The Long Game

Multi-year financial plans are good government and good politics

BY DAVID R. EICHENTHAL

Economic uncertainty and federal budget cuts are creating a gathering storm for state and local government budgets. At the same time, elected leadership in state and local governments is responding to demands for government to do more to fund essential services and address what many see as an affordability crisis.

Government finance professionals have long recognized the value of multi-year financial planning as a budgeting tool. But multi-year financial planning can be both good government and good politics as elected leaders at the state and local level need to square the circle of addressing public demands for more while facing stiff budgetary headwinds.

The gathering storm for state and local government budgets

State and local governments are used to dealing with limited resources—it has been the norm for most for the better part of the last 50 years. But the challenges in the year ahead are different.

An August 2025 report by the Urban Institute noted that the fiscal outlook for states was increasingly uncertain and that state finance directors were projecting weak revenue growth in 2026. The report attributed this to federal policy changes, as well as changes in state policy, and it specifically cited the potential impact of tariffs.

In September 2025, the State of Washington projected that the cumulative impact of the Liberation Day tariffs would be a loss of $2.2 billion in revenue by FY 2029. Nationally, the Congressional Budget Office reported that the Liberation Day tariffs were slowing economic growth and likely would increase costs.

If trade policy is leading to budget uncertainty, federal spending policy is putting states and local governments on the brink.

After massive investment in state and local governments under the Biden Administration, the federal government is reversing course. Funding from the American Rescue Plan must be expended by the end of next year, and there isn't even a discussion about a next round of funding for the State and Local Fiscal Recovery Fund. Tax credits for clean energy and clean vehicles that state and local governments were able to access under direct pay have largely been eliminated. And Bipartisan Infrastructure Law funding goes through FY 2026, but awards and funding have been subject to rescission and termination.

The One Big Beautiful Bill Act also included significant cutbacks in funding for Medicaid and SNAP that essentially sought to pass those costs on to state governments. According to KFF, nine states—Arizona, Illinois, Louisiana, Montana, Nevada, New Jersey, Oregon, Virginia, and Washington – will lose 18 percent or more of Medicaid funding. And in states like Colorado, where counties pick up some of the state match for Medicaid, cutbacks will create fiscal pressure at the local level as well.

According to the Georgetown Center on Poverty and Inequality, in 15 states, the share of the state budget required to fund SNAP will increase by more than 300 percent. The cost increases will be highest in states with large populations and the budgets to match, such as California and Florida, where the increase is projected to be at least $2.5 billion and $1 billion, respectively.

When you add it all up, the impacts are extraordinary. An August 2025 report by the City of New York State Comptroller forecast a cumulative budget gap of $34.3 billion through 2029.

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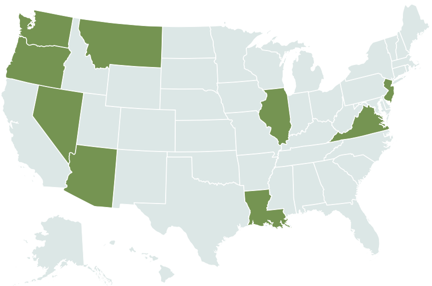

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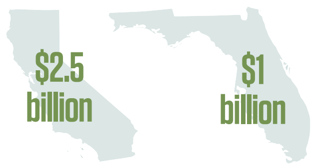

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Any state budget crisis will affect local government, even where local governments are not on the hook to pick up the cost of federal cutbacks. Approximately one-third of local government revenue typically comes from intergovernmental transfers, and most of that comes from state government rather than the federal government. According to the Government Finance Research Center (GFRC), as of 2017, state governments provided 17 percent of total revenue for cities, towns, and villages. For K-12 education, as of FY 2023, states provided 45 percent of all funding. Looking back to the Great Recession, GFRC found that "one way states balanced their own budgets was cutting aid to local governments, which forced local leaders to grapple with a 'new normal' of less intergovernmental revenue."

Local governments are already facing fiscal stress. In August 2025, a Pew analysis found that fiscal stress in the largest US cities is widespread. "In a five-month span, from December 2024 to April 2025, Chicago, Los Angeles, San Francisco, and Washington all experienced credit rating downgrades… Since January, at least 20 of the nation's 25 most populous cities have reported budget gaps for fiscal year 2026."

Some state and local governments are less prepared to deal with the coming storm than others. An October 2025 Pew analysis found that "after years of growth, states' rainy day fund capacity—the number of days they could cover state operations—fell in fiscal year 2025, the first decline since the Great Recession of 2007-09. At the end of fiscal 2025, the median state could run on just its rainy day funds for 46.9 days, down from the record high of 53.2 days in fiscal 2024…"

A recent analysis by the Pennsylvania Intergovernmental Cooperation Authority looked at the status of city reserves. While the City of Seattle had reserves equal to almost 50 percent of general fund revenue, the City and County of San Francisco, City of Columbus, and City of Chicago all had reserves equal to less than 15 percent of annual general fund revenue.

The cost of election year promises

Watching some of the 2025 campaigns for governor and mayor, you never would have known that state and local governments were facing an impending fiscal cliff.

In New York City, newly elected Mayor Zohran Mamdani ran on a promise of free universal childcare, city-run grocery stores, and free bus service. His campaign estimated the cost of universal childcare at $6 billion; the city's independent budget office projected that the free bus service would cost $652 million annually; and experts project the proposed city-run grocery stores could cost $100 million.

Mamdani was not alone in making costly new proposals. His principal rival called for adding 5,000 new officers to the New York Police Department. Estimated costs ranged from $250 million to more than $400 million annually.

In Virginia, Lieutenant Governor Winsome Earle-Sears called for the repeal of the state's personal property tax on vehicles. The so-called car tax, however, generates significant revenue for local governments.

Even in smaller jurisdictions, candidates for mayor were calling for new spending rather than belt-tightening needed to deal with fiscal challenges ahead. In the City of Seattle, newly elected mayor Katie Wilson supported a $1 billion bond issue for affordable housing and thousands of new units of emergency shelter housing. In the City of Albuquerque, New Mexico, a mayoral candidate called for extended hours for parks, community centers, and pools, and new investments in after-school programs.

Multi-year financial planning as best practice

Most state and local governments budget on an annual basis. There is a process—typically lengthy— before the start of a fiscal year where the jurisdiction executive (a governor, mayor, city manager, school superintendent, county executive) details a plan for projected revenue and expenditures for the coming year and a legislative body (a state legislature, city council, county commission, school board) acts on the proposed budget and adopts an annual budget.

In some cases, a jurisdiction may develop a biennial budget, where the adopted budget covers a two-year period. Some jurisdictions also adopt separate capital spending plans that may cover multiple years.

Very few government entities, however, adopt multi-year financial plans. Some local governments will take an initial step toward multi-year planning by trying to forecast revenues over a multi-year period. Multi-year revenue forecasts are important to long-term financial planning, but they're just a single step in the process that looks only at one side of the fiscal ledger.

Fifty years ago, the City of New York nearly went bankrupt. Bankruptcy was avoided only by the intervention of the

state and federal government, and the cooperation of municipal labor unions.

As a condition for the state's intervention, the New York State Legislature enacted a law requiring a multi-year financial plan. Subsequently, New York City changed its city charter to mandate a multi-year financial planning process on an ongoing basis.

Under Section 258 of the charter, the mayor is required to develop an annual four-year financial plan that meets the following standards:

- "For each fiscal year, the city's budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with generally accepted accounting principles, unless such deficit is offset by funds withdrawn for such purpose from the revenue stabilization fund … and would permit comparison of the budget with the report of actual financial results prepared in accordance with generally accepted accounting principles."
- "The city shall issue no obligations which shall be inconsistent with the financial plan."
- "Provision shall be made for the payment in full of the debt service on all bonds and notes of the city and for the adequate funding of programs of the city which are mandated by state or federal law and for which obligations are going to be incurred during the fiscal year."
- "All projections of revenues and expenditures contained in the financial plan shall be based on reasonable and appropriate assumptions and methods of estimation. All cash flow projections shall be based upon reasonable and appropriate assumptions as to sources and uses of cash (including but not limited to the timing thereof), and shall provide for operations of the city to be conducted within the cash resources so projected."
- "A general reserve shall be provided for each fiscal year to cover potential reductions in projected revenues or increases in projected expenditures during each such fiscal year."

In addition to the multi-year financial plan for the operating budget, New York City Government is also required to have—and annually update—a 10-year capital strategy.

Multi-year financial planning has been critical to moving New York City Government from the brink of bankruptcy toward fiscal health over the last half-century. It has not prevented the occurrence of fiscal crises, nor has it completely prevented resort to budget gimmickry. But the city has never returned to the practices that led to its near-bankruptcy 50 years ago.

More importantly, in New York City Government and in other organizations that have adopted multi-year planning, it has changed the budget process from being incremental to becoming far more strategic.

Multi-year planning allows policy makers to see the budget implications of revenue and spending decisions over the long term. Tax cuts that might be affordable in Year 1 of a multi-year plan may result in deficits by Year 3. One-time expenditure reductions may help to balance a Year 1 budget, but may cause a

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hole in the budget by Year 4. Innovations or investments in technology designed to increase productivity may lead to greater spending in Year 1 but produce recurring savings by Year 3.

Multi-year planning is also a means of more strategically addressing some of the fiscal challenges—economic uncertainty and declining federal aid—detailed above. In any given state or city, the impact of federal immigration and trade policy, and general concerns about the state of the economy, will mean that there probably needs to be a range of revenue and expenditure estimates for the current year, and that those projections may change considerably in the next 3-to 5-year period.

For all these reasons, GFOA recognizes multi-year financial planning as a best practice, combining financial forecasting with strategic policies and discrete choices for elected officials and administrators. GFOA notes that long-term planning allows government to address long-term trends and risks in a way that annual budgets don't. It encourages strategic thinking, and it "creates a commitment and motivation to provide a guide for decision making."

In other words, multi-year financial planning helps state and local governments avoid making decisions that look smart in the short term (e.g., reliance on one-time revenue) but can be risky in the long term. It also encourages investments in innovation that might not produce savings until the out years and discourages less productive and strategic approaches like across-the-board budget cuts.

The politics of multi-year financial planning

In his 1955 inaugural address, Chicago Mayor Richard J. Daley—who held that office for more than 20 years—famously said that "good government is good politics."

Multi-year financial planning is more than good government budgeting. It can be very good politics as well.

People who think that budgets are just about numbers don't really understand budgets. Budgets are the most important policy document for most state and local governments, and they are fundamentally about choices.

As former New York Governor Mario Cuomo once said, candidates for office campaign in poetry but must govern in prose. Big policy ideas that help win elections can run smack into budgetary realities that make them impossible to implement on day one or in year one.

For perennial losers in sports, the cry after one more failed pennant race or a playoff run that comes up short is often "wait 'til next year." That often happens in the budget process as well. And unfulfilled promises are about as satisfying to voters as "wait 'til next year" is to sports fans.

Multi-year financial planning allows elected leaders to better set expectations in the face of fiscal reality. It can be a means of showing how promises may take time and tradeoffs to implement, but that there is a path forward.

The planning process itself can be a communication tool to gain buy-in and

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The City of Danville used multi-year financial planning to reverse decades of decline. Through strategic planning and community engagement, Danville has attracted more than $1.4 billion in new investment and created over 2,000 jobs, experiencing growth for the first time in many years.

galvanize support for budgetary choices. From the early development of forecast assumptions to identifying initiatives and priorities in the plan, the multi-year planning process provides multiple points for elected officials, government staff, residents, and community stakeholders to engage in dialogue.

This dialogue is critical in today's political environment. Effective policymaking requires that policy connect to the experiences of everyday residents. Multi-year planning can make it easier to win support for tough budget calls that may not pay off with an upside until later years. And done well, the planning and engagement process can build support for a financial plan that aligns with a state's or community's vision and goals.

This approach is not just for states or big cities.

The City of Danville is a legacy textile mill town in southwestern Virginia. After reaching a peak population of a few more than 53,000 residents in 1990, its population dipped by more than 11,000 residents by 2024—a loss of more than 20 percent of the population base in approximately 30 years.

In 2018, the City of Danville faced a growing structural deficit that prevented it from having the financial bandwidth to invest in critical needs like public safety, economic development, and the city's school system. With national and local philanthropic support, the City of Danville brought in a team of national experts to develop multi-year financial plans for both the city and the school district.

In April 2018, the team presented a 165-page document with recommendations ranging from a citywide wage freeze to building a new parking lot in the downtown district to spur development of new office space.

The City of Danville's first multi-year financial plan provided a blueprint for city leadership and the school district to address the city's structural deficit and make targeted priority investments. That work laid the foundation for the city to develop a similar blueprint when opportunities to expand the city's revenue and tax base came in 2019 with the authorization and construction of a new casino.

Beyond developing a financially sustainable approach, the City of Danville was able to tie together its long-term policy objectives into a coherent plan with the resources to back it. Both the initial financial plans for the city and the school district had a community advisory process. Detailed planning around the use of casino revenue included a community advisory board and input from the public through focus groups and surveys.

In 2024, the city reported more than $1.4 billion in new investment and the creation of more than 2,000 new jobs. In his FY 2026 budget message to the city council, City Manager Ken Larking reported that "strategic efforts to enhance economic development, reduce crime, and improve education have increased opportunities and improved property values. This work includes investing heavily in economic development, public education, housing, downtown revitalization, and workforce programs. For the first time in many years, Danville is experiencing growth..."

Conclusion

Given the fiscal and policy challenges facing state and local governments today, multi-year financial planning may not offer easy answers—but it does provide a means of making tough choices in a way that advances both good government and good politics.

As newly elected mayors and governors—and incumbents—work to fulfill the promises that got them elected while addressing the fiscal storm ahead, the careful planning and community engagement that can be part of a multi-year financial planning process is likely the best way to both balance budgets and meet voter demands.

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