State of the Southeastern States: The Volcker Alliance Project

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Overview

- Southeast region composed of 15 states
  - Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Virginia, West Virginia
  - 6 of 9 AAA G.O. bond rated states included: Delaware, Georgia, Maryland, North Carolina, Tennessee, Virginia
- GSU, UK, and FIU researched 5 states each and wrote four papers on debt, fiscal health, forecasting, and transparency
- Results organized into five research categories
Budget Forecasting Components

- Consensus forecasting
- Multi-year projections
- Mid-year adjustments
- Rationale/Methods

Budget Forecasting Grade

US average: B
SE average: B
Budget Forecasting

Best Practice

- **FL** – multiple revenue estimating conferences
- **VA** – JABE and GACRE consensus groups

Room for Improvement

- **AL** – no consensus group; no multi-year forecasts for revenues/expenditures
- **GA, SC, TN** – little/no explanation of macroeconomic trends underlying revenue growth
One-time Maneuvers Components

- Transfers, deferrals, cost shifting
- Debt or asset sales to finance recurring expenditures

One-time Maneuvers Grade
US average: B
SE average: B
One-time Maneuvers

Best Practice

- **SC** – policy restricting use of asset sales
- **MD** – policy restricting the extension of maturities when refunding bonds

Room for Improvement

- **VA** – Accelerated Sales Tax (AST)
  - Certain companies pre-pay estimated June taxes in June (while also paying May taxes)
- **LA, WV** – scoop & toss
  - Louisiana FY16 refunding bonds were “structured to achieve maximum cash flow savings...for the purpose of assisting in eliminating the [FY16 and FY17] deficits.”*

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Legacy Costs Components

- Public pension and OPEB contributions relative to actuarially determined amounts

Legacy Costs Grade
US average: C
SE average: C
Legacy Costs

Best Practice

• **OK** – only SE state to meet pension & OPEB requirements in FY15-17

• **NC** – best pension funding ratio in SE at 88%*

Room for Improvement

• **SC** – meeting pension ADEC but still underfunded
  • Portfolios assumed 7.5% rate of return but averaged only 5.2% over last decade

• **AR, GA, LA** – OPEB uses pay-as-you-go system; contributions do not use ADEC

* Bloomberg, 2017
Reserve Funds Components

- Rainy day fund policies
- Tying deposits to revenue volatility
- Rainy day/general fund balances

Reserve Funds Grade
US average: B
SE average: B
Reserve Funds

Best Practice

- **TN, VA** – rainy day fund deposits tied to revenue volatility

Room for Improvement

- **MD** – draws rainy day funds down to 5% to build budget
- **NC** – can withdraw funds for broad uses: “economic downturns, threats to public safety, health, and welfare, and other emergencies.”*

* NC Stat. § 143C-4-2 (2016).
Transparency Components

- Website
- Debt tables
- Tax expenditure reporting
- Deferred maintenance costs

Transparency Grade
US average: B
SE average: B
Does the state disclose comprehensive deferred infrastructure maintenance costs?
Thank You

Q & A

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