

# **The Volcker Alliance's Truth and Integrity in State Budgeting: The Southeastern States**

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**THE VOLCKER ALLIANCE**  
*Working for Effective Government*

# Today's Agenda

- *Introduction/Fiscal Framework*
- *Fiscal Disclosure and Accountability*
- *An Assessment of Southeastern Fiscal Health*
- *Debt Financing and Debt Management*
- *Revenue Forecasting Practices: Accuracy, Transparency and Political Acceptance*

# Volcker Alliance Truth & Integrity in State Budgeting Project

- How transparent, accessible, and sustainable are state budgets?
- Volcker Alliance coordinating research at 13 universities and campus-based institutes, joined by Municipal Market Analytics, Barrett & Greene
- 50 states examined, FY 2015-17, asking same questions about each state's processes
- Findings to be available in 2017

# The Volcker Alliance's Budgeting Principles

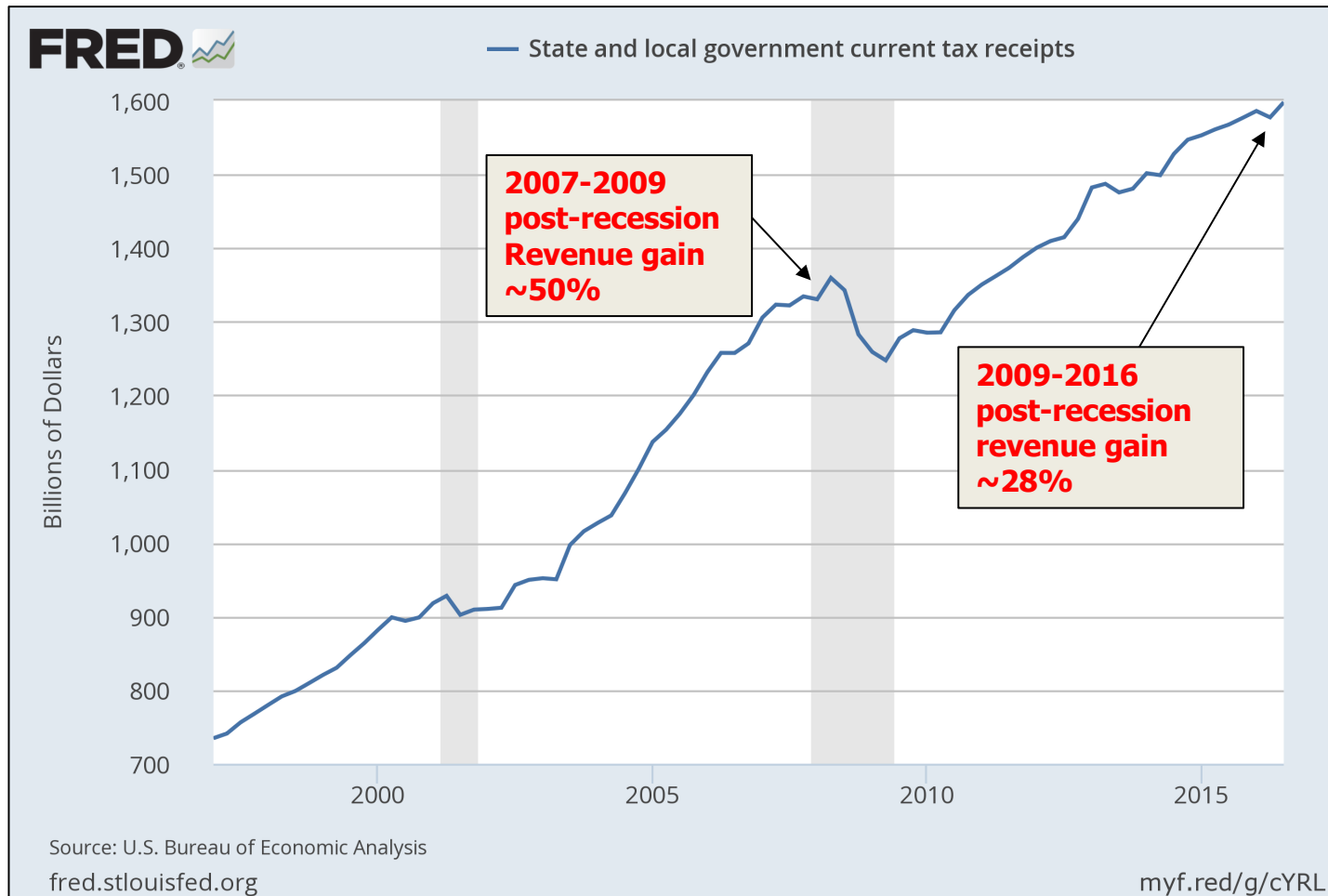
- Complete budgetary information, including how balance was achieved and whether onetime revenue sources were tapped, should be easier to find and interpret.
- Short-term revenue forecasts should be transparent and supportable by historic growth trends. Past projections should be assessed for accuracy to help improve forecasting methods.
- Recurring costs should be paid with recurring revenue.
- The proceeds of borrowings should not be used to cover operating expenses.
- States should move away from strictly cash budgeting and toward the type of accounting, used in their audited comprehensive annual financial reports, which shows the true present value of future spending obligations.
- States must build rainy day funds to safeguard essential services during economic downturns. The size of the funds should be adjusted for revenue volatility, and they should be replenished consistently after they are tapped.

# The Fiscal Framework for States

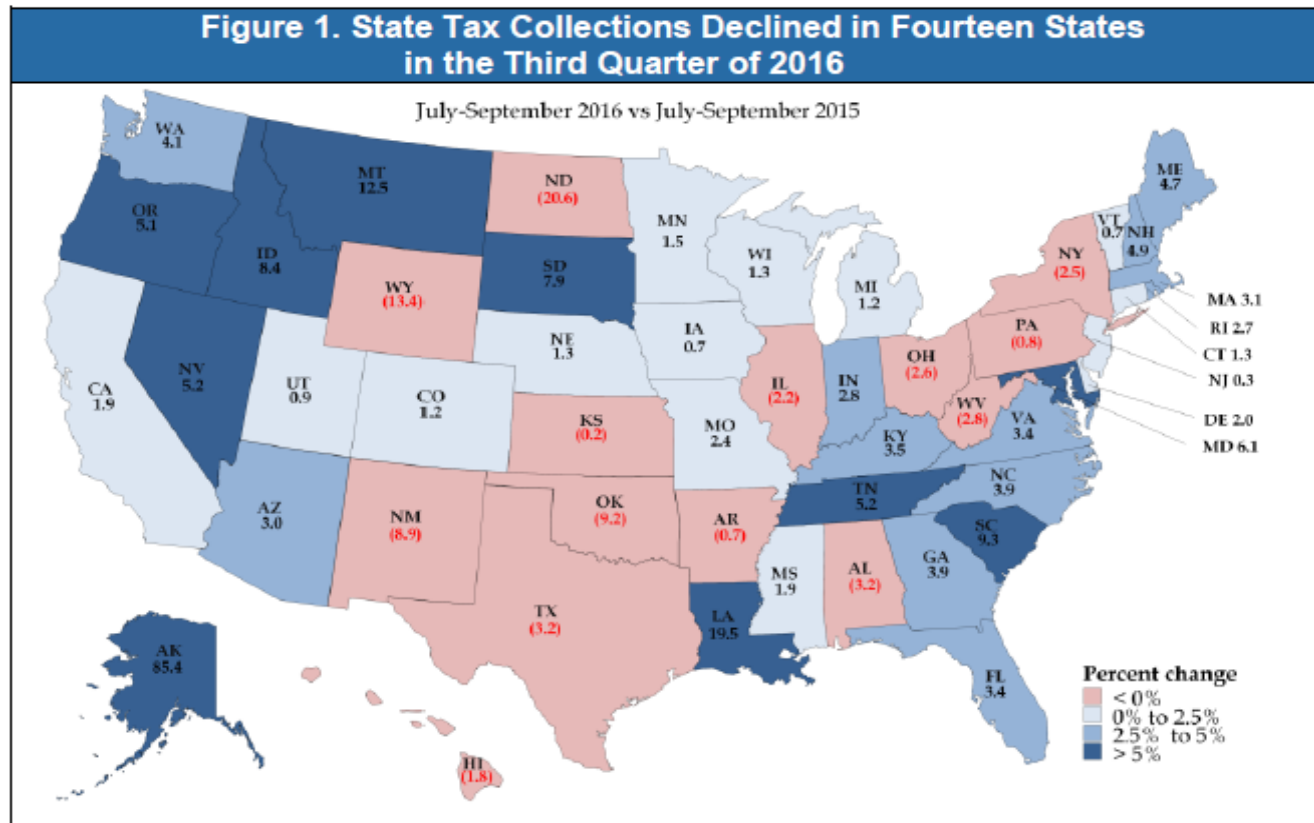
# Federal Climate for State Budgets

- US agency spending reductions, save for military and border security
- Possible conversion of US Medicaid funding to state block grants
- Pro-production energy policy
- Infrastructure program (~\$1 trillion?)
- Repeal or modification of Dodd-Frank
- Possible national limits on public employee unions
- Higher short-term interest rates

# State Revenue Growth Slowing



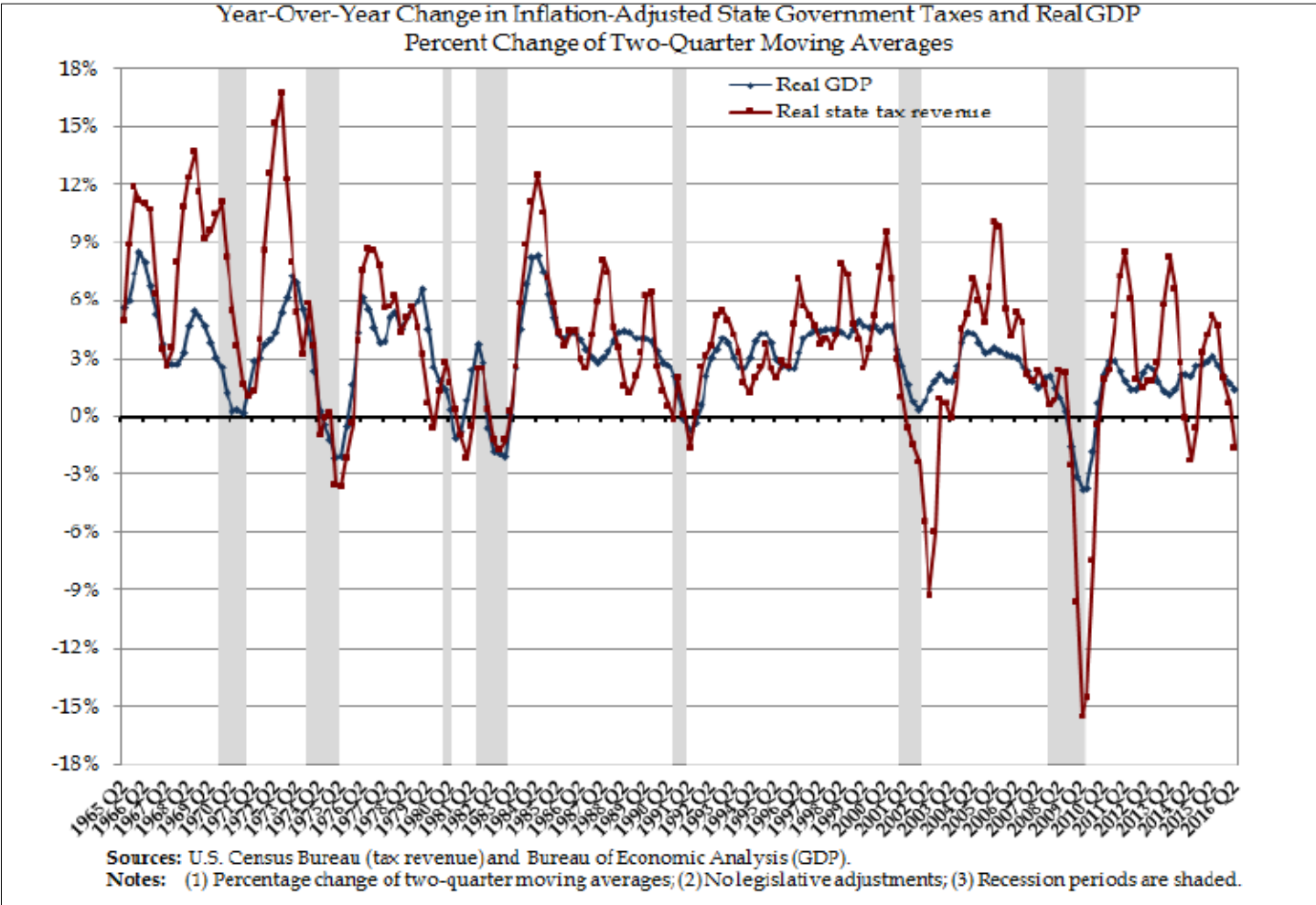
# Some States' Revenues Decline Despite GDP Recovery



Source: Nelson A. Rockefeller Institute of Government

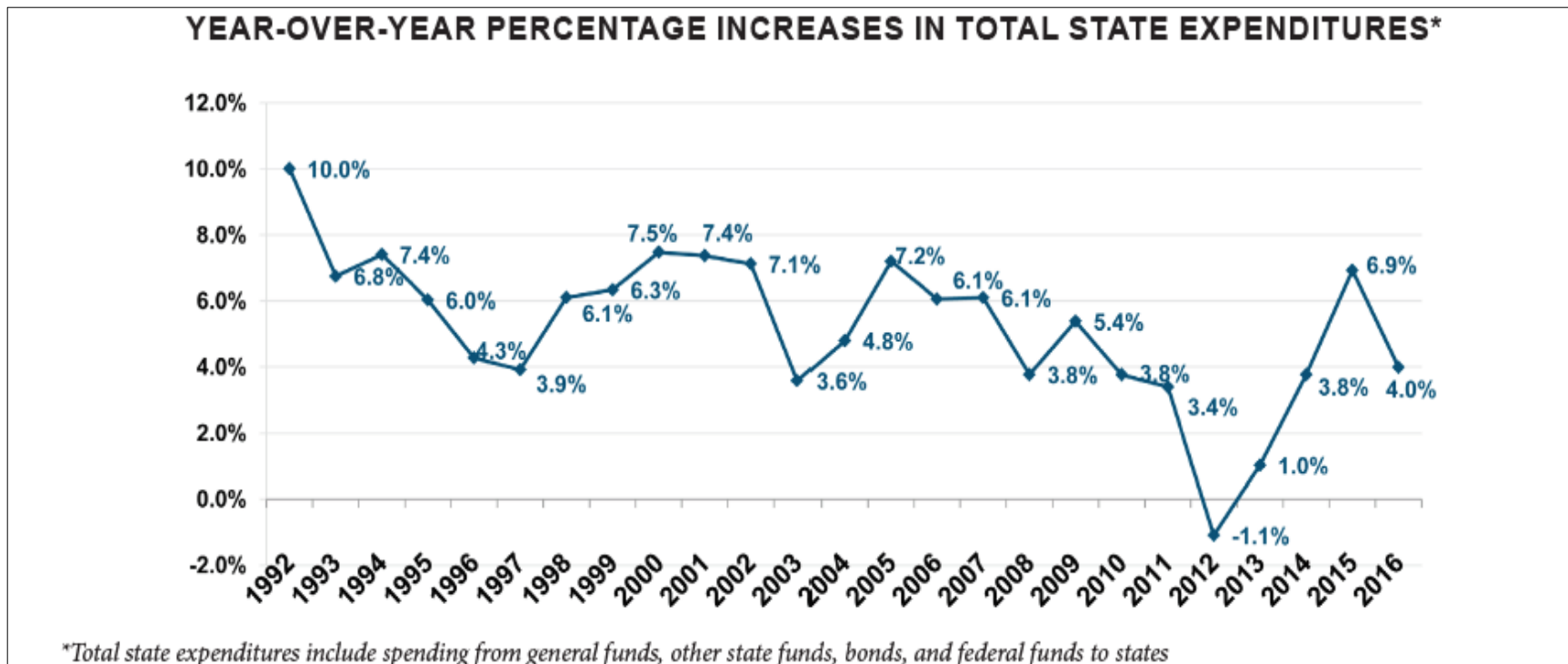


# State Revenue Is More Volatile



Source: Nelson A. Rockefeller Institute of Government (1965-2016)

# State Spending Growth Is Slowing



Source: NASBO

# Preliminary Volcker Alliance Research Findings

- One-third of 31 states needed to make meaningful adjustments in their enacted budgets during fiscal 2016.
- Closing general fund deficits by selling debt was extremely rare, but a few states used proceeds of bond premiums for revenue.
- One-third of states failed to make full actuarially determined or required payment for public-employee pensions. Most states failed to make their similar payments for OPEB, where offered.
- Only half of states posted consensus revenue estimates in budget documents.
- While most states have formal policies for replenishing rainy day funds, many fail to adjust the size of reserves for revenue volatility.
- Only a handful of states fully disclose the cost of deferred infrastructure maintenance.

Questions? Comments?

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