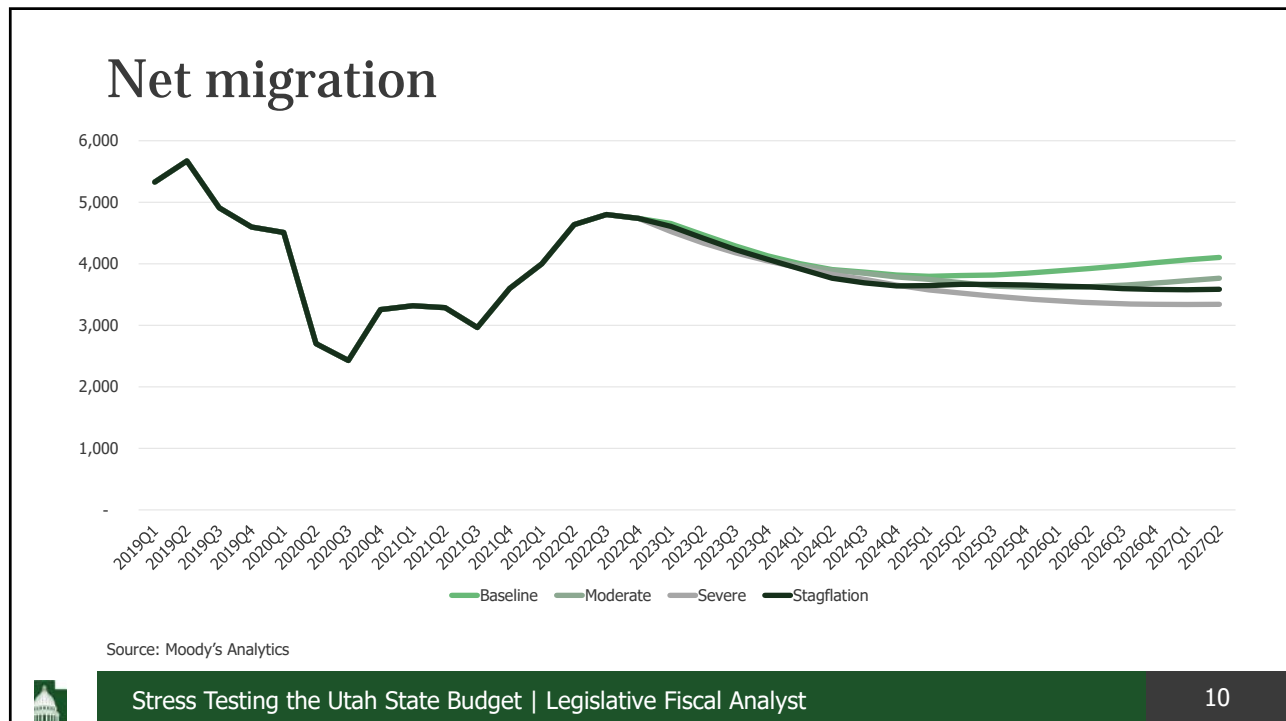
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## Revenue at risk

Scenario	Five-year revenue at risk
Moderate recession	\$409 million
Severe recession	\$3.7 billion
Stagflation	\$2.2 billion

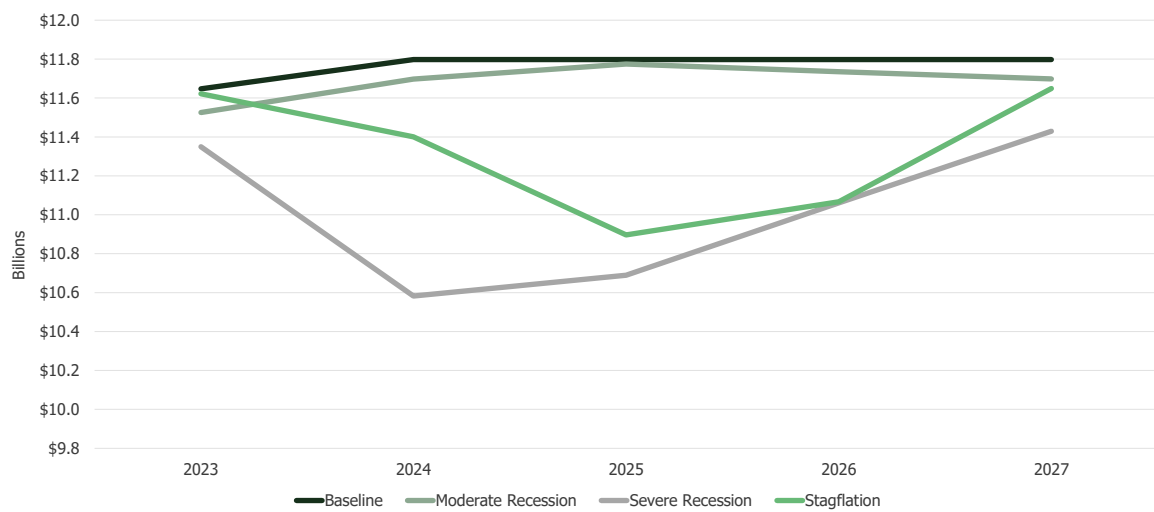


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## Revenue at risk



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## Expenditures at risk

Scenario	Public education	Higher education	Medicaid	Retirement	Five-year expenditures at risk
Moderate recession	\$627.8 million	\$409.5 million	\$403.0 million	\$55.9 million	<b>\$1.5 billion</b>
Severe recession	\$625.4 million	\$602.9 million	\$598.3 million	\$74.8 million	<b>\$1.9 billion</b>
Stagflation	\$651.2 million	\$550.3 million	\$448.3 million	\$35.7 million	<b>\$1.7 billion</b>

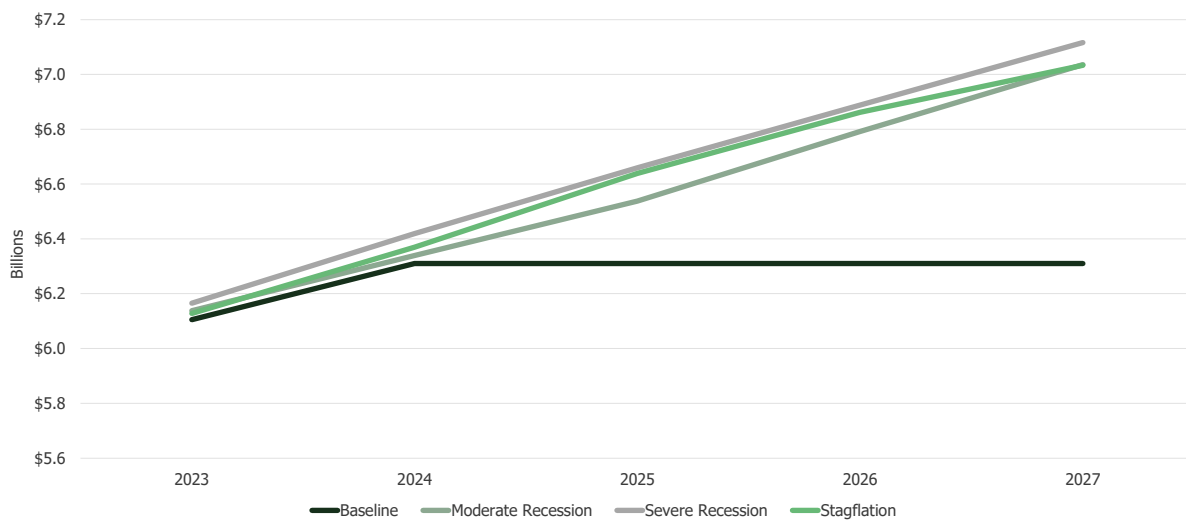


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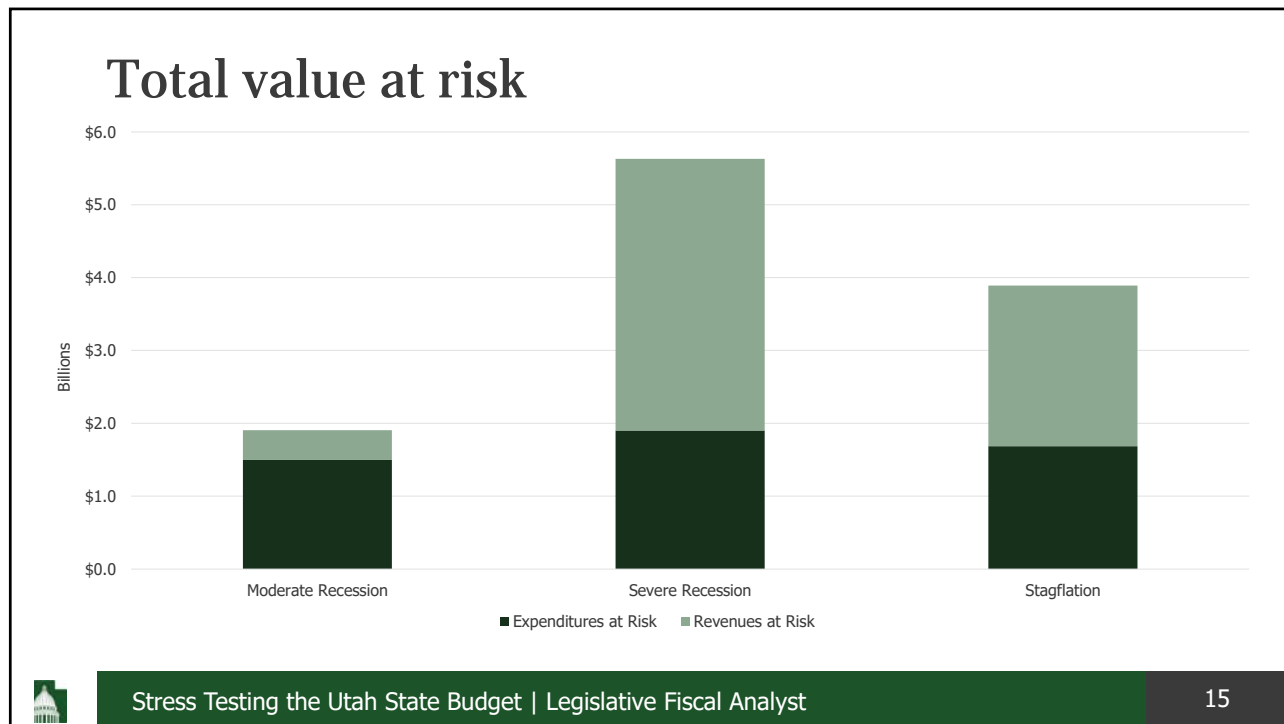
## Expenditures at risk



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## Inventory of buffers

- Easy to access
  - Cash-funded buildings and roads (account for potential debt service)
  - Medicaid buffers
  - Capital improvements at 0.9% to 1.5%
- Somewhat difficult to access
  - Transportation Investment Fund (TIF)
  - General Fund restricted fund balances
  - Capital improvements up to 0.9%
  - Cash and investment in water loans
- Moderately easy to access
  - Unclaimed property
  - Nonlapsing balances
  - Water project earmarks
  - General Fund State Infrastructure Banks
  - Public Education Economic Stabilization Restricted Account
  - Outdoor Recreation Infrastructure Restricted Account
- Difficult to access
  - Formal rainy-day funds
  - Disaster Recovery Account

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## Inventory of buffers

Ease of accessibility	Five-year total
Easy to access	\$2.7 billion
Moderately easy to access	\$2.7 billion
Somewhat difficult to access	\$2.5 billion
Difficult to access	\$1.3 billion
<b>Total</b>	<b>\$9.2 billion</b>

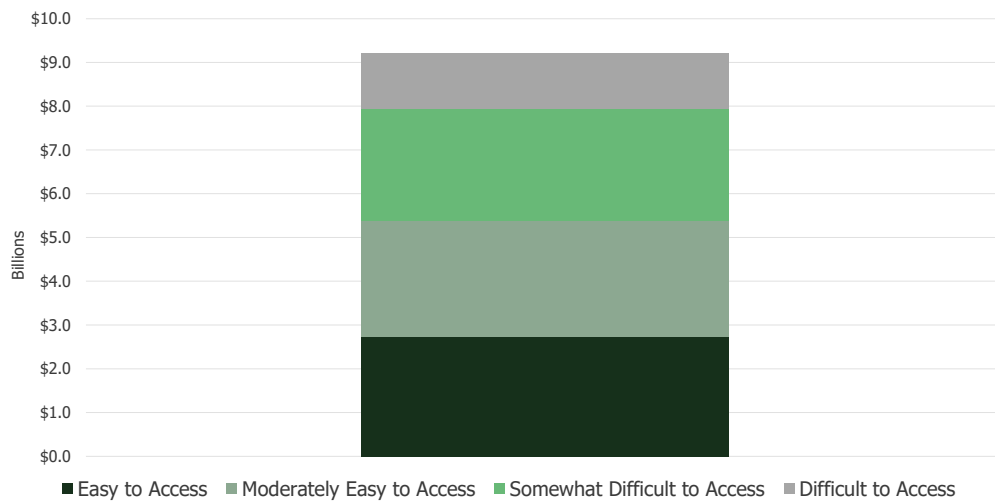


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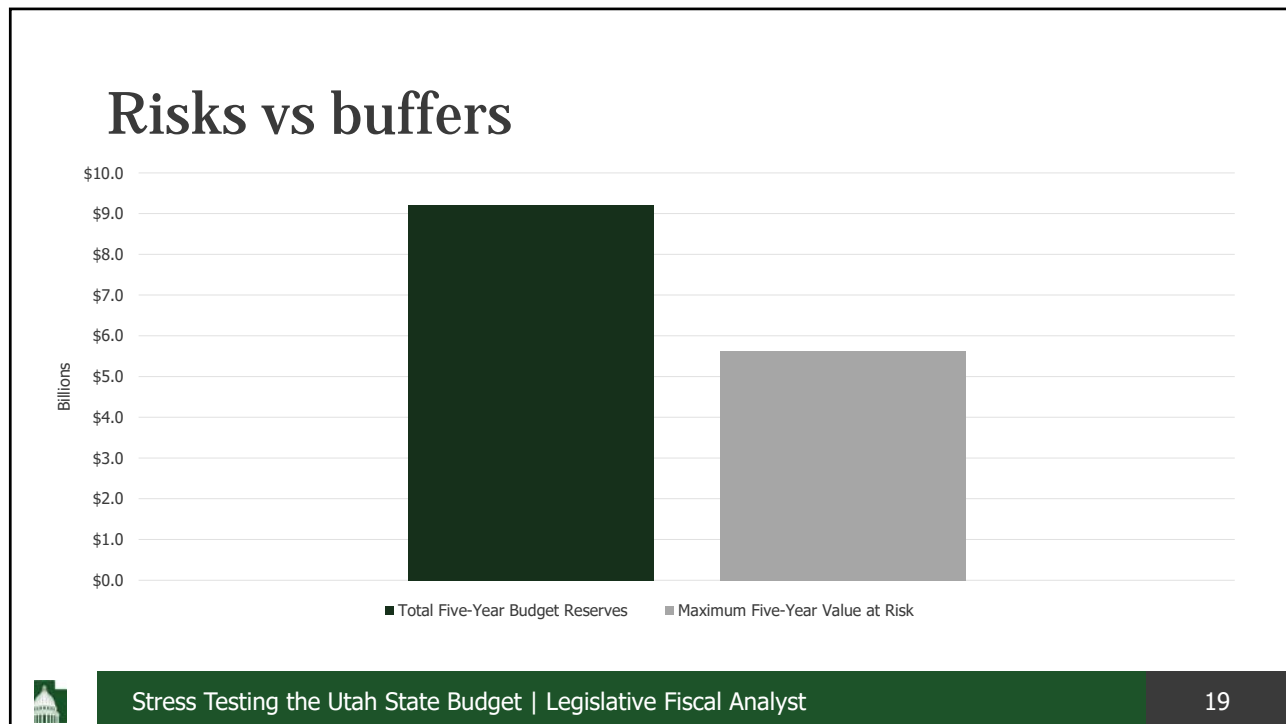
## Inventory of buffers



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# Questions?

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