

**Fiscal Disclosure and Accountability:**

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**Alex Hathaway**

Public Finance Fellow

Center for State and Local Finance

Andrew Young School of Policy Studies

Georgia State University

nhathaway2@student.gsu.edu

**Carolyn Bourdeaux**

Associate Professor

Director, Center for State and Local Finance

Andrew Young School of Policy Studies

Georgia State University

**Emily Franklin**

Public Finance Fellow

Center for State and Local Finance

Andrew Young School of Policy Studies

Georgia State University

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### Abstract

Best practices in governmental budgeting and financial management often center on improving transparency to induce accountability and ensure fiscal health. This investigation draws on data collected for fifteen southeastern states as part of the Volcker Alliance's *Truth and Integrity in Government Finance* project and analyzes transparency practices to determine how easily structural deficits can be seen. A review of the literature discusses the merits and effects of transparency, the possible pitfalls, transparency measurement indices, and best practices guidelines. The methodology describes data collection techniques to analyze explicitly disclosed structural deficits, multi-year revenue and expenditure forecasts, and other long-term liability forecasts. Our results show that only two of fifteen states explicitly disclose and analyze structural deficits; five states have multi-year forecasts for revenues, expenditures, and major programs; five states project debt service schedules into the future, and no states project future pension, OPEB, and deferred maintenance costs. Overall, all fifteen southeastern states have room to improve fiscal disclosure practices to ensure better fiscal health and governmental accountability.

*Keywords:* disclosure, transparency, structural deficit, forecast, long-term liabilities

## Fiscal Disclosure and Accountability

Best practices recommendations in governmental budgeting and financial management often center on improving transparency. Full disclosure of key information about the fiscal health of a government is thought to be critical to ensuring citizen trust in government as well as reducing corruption and insuring fiscal stability.<sup>1</sup> Transparency also creates a level of trust that allows the financial markets around government debt to function appropriately. Ideas of transparency are grounded in an explicit or intuitive understanding of a principal-agent problem, where the voters or “principals” have a particular need or want a particular product, and the “agents” or governmental actors propose and implement policies to address this need. The challenge in this relationship is that methods used by the agent, and at times even the outcomes produced, may be opaque to the principal, and thus, the principal has difficulty holding the agent accountable.<sup>2</sup> This principal-agent problem underpins the theory of “fiscal illusion,” where a central theme is that elected officials prefer policies that appear to give voters something for nothing by pushing costs for a public service into the future<sup>3</sup> or by devolving costs and accountability to other levels of government.<sup>4,5</sup> The voters believe that they are getting a public service at no additional cost to themselves when in fact they are just failing to perceive that they are going to have to pay at some point in the future or are paying through an unexpected mechanism, such as local taxes rather than state taxes. The cure for fiscal illusion is more

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<sup>1</sup> Kopits & Craig. *Transparency in Government Operations*. 2011.

<sup>2</sup> Mueller, Dennis, *Public Choice II*. Cambridge: Cambridge University Press. 1989.

<sup>3</sup> Buchanan, James. "Public Debt, Cost Theory and Fiscal Illusion." In *Public Debt and Future Generations*, edited by James Ferguson. Chapel Hill, NC: The University of North Carolina Press. 1964.

<sup>4</sup> Fiorina, Morris. "Legislative Uncertainty, Legislative Control, and the Delegation of Legislative Power." *Journal of Law, Economics and Organization*. 1986, 2:33-50.

<sup>5</sup> Bennett, James, and Thomas DiLorenzo. *Underground Government: The Off-Budget Public Sector*. Washington, D.C.: Cato Institute. 1983.

information so that voters can hold elected officials and government agencies, the agents, accountable.<sup>6</sup>

This paper draws on data collected as part of the Volcker Alliance's *Truth and Integrity in Government Finance* project to examine fiscal transparency in fifteen southeastern states. The Volcker Alliance project focuses on examining whether states have structural deficits which are being patched through short-term solutions that push hard decisions into the future (giving voters the illusion of "something for nothing"), and further, examining the extent to which this is visible through existing documentation. This analysis draws on the 29-question Volcker Alliance survey and supplements this material with additional research on the states to examine whether states report structural deficits directly or whether states at least provide the basic pieces of an analysis that would allow citizens to independently assess long-term structural deficits. We conclude that the basic analyses are not in place to effectively assess whether states face a long-term structural deficit. While most states provide current and past year information about state expenditure obligations and revenue streams, even this can be difficult to find and assemble. For the most part, the southeastern states generally do not produce serious forecasts documenting expenditure and revenue trends, much less forecasts that incorporate the impact of long-term liabilities on state future operations.

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<sup>6</sup> Bourdeaux (forthcoming) has raised the issue that the problem might not be fiscal illusion per se but that human beings generally are biased towards current consumption and as such, voters might be complicit in effort to push costs into the future. Behavioral economics documents a number of cases of such behavior. However, people may develop commitment devices to protect their future selves from their current selves. One way of thinking about this dilemma concretely is to consider whether GASB rules encouraging states to disclose future liabilities such as pension and OPEB liabilities will prove sufficient inducement to states to address these issues (this would be the fiscal illusion answer) or do states need concrete laws limiting such liabilities, as states have long done with debt liability, to force their current selves to be disciplined about future costs (a behavioral economics answer). Rating agencies and reports such as the Volcker Alliance project might also be beneficial not only for transparency but also because they create current penalties through loss of state "reputation" for engaging in practices that have long-term costs.

## Literature Review

Research on transparency at the state level is sparse. The published literature primarily examines transparency at a country or global level with limited information about state-level government in the United States. The literature discusses the merits and effects of transparency as well as the possible pitfalls and also considers the conditions that warrant more transparency in government. Efforts to measure the effects of transparency also receive considerable attention, and several groups have organized guidelines to help governments become more transparent.

### Potential Benefits of Transparency in Government

Much of the research espouses the potential benefits of transparency. Improved fiscal performance is often seen as the central goal of a transparent government, and the research proposes several reasons why this may occur.<sup>7,8,9,10,11</sup> Open information can provide the public a means to impose fiscal discipline on elected officials.<sup>12,13</sup> With stricter fiscal discipline and clear accounting for revenues, expenditures, and liabilities, officials can be held accountable for policy decisions with less room for blame-shifting.<sup>14</sup> Improved accountability may also reduce governmental corruption.<sup>15,16,17</sup> A transparent government would make it easier to identify favors or special treatment politicians may afford special interest groups and help reduce inequities in fiscal practices.<sup>18,19</sup> Additionally, a transparent budget and auditing process may reduce the

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<sup>7</sup> Kopits & Craig. Transparency in Government Operations. 2011.

<sup>8</sup> Heald. Fiscal Transparency in UK. 2003.

<sup>9</sup> Bastida and Benito. Central Government Budget Practices and Transparency. 2007.

<sup>10</sup> Arbatli and Escolano. Fiscal Transparency. 2015.

<sup>11</sup> Arbatli and Escolano. Fiscal Transparency. 2015.

<sup>12</sup> Benito and Bastida. Budget Transparency, Fiscal Performance, and Political Turnout. 2009.

<sup>13</sup> Heald. Fiscal Transparency in UK. 2003.

<sup>14</sup> Heald. Fiscal Transparency in UK. 2003.

<sup>15</sup> Bastida and Benito. Central Government Budget Practices and Transparency. 2007.

<sup>16</sup> Khagram, de Renzio, and Fung. Open Budgets. 2013.

<sup>17</sup> Heald. Fiscal Transparency in UK. 2003.

<sup>18</sup> Garrett and Vermeule. Transparency in the Budget Process. 2006.

<sup>19</sup> Kopits & Craig. Transparency in Government Operations. 2011.

likelihood political actors resort to fiscal gimmicks or tricks to manipulate the budget and, instead, shift attention to outcomes and performance.<sup>20</sup>

Another set of benefits from transparency revolves around state debt and liabilities. Several studies in the literature have suggested that open government operations may improve credit ratings.<sup>21,22,23,24</sup> A closely related observation is that by making their assets and liabilities more accessible, states may find it easier to borrow money at lower interest rates.<sup>25,26</sup> Furthermore, by shedding light on the status of long-term liabilities, politicians may be pressured into funding these liabilities to reduce the future burden on the state.<sup>27</sup> The public can also benefit from more transparent pension plans, as beneficiaries would be able to monitor and optimize their portfolios more easily.<sup>28</sup>

The literature also proposes more intangible effects of transparency. By removing the shroud of secrecy and allowing the public to see how their taxes are used, transparency would be able to redeem the public's trust in the government.<sup>29</sup> An empirical study by Alt and Lowry (2010) has shown that transparency helps reduce the likelihood that politicians are not reelected after they introduce tax increases.<sup>30</sup> Additionally, transparency can better involve the public and spur the people's interest in becoming more active in the political process.<sup>31</sup>

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<sup>20</sup> Benito and Bastida. Budget Transparency, Fiscal Performance, and Political Turnout. 2009.

<sup>21</sup> Hameed. Budget Transparency and Financial Markets. 2011.

<sup>22</sup> Arbatli and Escolano. Fiscal Transparency. 2015.

<sup>23</sup> Arbatli and Escolano. Fiscal Transparency. 2015.

<sup>24</sup> Arbatli and Escolano. Fiscal Transparency. 2015.

<sup>25</sup> Khagram, de Renzio, and Fung. Open Budgets. 2013.

<sup>26</sup> Hameed. Budget Transparency and Financial Markets. 2011.

<sup>27</sup> Brixi and Schick. Government at Risk. 2002.

<sup>28</sup> Novy-Marx and Rauh. The Liabilities and Risks of State-Sponsored Pension Plans. 2009.

<sup>29</sup> Linden. Transparency breeds self-correcting behavior. 2010.

<sup>30</sup> Alt and Lowry. Transparency and Accountability. 2010.

<sup>31</sup> Benito and Bastida. Budget Transparency, Fiscal Performance, and Political Turnout. 2009.

## Potential Drawbacks of Transparency in Government

Although the literature describes numerous potential benefits to governmental transparency, several authors have raised concerns about unchecked increases in transparency. Beyond obvious concerns about the upfront costs associated with the time, labor, and capital needed to make a government more transparent,<sup>32,33,34</sup> misinterpretation of information is a potential drawback. The media is another source of concern. Negative news tends to be reported more prominently than positive news, which can portray the government as more incompetent than it may be in reality.<sup>35</sup> Media scrutiny is often unforgiving and can bring out unrealistic expectations about how government can and should be run.<sup>36</sup> Ultimately, this level of transparency and criticism can affect politicians' decision-making abilities, making them less likely to put things in writing and to pursue alternative options that may be perceived negatively by the press or public.<sup>37</sup>

Misinterpretation can also happen in other ways. Heald (2003) uses the example of the common need to bundle policy announcements, where confidentiality can be beneficial to reduce the chance of individual pieces of information being misconstrued out of context.<sup>38</sup> Particularly with computer-based transparency, information can be misinterpreted because the data is often quantitative and the context may not be obvious; it may be difficult to understand the data fully without speaking to an individual within the agency.<sup>39</sup>

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<sup>32</sup> Heald. Fiscal Transparency in UK. 2003. p.740-3.

<sup>33</sup> Linden. Transparency breeds self-correcting behavior. 2010.

<sup>34</sup> Bertot, Jaeger, Grimes. Using ICTs to Create a Culture of Transparency. 2010.

<sup>35</sup> Heald. Fiscal Transparency in UK. 2003. p.740-3.

<sup>36</sup> Linden. Transparency breeds self-correcting behavior. 2010.

<sup>37</sup> Heald. Fiscal Transparency in UK. 2003. p.740-3.

<sup>38</sup> Heald. Fiscal Transparency in UK. 2003. p.740-3.

<sup>39</sup> Meijer. Understanding Modern Transparency. 2009.

Finally, transparency may have the unintended side effect of making the government vulnerable to powerful interest groups.<sup>40</sup> As Rose and Smith (2011) attest, “while individual citizens face virtually insurmountable hurdles to collective action, mobilized groups seeking transfers to narrowly defined economic interests are well situated to take advantage of available information.”<sup>41</sup> In this situation, more transparency would harm the public interest overall.<sup>42</sup>

### **Determinants of Fiscal Transparency**

As one would imagine, undesirable fiscal policy outcomes are often the impetus to increase financial transparency in government operations.<sup>43,44</sup> Economic crises in particular can bring the need for transparency to the forefront of political discussions and can quickly affect change.<sup>45</sup> Similarly, corruption cases can also bring the issue into the public eye.<sup>46</sup> Studies also show that increased bipartisanship or political polarization prompts legislatures to pass transparency policies, as politicians bind the hands of their opposition as well as their own.<sup>47,48</sup>

### **Transparency Measurements**

Measuring transparency and its effects has proved challenging. Heald (2003) has described the difficulty in pinpointing direct effects because of the “level of abstraction which does not make it clear what the ‘objects’ of transparency are”; in particular, there is no consensus regarding what constitutes ‘effectiveness.’<sup>49</sup> Nonetheless, several indices have been created to

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<sup>40</sup> Heald. Fiscal Transparency in UK. 2003. p.740-3.

<sup>41</sup> Rose and Smith. Budget Slack, Institutions, and Transparency, 2011.

<sup>42</sup> Garrett and Vermeule. Transparency in the Budget Process. 2006.

<sup>43</sup> Alt, Lassen, Rose. The Causes of Fiscal Transparency. 2006.

<sup>44</sup> Khagram, de Renzio, and Fung. Open Budgets. 2013.

<sup>45</sup> Khagram, de Renzio, and Fung. Open Budgets. 2013.

<sup>46</sup> Khagram, de Renzio, and Fung. Open Budgets. 2013.

<sup>47</sup> Alt, Lassen, Rose. The Causes of Fiscal Transparency. 2006.

<sup>48</sup> Khagram, de Renzio, and Fung. Open Budgets. 2013.

<sup>49</sup> Heald. Fiscal Transparency in UK. 2003. p.729.

measure levels of transparency.<sup>50,51,52,53</sup> One of the most prominent indices, the Open Budget Index, was created by the International Budget Partnership to assess national-level transparency data based on eight budget documents: the pre-budget statement, executive budget proposal, enacted budget, in-year report, mid-year report, year-end report, audit report, and citizens budget.<sup>54</sup> (The pre-budget statement describes the economic assumptions used in budget development as well as the anticipated revenues, expenditures, and debt levels; the citizens budget presents a shortened, easily readable and accessible version of the other seven documents.) At the state level, Alt, Lassen, Rose (2006) adapted a transparency index to evaluate budget procedures.<sup>55</sup> The index consists of nine items that can be written as questions and presented to state budget officers as a survey. The questions address the characteristics of revenue and expenditure forecasting, the use of generally-accepted-accounting principles, the formation of appropriations bills, the type of budget cycle, and the presence of performance measures for the budget. The responses are translated to a numerical scale and added together. The higher the index score, the more transparent a state's budget procedures should be.

## Best Practices

Several large organizations have published best practice guides for fiscal transparency.<sup>56,57,58,59,60,61,62</sup> Kopits and Craig (2011) define three dimensions of good practice: institutional transparency, accounting transparency, and transparency of indicators and

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<sup>50</sup> Van Hagen. Budgeting Procedures and Fiscal Performance. 1992.

<sup>51</sup> Benito and Bastida. Budget Transparency, Fiscal Performance, and Political Turnout. 2009.

<sup>52</sup> Heald. Fiscal Transparency in UK. 2003.

<sup>53</sup> Kopits & Craig. Transparency in Government Operations. 2011.

<sup>54</sup> Khagram, de Renzio, and Fung. Open Budgets. 2013

<sup>55</sup> Alt, Lassen, Rose. Causes of Fiscal Transparency: Evidence from the U.S. States. 2006. p.37.

<sup>56</sup> IMF. Fiscal Transparency Code.

<sup>57</sup> Ramkumar and Shapiro. Guide to Transparency in Government Reports. International Budget Partnership.

<sup>58</sup> OECD Best Practices for Budget Transparency Report. 2002.

<sup>59</sup> Kopits and Craig. Transparency in Government Operations. 2011.

<sup>60</sup> IMF. Code of Good Practices on Fiscal Transparency. 2007.

<sup>61</sup> Ramkumar and Shapiro. Guide to Transparency in Government Reports. International Budget Partnership.

<sup>62</sup> Benito and Bastida. Budget Transparency, Fiscal Performance, and Political Turnout. 2009.

projections.<sup>63</sup> The OECD Best Practices for Budget Transparency Report (2002) details specific information that should be made available to the public in numerous documents.<sup>64</sup> The suggestions include commentaries of revenue and expenditure data, the economic assumptions used in making projections, comparative revenue and expenditure data for previous fiscal years, multi-year forecasts, and comprehensive looks at assets compared to long-term liabilities. The OECD also promotes a pre-election report that the public can use to gauge the status of the government's finances accurately before an election.

In sum, while the literature is inconclusive about the benefits or object of transparency, oversight or coordinating institutions that promote best practices in public finance (such as the OECD) have forged ahead with promoting its importance and in recent years have paid increasing attention to driving up transparency around long-term fiscal health, which is more difficult to discern from existing fiscal documents. Component parts of understanding long-term fiscal health include 1) actual provision of the information; 2) ease of access; 3) presentation of the information for people with non-expert levels of financial literacy.

### **Methodology**

This analysis draws on data from the Volcker Alliance project to assess whether state governments in the southeastern United States provide information on long-term fiscal health in a way that is easily accessible to the average citizen. As part of the project, twelve universities across the country gathered fiscal information from all fifty states. Three universities covered the southeastern region, five states each, for a total of fifteen states: Georgia, Maryland, Virginia,

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<sup>63</sup> IMF. Code of Good Practices on Fiscal Transparency. 2007.

<sup>64</sup> OECD Best Practices for Budget Transparency Report. 2002.

North Carolina, South Carolina, Kentucky, Oklahoma, Tennessee, Arkansas, Louisiana, Florida, Delaware, Alabama, Mississippi, and West Virginia. The project was grounded in a 29-question survey. Key questions that informed this research included the following:

- **Structural deficits: Does the state disclose projected structural general fund deficits (recurring revenues that do not cover ongoing expenditures) and other comparable liabilities?**

This analysis examines whether states explicitly evaluate and disclose a structural deficit as well as what type of data is presented as part of a state's assessment of a structural deficit. A complete analysis of a structural deficit begins with a long-term forecast. The Center on Budget and Policy Priorities defines "multi-year" as three years beyond the upcoming fiscal year.<sup>65</sup> For this paper, we have defined "multi-year" more leniently as three fiscal years beyond the current year, still a difficult threshold for many states to meet. A complete analysis will also use a moderately sophisticated strategy for projecting revenues and expenditures and will incorporate an assessment of one-time revenues and deferred expenditures as well as the impact of long-term liabilities such as pensions, other post-employment benefits, debt, and deferred maintenance. The analysis also examines the relative accessibility of this information to the average citizen. Since most states do not provide a complete assessment of a potential structural deficit, the analysis then goes on to assess the extent to which states produce and make accessible the component pieces of such an analysis.

- **Multi-year forecasts: Does the state disclose multi-year revenue/expenditure forecasts (at least 3 years) in the budget documents?**

Assuming states do not explicitly discuss a structural deficit, a long-term, multi-year forecast, in theory, should provide a proxy for a structural deficit analysis, and indeed, some of

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<sup>65</sup> McNichol, Lav & Leachman, "Better State Budget Planning Can Help Build Healthier Economies," Center on Budget and Policy Priorities, October 15, 2015.

the states we evaluated, such as Georgia, responded that this analysis was where they would report a potential “structural deficit.” The Volcker Alliance questionnaire asks whether states explicitly provide a multi-year expenditure and revenue forecast, and our analysis further evaluated whether these would truly reveal a structural deficit. For instance: does the state’s revenue and expenditure forecast clearly show the methodology for how the forecast was built? Is this a sophisticated methodology or one that simply applies generic inflation and population factors to current operating expenditures? In particular, are there explanations of big-ticket growth items like Medicaid and education? Does this methodology include a current services assessment or the amount of expenditures required to keep the current service levels constant? This in turn would need to include some sort of projection associated with growth in workload. Does it include an analysis of debt service requirements over time, pension and OPEB liabilities, and deferred maintenance? On the revenue side, does the analysis incorporate an evaluation of tax expenditures that may affect long-term liabilities? Last, is any of this information easy to access and interpret for an average citizen?

While methodology for the forecast was evaluated by examining budget documents, accessibility was determined by a Google search. To make financial documents easily accessible to the public, institutional websites should be arranged in a way that facilitates finding documents using large search engines like Google. Ultimately, the state’s websites should allow as few ‘clicks’ as possible for a citizen to reach the desired information. We discovered that, for the most part, only the revenue and expenditure forecasts can be successfully found using direct links from Google’s search results page by searching for “[state] revenue forecast” or “[state] expenditure forecast/outlook.” The results presented below provide “Y” for yes and “N” for no answers signifying whether a direct link to the forecast appears in the first page of search results

using these search terms. We also created an ordinal metric to describe the ease of finding the revenue and expenditure forecasts: 1) easily accessible from Google results; 2) accessible for an average citizen if they have already found the budget documents; 3) accessible to someone with expert knowledge in the budget documents; “N” indicates that the information is not available in the budget documents. An example of a “3” value is found in Georgia’s multi-year revenue forecast. While the Governor’s Budget Report discusses the upcoming fiscal year’s revenues in the first few pages, the multi-year revenue forecast is tucked away near the end of the report at the bottom of the multi-year expenditure forecasts.<sup>66</sup> Odds are pretty good that a layperson would be unlikely to stumble upon this analysis without expert guidance. The major program forecasts also use the 1,2,3,N format because this information is often embedded in the expenditure forecast.

- **Long-term liabilities: Was the contribution to public employee pension/OPEB (other post-employment benefits other than pensions) less than 100 percent of the actuarially required or determined amount? Does the state provide tables listing outstanding debt and debt service costs in the budget documentation? Is the estimated cost of deferred infrastructure maintenance disclosed in the budget documentation?**

A final question is the extent to which a state discloses some of the future implications of critical long-term liabilities such as pensions, OPEB, debt, and deferred maintenance. This section draws on Volcker’s questions 16, 17, 27, and 28, respectively, and further assesses the accessibility of such information. Pension and OPEB liabilities can be complex, and the total liabilities depend on numerous factors. In times of fiscal stress, pension and OPEB obligations may be postponed or payments reduced to lessen the burden in other areas, but these actions only increase liabilities in the future. To understand the true value of these obligations, the budget documents should detail the actuarially required contributions (ARC) and projected contributions

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<sup>66</sup> The Governor’s Budget Report FY2018, Georgia Office of Planning and Budget.

into the future, as well as all earnings from investments, assets held, and the economic assumptions underlying the projected liabilities including the assumed discount rates.

Debt and debt service schedules are also integral to understanding the long-term liabilities of a state. While many states include the annual debt service payments in their appropriations acts, many states do not include the broader view of debt obligations. Providing debt service schedules over time allows individuals to see the trends in the payment schedule: Does the state pay the same amount every year? Does it pay more in the near-term and much less in later years? Does the state pay little or nothing in the present and push off much of the debt burden far into the future? None of these questions can be answered easily without the budget documents presenting the debt service over time. As with multi-year revenue and expenditure forecasts, knowing the future liability of debt service allows policymakers to address potential policy and budgetary issues in the present, helping to avoid preventable difficulties in the future.

Accounting for deferred maintenance is also an important aspect in having a full picture of the fiscal health of a state. Deferred maintenance refers to repairs or other maintenance activities that have been pushed off into the future to avoid the expense in the present. Because the postponed expenses will need to be made in the future, not openly accounting for these liabilities leaves the state vulnerable to possibly expensive and unexpected repairs.

Long-term liability information is difficult to locate using a simple search engine request. We originally performed Google searches following a template of "[state] [topic keywords]" looking for search results that link directly to the documents or to related pages where the document can be found. For long-term liabilities, our topic keyword search terms included: "debt service/payments/bonds," "retirement pension," "retirement OPEB," "deferred maintenance/repairs." For example, looking for Louisiana pension obligations, we searched for "Louisiana

retirement pension.” Unfortunately, very few of the long-term obligation searches returned with viable results. We found the best way to gather this material is to locate the budget documents first, particularly the executive budget document, the appropriations act, and potentially relevant legislative session summaries, by navigating the websites of the executive and legislative branches. It should be noted that long-term obligations are presented in the Comprehensive Annual Financial Reports (CAFR), but these documents are retrospective in nature and do not provide multi-year projections of long-term obligations or payment plans. The tables below show how the information is presented in these documents: “F” indicating a forecast of at least three future years is present in the budget documents; “C” indicating only the current or upcoming fiscal cycle’s information is present; and “N” indicating the information is not present in the budget documents.

Additionally, with such variation in how states disclose information, particularly legislative reports or session summaries, there are potentially documents that include the previously discussed information we were unable to locate despite our thorough efforts. Nonetheless, if we were unable to locate a document, it is unlikely that the average citizen would find it either, and more clarity in the future presentation of information may still be warranted.

## Results

### Structural Deficits

**Table 1: Availability and Ease of Interpreting Structural Deficits**

	Discloses structural deficit explicitly	Transparency-centered website	Website with all revenue, expenditure, and long-term liabilities	All revenue, expenditure, and long-term liabilities in multi-year forecast
Alabama	N	Y	N	N
Arkansas	N	Y	N	N
Delaware	N	Y	N	N
Florida	N	Y	N	N
Georgia	N	Y	N	N
Kentucky	N	Y	N	N
Louisiana	N	Y	N	N
Maryland	Y	Y	N	N
Mississippi	N	Y	N	N
North Carolina	N	Y	N	N
Oklahoma	N	Y	N	N
South Carolina	N	Y	N	N
Tennessee	N	Y	N	N
Virginia	N	Y	N	N
West Virginia	Y	Y	N	N

Answers may not match with Volcker responses because of definition differences  
**Y:** Yes; **N:** No

All of the southeastern states have made the effort to implement a transparency website of some kind. While more information may need to be added for an average citizen to have the full picture of the state's fiscal health, such a website is a good faith effort to improve fiscal disclosure practices and improve governmental accountability. Out of these fifteen states, only two disclosed structural deficits in any kind of concrete, systematic way. Both West Virginia and Maryland disclose potential shortfalls and analyze in detail the causes, future impacts, and solutions. West Virginia includes this breakdown prominently in its executive budget document, making it accessible and easily understandable to the general public through its narratives, while

Maryland's analysis is produced through the legislative branch and may be more difficult for the public to locate.

West Virginia describes structural deficits in a detailed six-year financial plan in the executive budget proposal (volume I); it is presented upfront in the executive summary section and updated annually by the State Budget Office.<sup>67</sup> The proposal also includes sections on long-range issues, revenue sources, debt summaries, and economic forecasts that contribute to the understanding of the structural balance of the state. The six-year financial plan shows the current fiscal health of the state through analyses of revenues and expenditures and then extrapolates them into five future fiscal years while maintaining the current level of services. The forecasting process looks at job growth and demographic changes, compares the state to U.S. national trends, and focuses on changes to important drivers of state revenue such as coal and natural gas. West Virginia's assumptions also consider potential problems mostly centered on demographic issues: the population is aging, unhealthy, and declining in number. The revenue forecast is based on data from IHS Economics and also incorporates legislative changes affecting revenue streams, such as the FY17 diversion of some personal income tax collections to OPEB obligations.<sup>68</sup> On the expenditure side, the state writes in-depth narratives describing the expenditure growth and program changes needed to maintain a current level of services and includes changes to retirement contributions, public education, and Medicaid. Each program section takes into account program-specific inflation and legislative changes. Medicaid, for example, considers the cost of healthcare inflation, changes in enrollment, quickly rising drug costs, and cost

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<sup>67</sup> Volume I: Budget Report, Executive Budget FY 2017, State of West Virginia, January 13, 2016.

<sup>68</sup> Volume I: Budget Report, Executive Budget FY 2017, State of West Virginia, January 13, 2016, p.91.

containment options.<sup>69</sup> The state also adds two percent employee raises to the assumptions for the FY18-21 forecasts.

West Virginia's executive budget proposal also contains information on long-term liabilities and one-time expenditures. Tax expenditure information is presented in the revenue summaries section and has tables listing estimated current fiscal year costs of tax expenditures including tax credits, tax incremental financing, and miscellaneous tax preferences.<sup>70</sup> The long-term outlook section discusses pension and OPEB liabilities. OPEB is a high priority in the state, and the FY17 executive proposal describes changes to address its liabilities, such as \$30 million in additional funding per year between FY17-FY21. Long-term debt obligations are thoroughly explained in the executive proposal as well. Every general obligation and revenue bond still outstanding is described, and the overall debt burden is projected through FY21 along with debt service payments through full payment. Deferred expenditures are not mentioned in the budget documents, but one-time expenditures such as surpluses or rainy day funds to address budget shortfalls are described generally in the narratives, and the long-term forecast includes a line item of one-time expenditures mainly for building projects and renovations through FY21.<sup>71</sup> Overall, West Virginia provides a good view of its structural imbalance. An easy-to-understand graph showing the diverging revenues and expenditures over time allows the general public to see when and to what extent a gap is expected. The frank disclosure of problem areas helps the governor and the legislature make informed choices in the present while also allowing the public to remain involved.

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<sup>69</sup> Volume I: Budget Report, Executive Budget FY 2017, State of West Virginia, January 13, 2016, p.16, 59.

<sup>70</sup> Ibid., p.85, 87.

<sup>71</sup> Ibid., p.9.

Maryland is the only other state in our analysis that explicitly discloses structural deficits. The Spending Affordability Committee, a bicameral legislative group, produces an annual Interim Report that documents structural imbalance in the state.<sup>72</sup> The committee assesses Maryland's economic status based on income and wealth data then incorporates "economic performance, revenue estimates, and budget requirements."<sup>73</sup> Employment statistics are used in the analysis, and Maryland compares its past and projected jobs performance to national trends as well as neighboring state Virginia.<sup>74</sup> The budget utilizes a current services approach and adjusts the forecast based on caseload assumptions, inflation, salary increases, and changes to laws and policies.<sup>75</sup> The committee's evaluation of revenues and expenditures projects structural imbalances and itemizes the estimated costs of major programs such as Medicaid after adjusting for program-specific inflationary factors. Unlike West Virginia, Maryland does not feature comprehensive tax exemptions in its analysis of future revenues nor does it thoroughly discuss OPEB liabilities. Pension and debt are analyzed in detail, however. In its summary of structural balance, the committee presents an easy-to-read graph of ongoing revenues and expenditures six years into the future, showing what would happen to a deficit if not addressed in the present. Overall, while both states are thorough in their analysis of structural deficits, West Virginia is easier to access and easier for a layperson to understand; more details of West Virginia's long-term forecasting processes are discussed in the next section.

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<sup>72</sup> "Spending Affordability Committee 2016 Interim Report," Maryland General Assembly, December 2016.

<sup>73</sup> Ibid., p.1.

<sup>74</sup> Ibid. p.13.

<sup>75</sup> Ibid. p.38.

## Multi-year Forecasts

**Table 2: Availability of Multi-year Forecasts and Assumptions**

	Budget cycle	Google search links to revenue/expenditure forecasts	Multi-year revenue forecasts	Multi-year expenditure forecasts	Major program multi-year forecasts	Tax expenditure multi-year forecasts
Alabama	A	N/N	N	N	N	N
Arkansas	A	Y/N	1	N	N	N
Delaware	A	Y/N	1	N	N	N
Florida	A	Y/Y	1	3	3	N
Georgia	A	N/Y	3	2	N	N
Kentucky	B	Y/N	1	N	2	N
Louisiana	A	Y/N	1	N	N	N
Maryland	A	Y/N	1	1	N	N
Mississippi	A	N/N	2	2	N	N
North Carolina	B	Y/Y	1	3	N	N
Oklahoma	A	Y/Y	1	1	N	N
South Carolina	A	Y/N	1	3	3	N
Tennessee	A	N/N	N	N	N	N
Virginia	B	Y/N	1	3	3	N
West Virginia	A	Y/Y	2	2	2	N

Answers may not match with Volcker responses because of definition differences

A: Annual; B: Biennial

Y: Yes; N: No

1: Multi-year forecast information can be easily found through Google search of "[state] [topic keywords]" (e.g., "Florida revenue forecast"); search results link directly to document with the information or to related page where document can be easily found; Topic Keywords for each search: revenue forecast, expenditure forecast/outlook, tax expenditure/break/abatement/credit, public education/Medicaid revenue/expenditures

2: Information is in the budget documents but requires searching executive/legislative websites or detailed search of budget; an average citizen could locate it

3: Information is in the budget documents but difficult to find or requires expert knowledge

Our definition of a multi-year forecast requires at least three future fiscal years to ensure at least one year is projected beyond the upcoming budget cycle because three states, Kentucky, North Carolina, and Virginia, have biennial budget cycles. Most states produced multi-year revenue forecasts except two: Tennessee projects future revenues but only for two years, and Alabama only projects the upcoming year. Arkansas, Delaware and Louisiana produce revenue but not expenditure forecasts, and Kentucky only projects expenditures two years beyond the current year. Georgia, Maryland, and Delaware do not explain in detail the assumptions for major

program forecasts or do not forecast three future years. No state projects comprehensive tax expenditure forecasts beyond the current fiscal cycle, and Tennessee and West Virginia alone include tax expenditures in their executive budget proposals. Only Florida, Virginia, South Carolina, and West Virginia produce multi-year revenue, expenditure, and major program forecasts, but the states vary greatly in their accessibility and the rigor of their assumptions.

Florida and Virginia use the most detailed long-term forecasting assumptions. Florida's revenue and expenditure forecasts are contained in a user-friendly, long-range financial outlook supplied by the Senate Committee on Appropriations, the House Appropriations Committee, and the Legislative Office of Economic and Demographic Research.<sup>76</sup> Beyond the three-year forecasts, the document covers potential risks to the revenue estimates, legal concerns, and budget drivers. The budget drivers are divided into the critical needs group, which must be funded, and the other high priority needs group, which includes items often funded in recent years. Major programs such as public education, for example, include adjustments for increasing workload and enrollment to maintain the same level of state funds per student.

Virginia releases its multi-year forecasts through the Department of Planning and Budget in tandem with the governor's biennial budget proposal, but the forecasts are embedded in a general fund six-year financial plan.<sup>77</sup> An average citizen would need to know the forecasts are in this document and know how to find it on the Department of Planning and Budget's website, so it is not easily accessible to a layperson. Nonetheless, the financial plan shows comparisons of revenue and expenditure forecasting six years in the future, then breaks down expenditures by agency with detailed assumptions for each agency's expenditure projections including projected

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<sup>76</sup> "State of Florida, Long-Range Financial Outlook, FY 2016/17-2018/19," Senate Committee on Appropriations, the House Appropriations Committee, and the Legislative Office of Economic and Demographic Research, Fall 2015.

<sup>77</sup> "Virginia General Fund Six-Year Financial Plan, FY 2017-2022," Department of Planning and Budget, January 2016.

policy changes. Virginia's public education assumptions include biennial re-benchmarking with odd-year enrollment increases to maintain full funding of the state's Standards of Quality funding goals. The financial plan has limited revenue assumptions, but the consensus forecasting groups' reports on the Secretary of Finances website provide thorough analyses of revenue expectations. Both Florida and Virginia have the most complete analyses of forecasts in the southeast, but Florida is easier to access and easier for the general public to understand.

West Virginia also creates a six-year financial plan, as discussed previously, presented in the executive budget document, and South Carolina creates a similar three-year financial outlook produced by its Revenue and Fiscal Affairs Office.<sup>78,79</sup> The South Carolina outlook is more difficult to locate than the West Virginia plan. In both, the forecasts are tied mostly to state-level economic trends and less to national trends. Nevertheless, the major programs incorporate inflation, workload increases, and potential policy/program changes, which are thoroughly discussed. Overall, Florida and Virginia have the most complete analyses, but West Virginia's forecasts are the easiest to access and the easiest for a layperson to interpret.

Looking beyond the southeast, Utah's forecasting process offers insight into how even Florida and Virginia can strengthen their forecasts.<sup>80</sup> The state has integrated a stress test into its forecasting process that is adapted from the Federal Reserve's test for evaluating banking firms. This test adds to the traditional forecasting process 'adverse' and 'severe' outlooks to show policymakers the potential fiscal health of Utah in the event of a minor economic downturn or even another Great Recession. With three versions of a long-term forecast, policymakers can weigh the potential consequences of choosing a more or less conservative approach against the

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<sup>78</sup> State of West Virginia, Executive Budget, FY 2017, Volume I Budget Outlook," State Budget Office, January 2016.

<sup>79</sup> "South Carolina Three-Year General Fund Financial Outlook, FY2017/18-2019/20," Revenue and Fiscal Affairs Office, December 2016.

<sup>80</sup> "From Route Fifty: Utah Turns to Budget 'Stress Tests' to Help Prepare for Future Downturns," January 20, 2016.

long-term fiscal health of the state. In the southeast, Virginia's consensus forecasting groups estimate positive, standard, and negative revenue forecasts, but the practice needs to be expanded to long-term projections for revenues, expenditures, and major programs.

### Other Long-term Liabilities

**Table 3: Availability of Multi-year Forecasts and Assumptions for Other Long-term Obligations**

	Debt service schedules <sup>†</sup>	Pension contribution forecasts including ARC	OPEB contribution forecasts including ARC	Deferred maintenance forecasts
Alabama	F	N	N	N
Arkansas	C	N	N	N
Delaware	C	N	N	N
Florida	F	N	N	N
Georgia	C	N	N	N
Kentucky	C	N	N	N
Louisiana	C	N	N	N
Maryland	F	N	N	N
Mississippi	C	N	N	N
North Carolina	C	N	N	N
Oklahoma	C	N	N	N
South Carolina	C	N	N	N
Tennessee	F	N	N	N
Virginia	C	N	N	N
West Virginia	F	N	N	N

<sup>†</sup>May not match with Volcker responses because we do not include CAFR as budget document  
**Y:** Yes; **N:** No  
**F:** At least three future fiscal years available  
**C:** Current/upcoming fiscal year or biennium available only  
**N:** Information is not available in the budget documents online

Other long-term liabilities proved a challenge to find in the budget documents. As mentioned above, the CAFR is not considered a budget document in this analysis because it gives a retrospective view of long-term liabilities; similarly, bond documents often pull financial information from the CAFR and are not considered budget documents here either. None of the southeast states include multi-year annual required contributions (ARC) for pensions or OPEB. Moreover, while some budget documents talk about pension funding levels or total contributions, none define the current or upcoming budget cycle's ARC, or actual intended contributions

relative to the ARC, in the budget documents. Moreover, none of the states note cumulative deferred maintenance cost projections in the budget documents. Some states incorporate individual agencies or items used to address deferred maintenance, like Kentucky and West Virginia, but the information is incomplete and does not project into the future. All fifteen states have debt service requirements in the budget documents, but only five display future debt service in a schedule or table: Alabama, Florida, Maryland, Tennessee, and West Virginia.

Alabama, Maryland, and Tennessee show future debt service requirements but do not provide much additional information about the state's debt, unlike Florida and West Virginia. In its long-range financial outlook, Florida produces a concise and complete analysis of its debt profile. The state compares projected debt issuance and debt service to historical levels, parallels its debt profile to national and peer groups medians, and translates the information into easily readable graphs and tables. West Virginia gives the most complete analysis of its debt. The executive budget document compares the debt burden to other states rated similarly by Moody's Investor's Service in terms of percentage of income and per capita; it also discusses debt policy and the debt spending limits of every state-level issuing authority. For both general obligation and revenue bonds, the total outstanding obligations are projected at least five years into the future and debt service requirements are projected through full repayment.

### **Conclusion**

Every state has room to improve its fiscal disclosure practices to ensure better fiscal health and governmental accountability. We can see that every southeastern state has made some kind of effort to disclose fiscal information through a transparency website, but the information

varies among states. Without all the relevant revenues, expenditures, and liabilities projected into the future, states cannot clearly relay their financial position, and no state fulfilled all of our criteria; this is particularly apparent in the lack of future pension and OPEB liability projections, where most states have significantly underfunded accounts but do not consider the effects in future years. Ultimately, states should aim to produce a single, multi-year forecasting document that encompasses revenues, expenditures, other long-term obligations, and their detailed assumptions, so that structural imbalance and overall fiscal health are readily apparent to the public.