

Introduction

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Drawing on the expertise of political scientists, economists, and practitioners from 13 western states, the reports summarize each state’s budget for the 2017–2018 fiscal year. These reports delve into how the states’ financial well-being affected legislation and just as importantly how legislation affected the states’ financial well-being.

While most states seem to be financially sound, if not thriving, each report highlights possible threats in the coming years, whether they be political, economic, or natural concerns. One theme across this year’s budget reports is how the 2016 election of President Donald Trump has affected legislation and fiscal health of the states; for example, some states introduced plans for handling a possible repeal or amendment to the Affordable Care Act. Oregon references the impact of the Trump administration as “another truly unknowable risk to the state budget system.”

A second theme in the budget papers is the need to plan for the next recession. Fed Chairman Janet Yellen famously said in 2015 that “the evidence suggests that expansions don’t die of old age.” Battle weary budgeteers might point to another truism—“each day that passes, we’re another day closer to the next recession.” The appropriate preparations for governments are not all that complex. Know your exposure to risk by measuring the downside magnitude associated with certain negative economic events. Estimate the probability of such an event. Build appropriate contingencies for the events—including formal rainy day funds, diversifying revenue streams, paying-down long-term obligations like debt and retirement, investing cash in infrastructure when you have it, and building good will with public employees, such as teachers, and citizens when times are good so that they’ll be motivated to chip-in when times are not so good. The extent to which governments take prudent steps now to prepare for the next economic contraction will determine their stability going into the next recession and their strength coming back out.

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