

Pew's Fiscal Sustainability Research and a Work Plan for the JLEC

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Pew

Overview

- About Pew
- What fiscal sustainability means and how states are doing
- Pew's JLEC work plan and timeline

Section 1

About Pew

Who is Pew?

- Global nonpartisan nonprofit founded in 1948 and headquartered in Philadelphia, PA
- Strengthening state government is one of seven key focus areas
- State-relevant projects include work on fiscal health, housing, broadband access, healthcare, and public safety

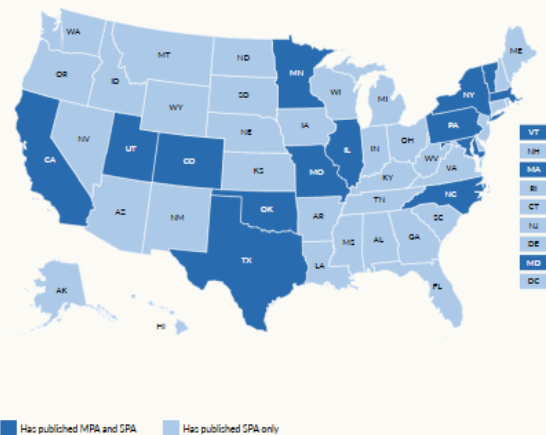
Pew's state fiscal work

- Pew has conducted research on state finances for more than 20 years and has had a dedicated state fiscal project since 2013
- Today, Pew has nearly 50 staff working on state fiscal topics
- Areas of focus include long-term fiscal sustainability, reserve policies and recession preparedness, budgeting for natural disasters, federal funds management, transportation and water infrastructure, and public sector retirement systems

How we work: 50-state data and analysis

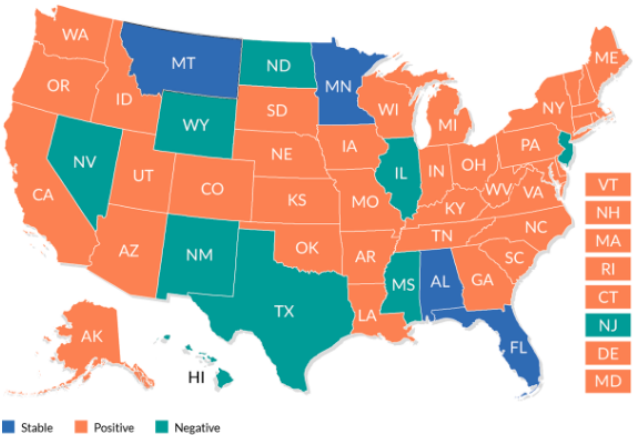
14 States Have 10-Year Strategic Plans That Address Need of Aging Populations

Multisector Plans for Aging and State Plans on Aging throughout the United States



Source: Pew analysis of State Plans on Aging and Multisector Plans for Aging
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Figure 1
Most Plans Had Enough Money to Pay Current Employee Benefits and Reduce Debt
Net amortization by state, 2019 to 2023



Note: Pew defines positive amortization as when employer contributions exceed the benchmark by at least 0.5% of payroll; negative amortization as when contributions fall short of the benchmark by at least 0.5% of payroll; and stable amortization as when contributions fall between those thresholds.

Sources: Annual comprehensive financial reports, actuarial reports and valuations, or other public documents, or as provided by plan officials.

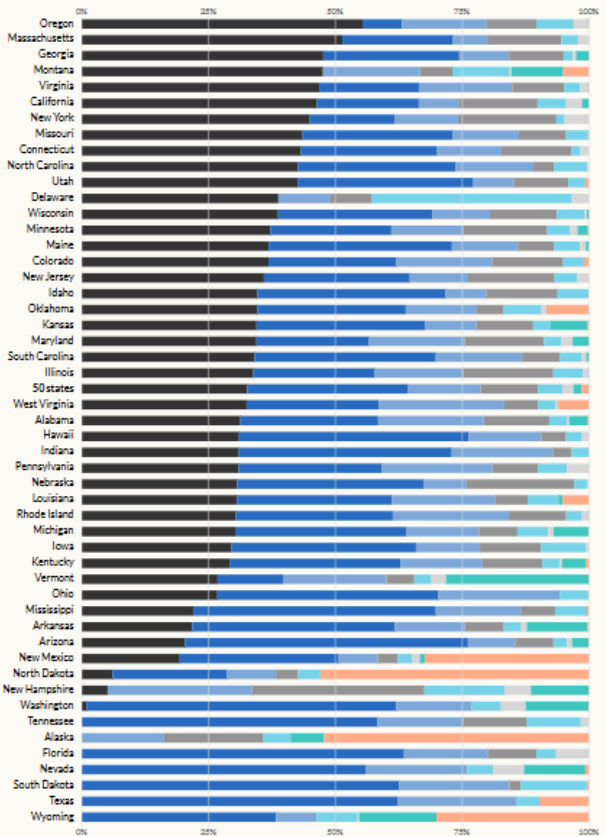
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Mix of Tax Sources by State, FY 2024

Select revenue sources below to highlight them and resort the chart:

■ Personal Income ■ General sales ■ Selective sales ■ Corporate income ■ License
■ Other ■ Property ■ Severance

□ Sort alphabetically



How we work: Hearing from state officials on their strengths and opportunities to improve

Pew reviewed nearly 600 documents and interviewed more than 175 government officials and experts to examine how—and how well—states gauge the effectiveness of their tax incentives, if they do so at all. We also sought to identify promising approaches to doing it right.



Evidence Counts



Evaluating State Tax Incentives
for Jobs and Growth

PEW CENTER ON THE STATES

PEWSTATES.ORG

How we work: State-specific findings and recommendations

Connecticut's Fiscal Guardrails Results and Policy Options

Josh Goodman, Senior Officer
Mark Robyn, Senior Officer
February 18, 2025

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How to Measure the Results of Tax Incentives: Promising Practices and a Proposal for Nebraska

A report to the Nebraska Tax Incentive Evaluation Committee

Prepared by:
Robert Zahradnik
Josh Goodman
Julie Srey

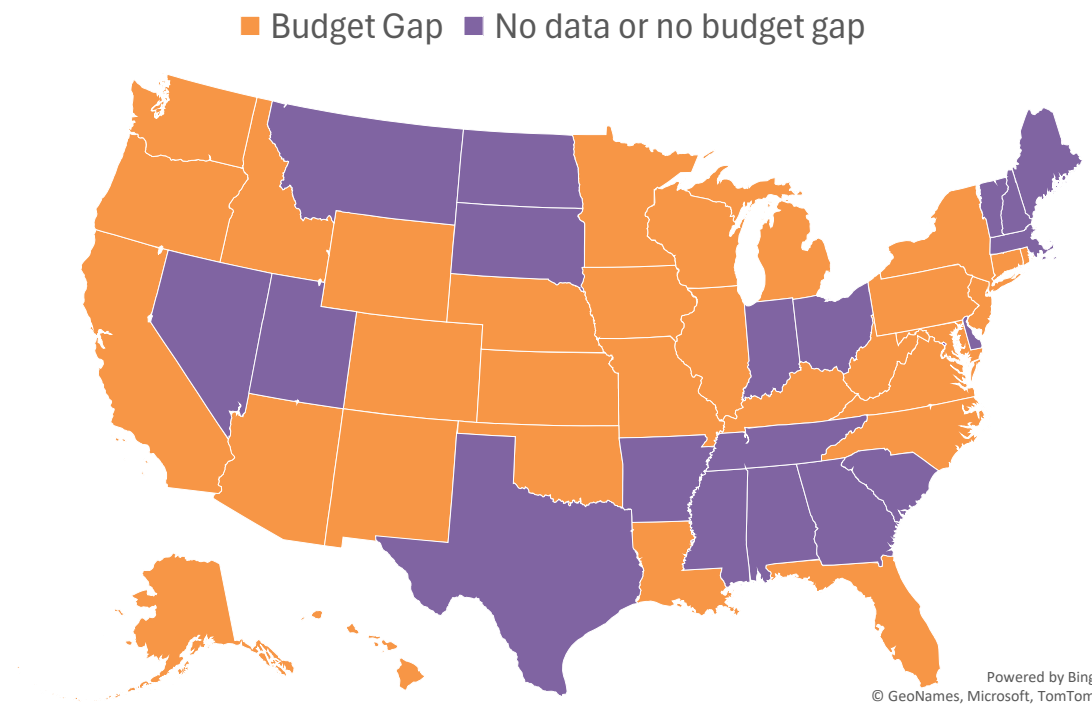
The Pew Charitable Trusts
901 E Street, NW
Washington, DC 22202

Section 2

What fiscal sustainability means and how states are doing

FY 2027 budget development began with widespread budget gaps

States reporting budget gaps for FY 2026, FY 2027, or beyond



Source: Pew analysis of news reports and state documents

States project short-term and long-term deficits because of three primary factors

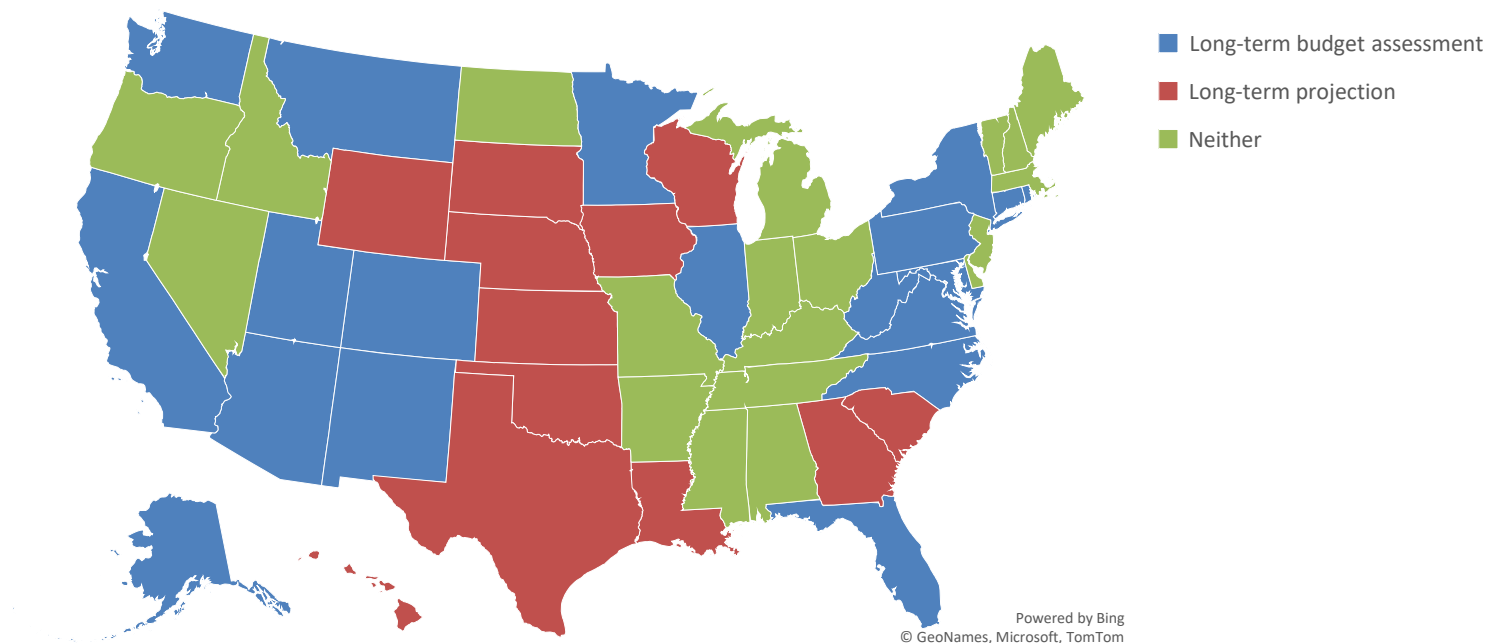
- States' own decisions to cuts taxes or increase spending
- Reduced federal support
- Growing long-term pressures

To achieve long-term fiscal health, states should...

1. **Maintain structurally balanced budgets**, with ongoing revenue sufficient to support ongoing spending over the long-term
2. **Prepare for recessions and other temporary challenges**, with reserves or other tools sufficient to close budget gaps
3. **Identify and analyze emerging risks**, to help prepare for new challenges before they jeopardize structural balance

Many states don't know if they have structurally balanced budgets

States that have published long-term fiscal analyses since the start of 2018



Source: Pew analysis of state documents and information provided by state officials

Pennsylvania analysis identifies long-term deficits

General Fund Financial Statement

Fiscal Year	24-25	25-26	26-27	27-28	28-29	29-30	30-31
Gross Revenues	\$46.41	\$48.10	\$48.53	\$49.37	\$50.66	\$52.04	\$53.48
Refunds	<u>-2.25</u>	<u>-2.15</u>	<u>-2.20</u>	<u>-2.25</u>	<u>-2.30</u>	<u>-2.35</u>	<u>-2.40</u>
Net Revenues	44.16	45.95	46.33	47.12	48.36	49.69	51.08
Expenditures	-47.82	-50.09	-52.42	-54.27	-55.88	-57.47	-58.99
Plus Prior Year Lapses	<u>1.12</u>	<u>0.50</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>
Current Year Deficit	-2.55	-3.65	-5.84	-6.90	-7.27	-7.53	-7.66
Less Temporary Support	<u>0.87</u>	<u>1.33</u>					
Structural Deficit	-3.42	-4.98	-5.84	-6.90	-7.27	-7.53	-7.66
Year End Balances							
General Fund	\$4.16	\$0.51	--	--	--	--	--
Rainy Day Fund	7.40	7.75	\$2.42	--	--	--	--

Note: Billions of dollars.

Source: Pennsylvania Independent Fiscal Office

Pennsylvania explains causes of long-term deficits

From FY 2025-26 to FY 2030-31, average expenditure growth (+3.3% per annum) is expected to outpace average revenue growth (+2.1%). Notable factors that motivate those trends include:

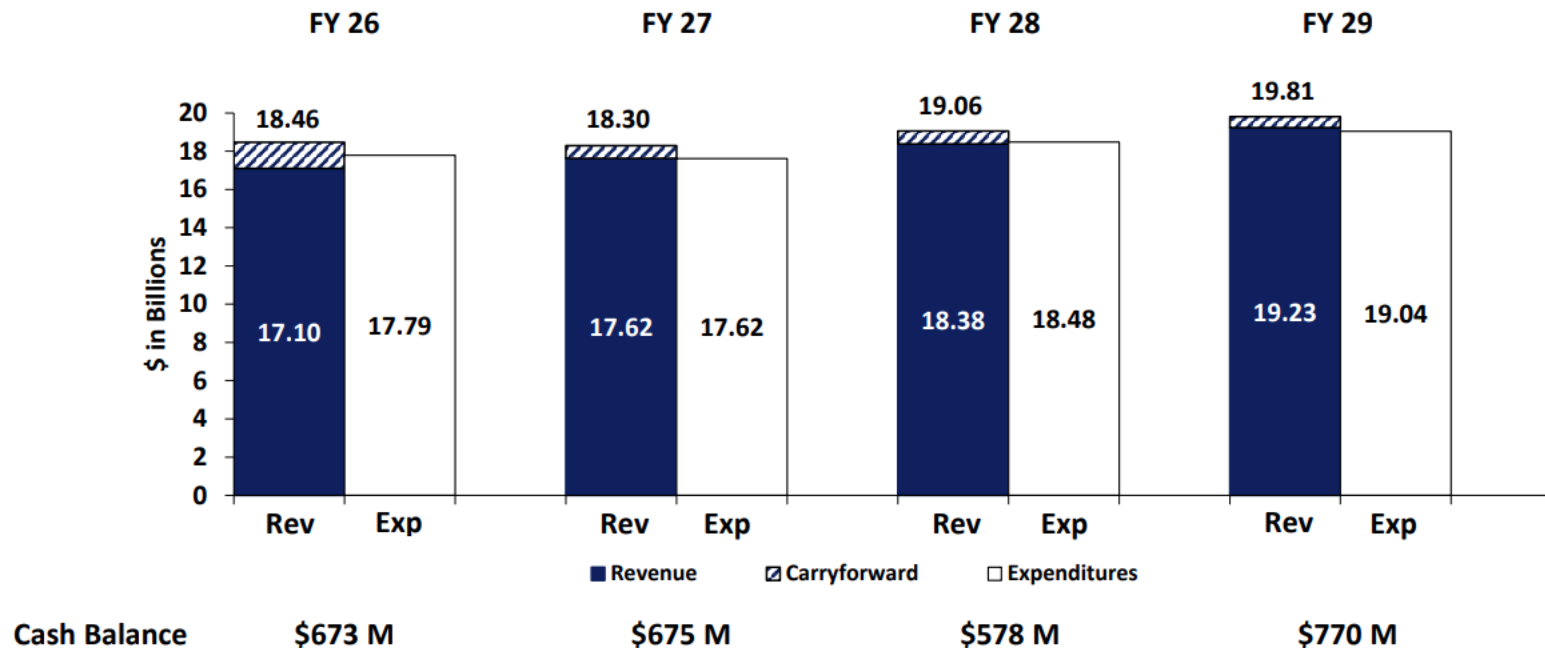
- CNIT collections contract due to the ongoing rate reduction, which falls from 7.99% for 2025 to 4.99% by 2031.
- A deceleration of asset value growth which slows consumer spending and moderates SUT collections.
- DHS expenditures grow at an average rate of 4.7% per annum from FY 2025-26 to FY 2030-31, driven by strong demand for Long-Term Living (+5.2% per annum) due to a rapidly aging population.
- Federal H.R. 1 requires states to fund a higher share of SNAP administrative costs and a portion of benefit costs which further increase DHS spending.

Source: Pennsylvania Independent Fiscal Office

Arizona analysis shows the budget is roughly balanced

Projected Cash Balance Low Point is \$578 M in FY 28

- Each Year's Carryforward Is Used to Balance The Following Year Budget



Source: Arizona Joint Legislative Budget Committee

Arizona explains what isn't included in the long-term outlook

Major Issues Not Funded In Baseline

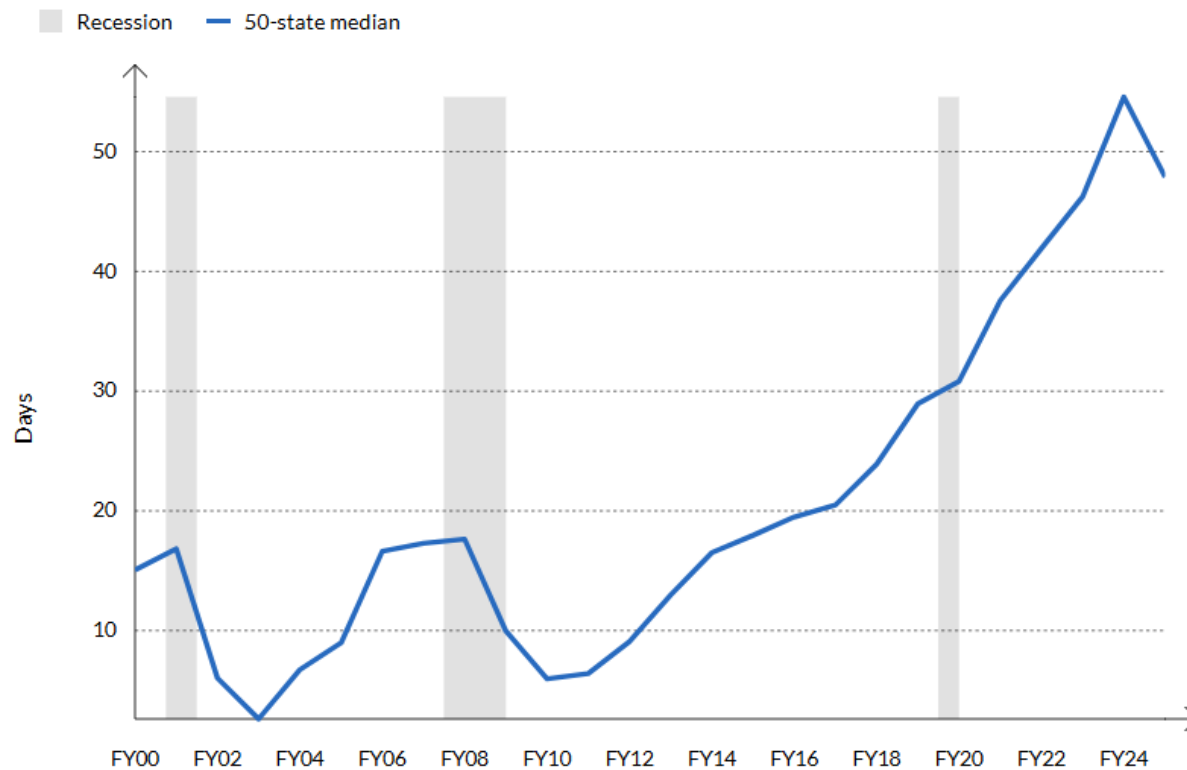
- Conforming state income tax laws to 2025 federal tax law changes.
 - FY 26-FY 29 cost of total conformity is \$1.45 B.
 - The vetoed SB 1106 conformed with most provisions at a cost of \$1.44 B.
 - The Executive conformity proposal would cost \$757 M over 4 years.
- Continuing traditional “ongoing one-time” spending items for FY 2027.
 - State Employee Health Insurance subsidy of \$195 M.
 - School Facility Building Repairs of \$183 M.
- Funding administrative costs of implementing the new federal Medicaid & SNAP work requirements and more frequent eligibility checks.
 - Executive proposing \$31 M and 296 FTE Positions 1-time

*Source: Arizona Joint Legislative
Budget Committee*

To prepare for recessions, states have increased rainy day fund balances

Days Each State Could Run on Only Rainy Day Funds

Fiscal years 2000-2025, preliminary actual

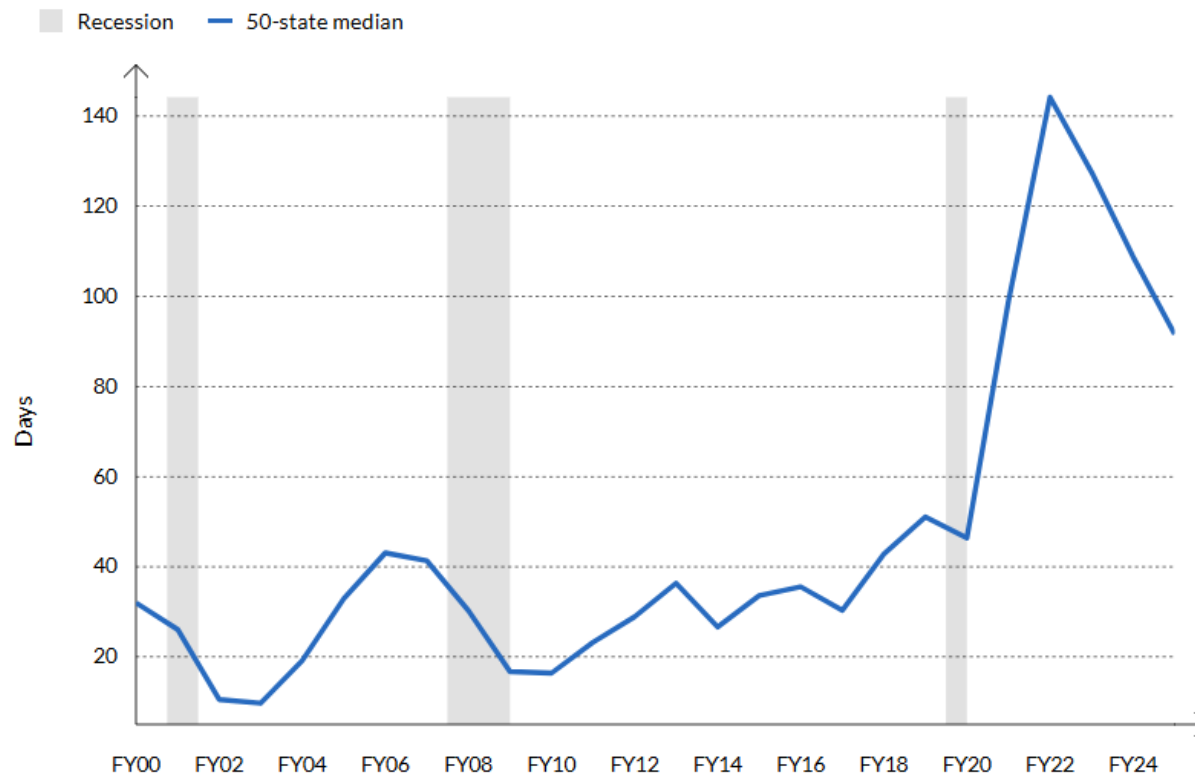


Source: Pew analysis of data from the National Association of State Budget Officers

Total balances are falling rapidly from pandemic highs

Days Each State Could Run on Total Balances

Fiscal years 2000-2025, preliminary actual

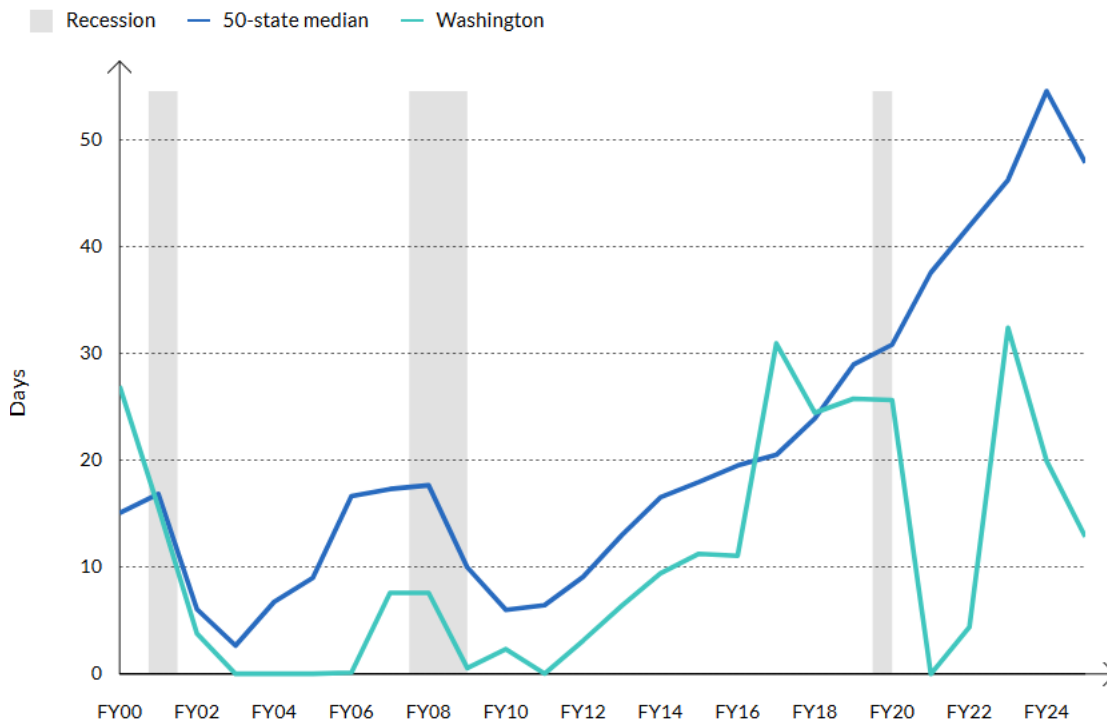


Source: Pew analysis of data from the National Association of State Budget Officers

Washington's rainy day fund balance is unusually small

Days Each State Could Run on Only Rainy Day Funds

Fiscal years 2000-2025, preliminary actual

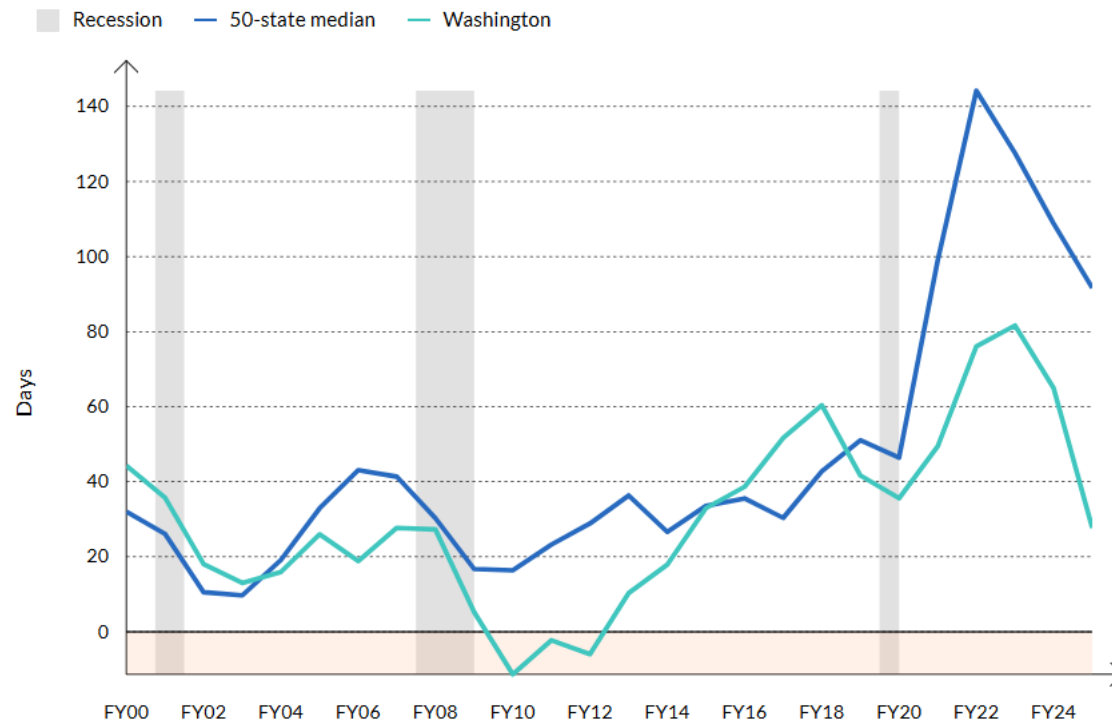


Source: Pew analysis of data from the National Association of State Budget Officers

Washington's total balances are also unusually small

Days Each State Could Run on Total Balances

Fiscal years 2000-2025, preliminary actual

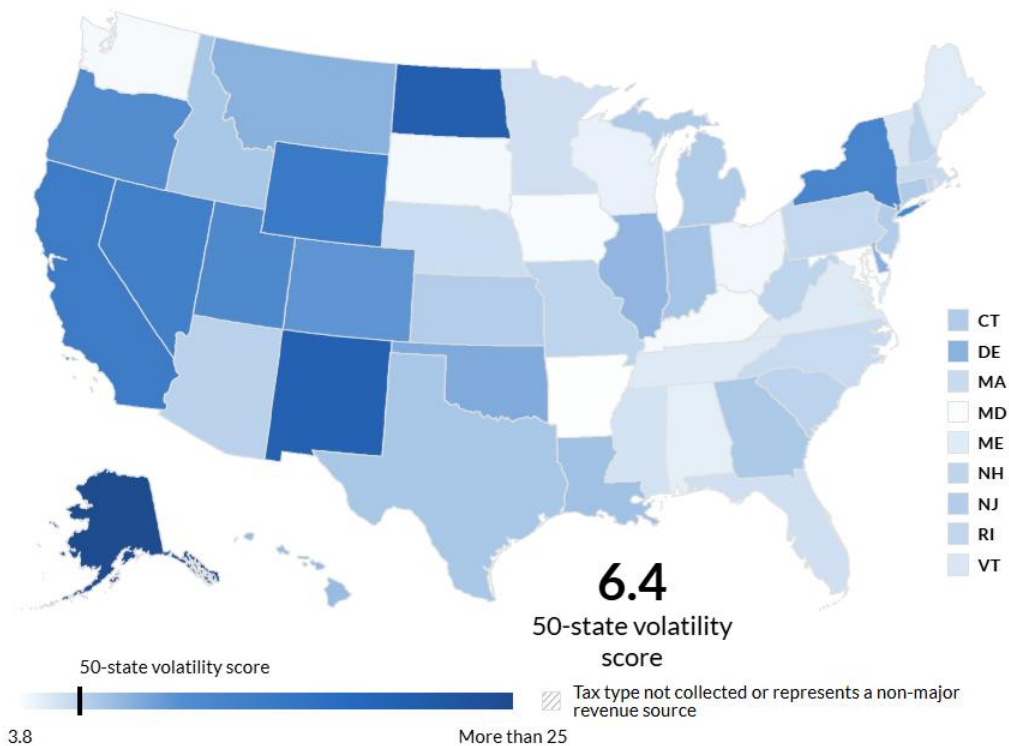


Source: Pew analysis of data from the National Association of State Budget Officers

Washington's tax revenue is less volatile than most states

Tax Revenue Volatility by State

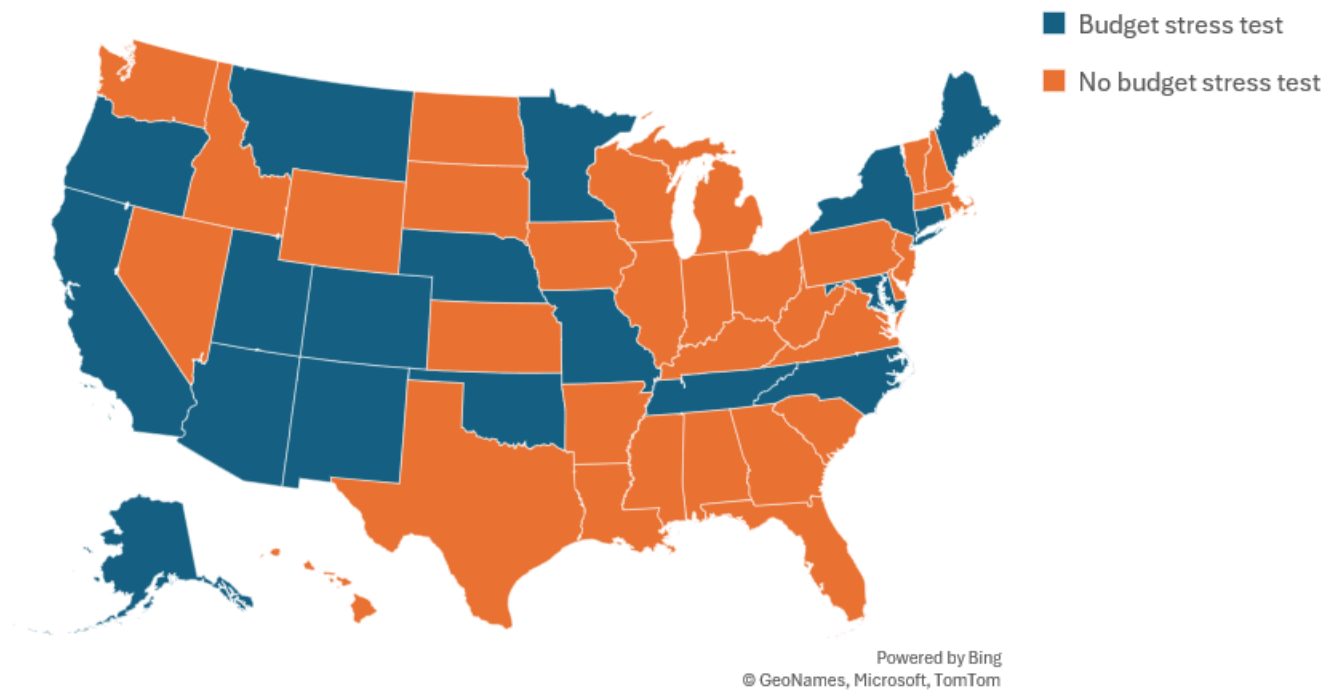
Volatility scores based on collections during 15 years ending fiscal year 2024, adjusted for tax policy changes



Source: Pew's analysis of data from the U.S. Census Bureau and National Conference of State Legislatures

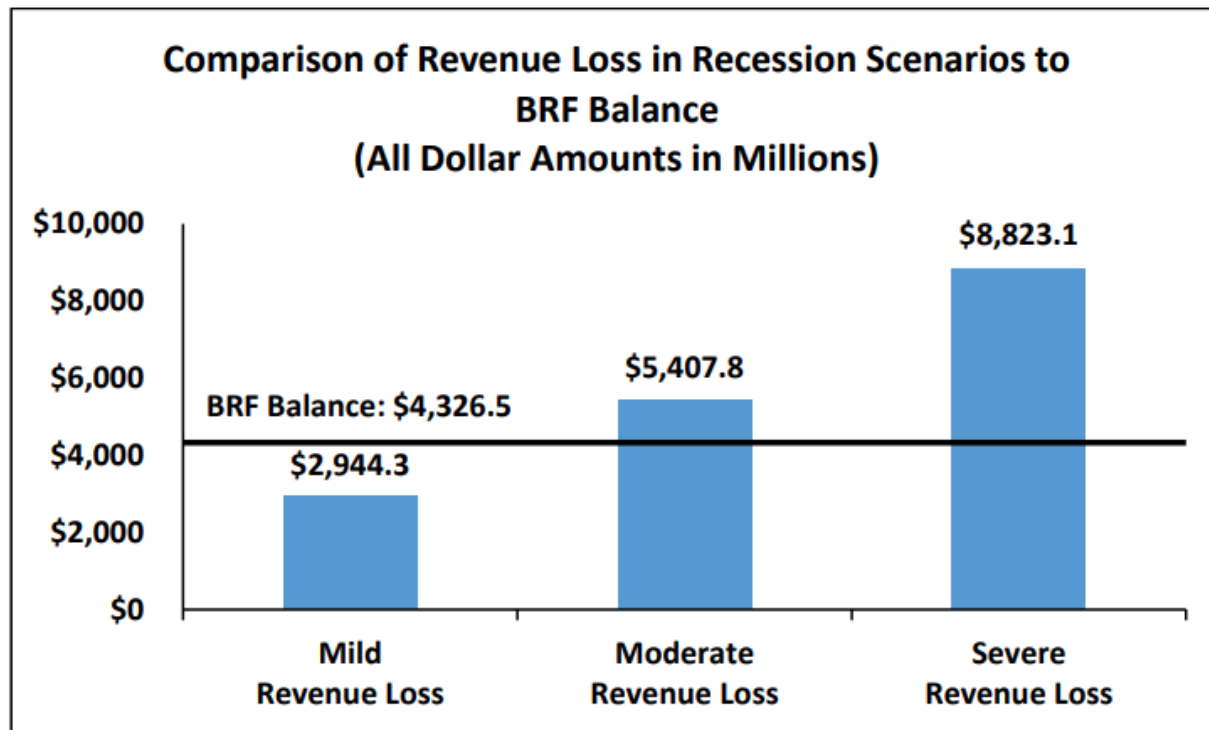
States conduct budget stress tests to determine preparedness for recessions

States that have published budget stress tests since the start of 2018



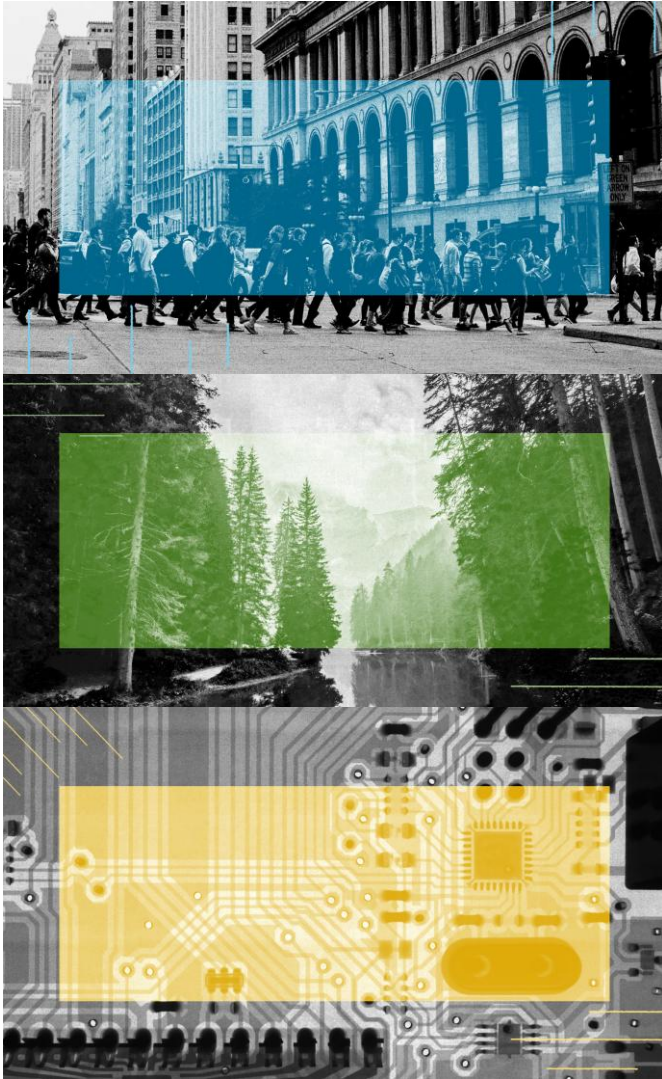
Source: Pew analysis of state documents and information provided by state officials

Connecticut's stress test shows rainy day fund balances necessary to prepare for recession scenarios



Source: Connecticut Office of Policy and Management

Emerging trends present risk to budgets



Demographic shifts

Slowing population growth → lower tax revenue

Aging population → increased government services

Climate risks

Increasingly severe disasters → higher response and recovery costs

More frequent heat waves → hazards to labor and supply chains

Technological advancement

Increased cyberattacks → costs of data breaches

Widespread AI usage → impacts to labor and government services

Montana's Modernization and Risk Analysis Committee studies emerging risks

- Statutorily established committee that meets each interim
- Purpose is to “study the long-term future budget and revenue needs of the state with changing economics and demographics”
- Seeks to look 10-20 years into the future
- Detailed staff analysis and expert testimony have examined trends in areas such as population change, health care, education, housing, wildfire costs, and data centers

Section 3

JLEC work plan

JLEC 2026 Topics

- Revenue projections and spending assumptions in the four-year budget outlook
- Statutory cost drivers and their effect on carryforward and maintenance levels
- Relevant budget practices in other states

Revenue projections and spending assumptions in the four-year budget outlook: top-line research questions

- What assumptions are most important in driving the four-year budget outlook? How does Washington account for uncertainty, recognizing that revenue and spending are hard to predict?
- Are the causes and potential solutions to any projected budget gaps in the outlook generally well understood?
- How has Washington's requirement to adopt a four-year balanced budget affected fiscal decision-making?

Statutory cost drivers and their effect on carryforward and maintenance levels: top-line research questions

- Are key cost drivers, their relative magnitude, and their effects on the four-year budget outlook well understood?
- Are there particular circumstances or programs for which developing carryforward and maintenance levels is difficult or open to varying interpretations?
- When Washington has taken on major new spending commitments, have lawmakers had good information on the costs of the commitments and to what extent they could be future cost drivers?

Relevant budget practices in other states that promote long-term fiscal sustainability: top-line research questions

- How do states determine whether they have structurally balanced budgets and what steps lawmakers could take to improve fiscal sustainability? How is this information communicated to policymakers and other stakeholders?
- How do states measure their preparedness for downturns? How can states plan ahead by developing playbooks for budget balancing during fiscal crises?
- Looking beyond the next four years, what are states' key emerging fiscal risks (such as demographic, climatic, or technological changes)? How do states identify the most important risks and assess the implications for their budgets?

Proposed timeline

- **July 20:** First JLEC meeting. Pew presents work plan.
- **Mid July to August 31:** Pew interviews committee members, staff, and other stakeholders.
- **Late September:** Second JLEC meeting. Pew presents preliminary findings from interviews and other research and receives feedback from committee members.
- **Late October:** Pew provides staff with a draft report to ensure that technical details of Washington's budget processes are accurately described.
- **Mid November:** Third committee meeting. Pew presents findings and recommendations for committee discussion.
- **By November 15:** Pew submits final written report of findings and recommendations to JLEC, the House Appropriations Committee, and the Senate Ways and Means Committee.

Questions?

Pew