

The Volcker Alliance

Truth and Integrity in State Budgeting: Lessons From Three States

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Report Card on Three States

A PRELIMINARY BUDGET REPORT CARD: How the States Are Trending

● Followed best practices ● Needs improvement ● Followed practices to be avoided NA Fiscal 2015 yearend data not available

	CALIFORNIA			NEW JERSEY			VIRGINIA		
BUDGET PRACTICE	2013	2014	2015	2013	2014	2015	2013	2014	2015
Used consensus revenue forecasts	●	●	●	●	●	●	●	●	●
Adequately funded annual pension contribution that actuaries say is required	●	●	●	●	●	●	●	●	●
Provided advance funding of other postemployment benefits (OPEB) obligation*	●	●	●	●	●	●	●	●	●
Increased rainy day fund balance as economy recovered**	●	●	NA	●	●	NA	●	●	NA
Provided easy online access to budget and necessary supplemental data	●	●	●	●	●	●	●	●	●
Avoided delaying payments to third parties to reduce general fund deficit or address liquidity issues	●	●	●	●	●	●	●	●	●
Avoided moving future revenue into current fiscal year or current expenses into next fiscal year	●	●	●	●	●	●	●	●	●
Avoided selling assets to raise cash for general fund or address liquidity issues	●	●	●	●	●	●	●	●	●

* Principally retiree health care ** California funds include Special Fund for Economic Uncertainties, Reserve for Liquidation of Encumbrances, and Budget Stabilization Account. New Jersey made no rainy day fund contributions in fiscal 2013-15 because state failed to meet revenue threshold, which excludes personal income taxes. SOURCE: Survey of material practices in state budget and financial reports.

Agenda for Budget Reform

- Complete budget info, including how balance was achieved and whether one-time revenue sources were used, 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.
- Recurring costs should be paid with recurring revenues.
- Proceeds of borrowing should not be used to cover operating expenses.
- States should move away from cash budgeting and toward modified accrual to show the true present value of future obligations.
- States should build rainy day funds, adjust them for revenue volatility, and replenish them after they are tapped.

Discussion Points

- *The cost of shifting costs to future generations:*
 - Pension/OPEB underfunding;
 - Infrastructure gaps;
 - Education needs left unmet.
 - The need to improve revenue forecasting:
 - Growing revenue volatility;
 - Inadequate rainy day fund policies.
- *The cost of inaction:*
 - Service cuts (Atlantic City, San Jose);
 - Financial insolvency (Puerto Rico);
 - Chapter 9 bankruptcy (Detroit, California cities).

Next Steps

- Refine screening criteria.
- Expand scrutiny to all 50 U.S. states.
- Join with 5-10 universities to collect and analyze data under supervision of the Volcker Alliance.
Good budgeting = good teaching tool.
- Create and publish a recurring Report Card on state budgets.
- Use Report Cards and data to enlist advocates for budget reform in statehouses.

