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Fiscal Transparency and Accessibility in the Southern States

Part of *Balancing the Budget in
the Southern States*

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Balancing the Budget in the Southern States — This six-report series is based on the Volcker Alliance’s Truth and Integrity in Government Finance project results as well as additional research conducted by the Center for State and Local Finance.

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Introduction

Every state has a balanced budget requirement.¹ However, several factors contribute to a state's structural health beyond annual revenues and expenditures, and many states experience periods of structural imbalance. The Great Recession, in particular, showed the need for improved transparency practices to understand a government's financial health. For citizens, government officials, markets or anyone interested in a state's financial position, various long-term obligations and tax expenditures must be evaluated alongside revenues and expenditures. Strong transparency practices can help ensure this financial information is understandable and readily available online.

Transparency is a cornerstone of good government practices, primarily giving the public a means of holding government officials accountable (Heald 2003). This report investigates aspects of fiscal transparency beyond revenues and expenditures to encompass a broader view of fiscal transparency. In line with the International Monetary Fund's (IMF) approach to transparency, we review "the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances" (IMF 2018). Specifically, this report examines whether the southern states reveal — in a transparent and accessible manner — their long-term financial obligations, including outstanding debt, deferred infrastructure maintenance costs, capital expenditures and legacy costs. Additionally, we evaluate whether states regularly produce tax expenditure reports and debt capacity reports and whether states' transparency websites permit easy access to such information.

Drawing on research gathered for The Volcker Alliance's Truth and Integrity in Government Finance project, which evaluates state budgeting and financial management for best practices and transparent use of funds, this report takes a deeper dive into state fiscal transparency practices in the southern states. The states included in this evaluation align with the U.S. Census Bureau's South region: Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia. In the following sections, we describe the importance of transparency and examine transparency practices in the southern states, emphasizing best practices as well as areas for improvement.

Importance of Fiscal Transparency

Transparency is essential to establishing and maintaining sustainable fiscal practices at all levels of government (Heald 2003; Kopits and Craig 1998). While transparency in the government context largely focuses on disseminating information to the public, it can also be a powerful tool for legislators and elected officials. Particularly with regard to the state budgeting process, transparency can provide officials with clarity and ease of access to documents that critically inform the budgets they are charged with implementing (Randall and Rueben 2017). In turn, transparency enables the public to better understand

¹ Vermont has no legal balanced budget requirement but passes a balanced budget by tradition.

their state's fiscal climate and hold government officials accountable for making efficient and equitable use of state funds. Several studies have suggested that open government operations may improve sovereign credit ratings, allowing countries to borrow money at lower interest rates (Arbatli and Escolano 2012; Hameed 2011; Khagram, de Renzio and Fung 2013). U.S. states may benefit from similar measures.

Excessive transparency measures also have potential drawbacks. While access to quality information can reduce information asymmetry, that information may also be taken out of context. For example, lots of quantitative data without accompanying narrative to explain assumptions and context may not help the public understand the state's fiscal health. Another contextual issue is the release of portions of larger policies or regulation changes that may be misleading without viewing the entire policy as a whole. Uncontextualized financial information can also engender unrealistic expectations of governments' spending capabilities (Linden 2010). Moreover, increasing transparency can potentially require large administrative costs and employee time. A final potential drawback is that excessive transparency can lead officials to pander to citizens and act according to public opinion rather than evaluating and choosing the best course of action (Alt and Lowry 2010).

Transparency in the Southern States

While legal requirements concerning transparency practices vary by state and by level of government, there are overarching themes that can be collected into transparency best practices. Many organizations have produced best practices guidelines at the national level, most notably the IMF and the Organisation for Economic Co-operation and Development. Many of these guidelines advocate accessible, understandable and timely information. This section looks at the importance of a transparency website, the essential financial documents, and the long-term liability and tax expenditure information needed to understand a state's financial condition.

FISCAL TRANSPARENCY WEBSITES

In the past few decades, all states have adopted practices of disclosing financial information online. However, financial information is often difficult to find, even for an analyst or other public-sector expert, and the budget documents may be published sporadically or may be challenging to understand without specific prior knowledge or experience. One of the primary issues in locating information is deciding which agency or division of the government houses it. Is revenue information located on the budget office's website or the legislature's website? Is it only found on a legislative finance committee website? Or, is there a revenue forecasting group with its own website that houses revenue information? In some instances, knowing the agency that releases the budget document online is not sufficient to locate the information on the website. Without detailed knowledge of the structure of the state government and the function of its agencies and other organizations, finding budget documents can be problematic, even for the expert analyst.

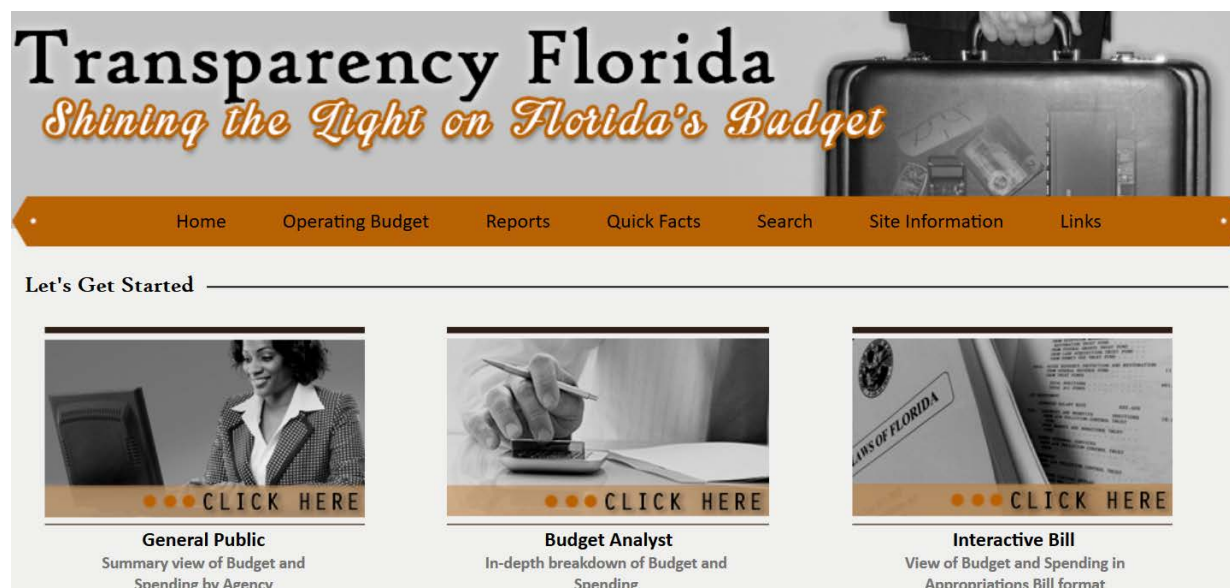
Providing the public a centralized location for financial information can significantly improve a state's transparency. In particular, a prominent and centralized website is beneficial for non-expert citizens

looking to understand a state's financial health. Most states maintain a consolidated website or a group of websites in the interest of transparency; however, the available content varies considerably and may not provide comprehensive information. In the South, all of the 16 states maintain transparency-centered websites, but issues of accessibility and comprehensiveness remain. The Volcker Alliance (2017) noted that "[people] are at a huge disadvantage if it is extremely difficult, or even impossible, for them to dig out the data they need to thoroughly understand a state's budgeting practices." Indeed, many websites are difficult to navigate or provide documents that are dense and difficult to digest.

Several states, however, provide interesting features on their transparency websites that enhance user-friendliness. Delaware's transparency website is especially well-organized and easy to navigate. It consolidates budget-related material with links to state budgets, state spending, tax expenditure reports and accounting documents on the website homepage. West Virginia manages TransparencyWV.org, which links to budget information and provides a tutorial for the site's interactive tool to access financial information. The website offers a "WV Transparency Quiz" that asks where certain essential budgetary information is located on the website. Moreover, the quiz provides an answer key with step-by-step pictures guiding the user through the site to find the quiz information. West Virginia's quiz and answer key are unique functions that are the exceptions rather than the rule on state websites.

Florida's budget transparency website, transparencyflorida.gov, enables users to select whether to view information from "General Public" and "Budget Analyst" perspectives. The general public option provides a summary view of budget and spending information by agency, while the budget analyst option provides a more in-depth breakdown. These options allow users to view information through the lens of expert or non-expert, making it more transparent and accessible to diverse audiences. Figure 1 shows the site's homepage, which easily allows a user to choose a perspective.

Figure 1. Transparency Florida Website Homepage



Source: transparencyflorida.gov homepage as of May 10, 2018.

ESSENTIAL BUDGET DOCUMENTS FOR FISCAL TRANSPARENCY

While states vary in the financial documents they produce, four primary documents serve as the backbone of state budget transparency: economic forecasts, the executive budget proposal, the appropriations act and the comprehensive annual financial report (CAFR). Collectively, these documents cover the budget cycle from planning to proposal to execution to auditing stages and showcase the contextual pipeline of how states spend revenues. We define “economic forecast” as a comprehensive projection of revenues (and potentially expenditures) that is either disclosed as a unique document or contained within another budget document. For our definition, the forecast must provide a narrative explanation of the state’s economic outlook, not solely quantitative information, charts or tables that may not be self-explanatory. The executive budget proposal is the governor’s spending plan that is sent to the legislature at the beginning of each legislative session. The majority of states have a user-friendly version of this document. The appropriations act is the spending plan authorized by the legislature and signed by the governor. It is often a dense and complex document, but some states make user-friendly summaries. The Comprehensive Annual Financial Report (CAFR) is a comprehensive audit of governmental activities. Like the appropriations act, it can be difficult to find — or accurately interpret — information in a CAFR. The CAFR is also not a timely document, as it is released many months after the close of the fiscal year, which hinders its use as a transparency document.

Most states provide current and past year information on state revenues and expenditures, but the breadth and depth of such information differ considerably from state to state. While many state budget websites house this information, consolidated budget information often cannot be found directly through states’ transparency websites. The scattered nature of many states’ budget documents makes attempts to access such information difficult and time-consuming. Table 1 shows which of the four essential budget documents are easily accessible on each southern state’s central transparency website.

Table 1. Availability of Information on State Transparency Websites, 2018

STATE	ECONOMIC FORECAST	EXECUTIVE BUDGET PROPOSAL	APPROPRIATIONS ACT	CAFR
Alabama				X
Arkansas	X			X
Delaware	X	X		X
Florida			X	X
Georgia	X ¹	X ²		X
Kentucky		X ²		X
Louisiana				
Maryland	X	X		
Mississippi				X
North Carolina	X	X		X
Oklahoma				
South Carolina		X	X	X
Tennessee		X		X
Texas	X			X
Virginia	X	X	X	
West Virginia	X			X

X= document available; blank indicates document not available

1 Forecast contained in Budget in Brief document

2 Not in executive budget proposal but accessible in Budget in Brief document

For the 16 southern states, most official transparency websites provide access to CAFRs, and a little more than half provide access to economic forecasts, executive proposals or both. Florida, South Carolina and Virginia are the only southern states that offer easy access to appropriations acts. No state has all four documents on the website, and neither Louisiana nor Oklahoma publish any of the four on their transparency websites.² More than one-third of states provide access to three of the four documents, including Delaware, Georgia, North Carolina, South Carolina, Virginia and West Virginia.

West Virginia's transparency website, as discussed above, is unique in its interactive features and obvious focus on non-expert, citizen interaction. However, neither the executive budget proposal nor the appropriations act are easily found on the website. Incidentally, West Virginia's executive budget proposal is more transparent and comprehensive than that of many other states. The proposal includes a six-year financial plan, an economic forecast, detailed revenue analyses and discussions of budget issues in clear and succinct language.

The Open Georgia transparency website provides quick links from the homepage to the state's CAFR and the Budget in Brief, which is a simplified version of the governor's executive proposal. However, the

² Notably, Louisiana and Oklahoma, like most southern states, do release the four essential documents but not on their official transparency-centered websites. They may be found on other executive or legislative sites, but the documents are often not easy to find.

Budget in Brief lacks appended information such as the Georgia Economic Report (economic forecast) and the Statement of Financial Condition that are found in the full executive proposal. Budget documents such as the executive proposal, Budget in Brief, appropriations bills and tax expenditure reports can be found on the Governor's Office of Planning and Budget website, which is not directly linked through Open Georgia.

Virginia's complete biennial budget document contains appropriations, or amendments, as well as an economic forecast. This document is originally published on the Department of Planning and Budget website, and the state's transparency website links to the department's homepage. While the state produces a Popular Annual Financial Report, an abbreviated version of the CAFR intended to summarize and simplify CAFR information, the document is not linked through the state transparency website.

ESSENTIAL FISCAL INFORMATION: LONG-TERM LIABILITIES AND TAX EXPENDITURES

For a more complete view of the financial position of a state, more information is needed beyond current revenues and expenditures. Outstanding debt obligations, deferred infrastructure maintenance liabilities, capital expenditures, tax expenditures and legacy costs are all important measures and indicators of fiscal strength. To improve accessibility, states should include this information in standalone documents or consolidated in the executive budget proposal or economic forecasts, appropriations acts, or the CAFR.³ States differ greatly in the information they publish; while many southern states regularly release several of these documents, Arkansas, for example, releases outstanding debt and debt service information in its CAFR but not in the other three documents. The following subsections look at the importance of this additional financial information and how well the southern states make this information publicly available.

Debt Obligations

Debt obligations primarily consist of the state's bond issuances for capital projects. Debt capacity and affordability information gives policymakers and public officials a more complete picture of their state's liabilities and financial position and can be a powerful tool for managing existing debt, determining whether to undertake future capital projects, and assessing intergenerational equity. A 2017 Pew Charitable Trusts report concluded that debt affordability studies help states manage borrowing, noting that "a debt affordability study is a tool that officials use to evaluate the impact of these [debt] liabilities on the state's finances and give lawmakers the power to manage their debt effectively over the long term." Additionally, the long-term aspect of these studies allows individuals to see how debt is dispersed over time. For example, if debt payments are low in the near-term, do they increase, decrease or stay the same in the long-term? Debt information can be found in the CAFR, but reporting outstanding debt, debt service costs and debt capacity in a more accessible and integrated way can improve transparency,

³ We do not assess the quality or accuracy of the aforementioned documents in this report, only whether a state makes them available to the public online.

particularly for citizens or other non-experts.⁴ All 16 states in the South make information available on outstanding debt, debt service costs and legal debt limits. Twelve states publish debt capacity reports, with Alabama, Arkansas, Delaware and Tennessee as the exceptions.

Legacy Costs

Legacy costs include pension and other postemployment benefit (OPEB) liabilities. They present significant challenges for many governments and can dramatically affect the financial position of a state, yet true pension liabilities may not be readily apparent. Data such as unfunded liabilities, the funding ratio and actuarially required contributions can provide the public and government officials a better view of a state's pension system health. Although much of the useful legacy information is available in the CAFR, the CAFR is not published in a timely manner, as discussed above, and it is not a particularly user-friendly document. Presenting essential legacy cost information in an easy-to-understand, accessible, and timely format like the executive budget proposal would greatly improve legacy funding transparency and provide the public with a better understanding of a state's position.

Legacy funding is a significant and ongoing concern in the South. Kentucky, in particular, is struggling with serious pension funding issues that have drawn the public's attention and become a politically challenging topic for policymakers. In March 2018, Kentucky's governor sued to block the release of a pension reform plan, claiming the plan was a preliminary study and not subject to open records requests. Because legacy funding can have such dramatic effects on state budgets, releasing information on legacy health and related policies and reforms is an essential transparency best practice.

Of the 16 southern states, six provide legacy cost information, generally found on their retirement system websites. Legacy cost issues could not be easily located for three states: Louisiana, Maryland and North Carolina. Only Florida and West Virginia disclose pension or OPEB obligations and issues in any way in the executive budget proposal. Florida briefly mentions retirement contributions and notes that the state plans to fund the actuarially required contributions for its pension system as it has the past five years. West Virginia's budget proposal includes a detailed discussion of the pension and OPEB system's struggles, progress made and potential future strategies in the Six-Year Financial Plan section. The state further examines legacy costs in the Long-Range Issues section of the budget proposal (State of West Virginia 2018). The Texas Legislative Budget Board produces an annual Fiscal Size Up document that includes a substantive discussion of the state's pension systems, but this document is not accessible through the state transparency website or linked to the executive budget document. Similarly, Virginia's Popular Annual Financial Report provides an overview of legacy funding including contributions and net positions. The state does not report the actuarially required contribution levels, but it does reveal whether the state contribution rates met the actuarially required levels. Table 2 gives an overview of the transparency and availability of information on debt and legacy obligations in the southern states.

⁴ Debt obligations are also found in official statements from bond issuances. However, these statements often use information similar to, or the same as, the CAFR, and they can be difficult to access or understand.

Table 2. Availability of Debt and Pension Information Online, 2018

STATE	DEBT, DEBT SERVICE OR DEBT LIMITS DISCLOSED?	DEBT MANAGEMENT REPORTS PRODUCED?	WHERE ARE LEGACY COSTS DISCLOSED?
Alabama	Yes	No	Retirement Services Association CAFR
Arkansas	Yes	No	Arkansas Public Employees Retirement System (APERS) Annual Financial Report
Delaware	Yes	No	Office of Pensions Financial Actuarial Valuation Reports
Florida	Yes	Yes	Executive Budget Proposal Website
Georgia	Yes	Yes	Budget Report
Kentucky	Yes	Yes	Kentucky Retirement Systems CAFR
Louisiana	Yes	Yes	Not Easily Found
Maryland	Yes	Yes	Not Easily Found
Mississippi	Yes	Yes	Public Employees Retirement Website
North Carolina	Yes	Yes	Not Easily Found
Oklahoma	Yes	Yes	Okstatestat.ok.gov
South Carolina	Yes	Yes	Public Employee Benefit Authority CAFR
Tennessee	Yes	No	Department of Finance & Administration Website
Texas	Yes	Yes	"State Fiscal Size Up" Document; texastransparency.org
Virginia	Yes	Yes	"Virginia Financial Perspective" Document
West Virginia	Yes	Yes	Executive Budget Proposal

Tax Expenditure Reports

Tax expenditures are provisions of the tax code, such as credits, exemptions or deductions, which result in revenue loss for a state. States use tax expenditures to accomplish a variety of policy goals. Tax expenditure reports (TERs) promote fiscal transparency by providing comprehensive listings of tax credits, deductions and exemptions that ultimately reduce state revenue. By publishing annual or biennial TERs, states can shed light on a significant spending mechanism not often explicitly mentioned in budget documents. In recent years, TERs have become popular "as policymakers and stakeholders seek more information about the costs and benefits of these programs" (Randall and Rueben 2017). The Center on Budget and Policy Priorities suggests that tax expenditure reporting promotes state budget accountability and notes that "a tax expenditure report saves money by enabling policymakers to monitor the costs of tax expenditures and rein in their cost if necessary" (Leachman, Grundman and Johnson 2011). In 2015, the Governmental Accounting Standards Board took steps toward establishing consistency in reporting when it issued Statement 77, requiring state and local governments to disclose tax abatements and their effects on revenues.⁵ It is not yet clear how this reform will affect comparability across states.

⁵ This report does not distinguish best practices regarding TER content; rather, the report notes whether states make available an annual or biennial TER on state-sponsored websites.

All but three states in the South — Arkansas, South Carolina and Virginia — produce comprehensive TERs, either annually or biennially. While not comprehensive or easy to understand, Arkansas’ tax expenditure data can be accessed through the state’s transparency website. Virginia also produces reports on tax credits, deductions and exemptions, as the state evaluates a portion of its total credits every year. However, the information is difficult to find. Often the most comprehensive information for Virginia is found in attachments to the Joint Subcommittee to Evaluate Tax Preference’s meeting notes on the Division of Legal Services website.

Alabama is not noted for its transparency practices, but the state has recently improved by issuing an annual TER through its Legislative Services Agency beginning in January 2017. Alabama’s TERs can be found on the open.alabama.gov website, the transparency and accountability site for the state.

Deferred Infrastructure Maintenance and Budgeted Capital Expenditures

Deferred infrastructure maintenance, a growing fiscal transparency issue, results in a backlog of capital projects whose costs will be incurred in future years at greater cost to the taxpayer. Because infrastructure depreciates over time, deferring maintenance makes future fixes more expensive in terms of total costs and intergenerational equity, as future debt burdens could result in higher tax rates (Olson and Wessel 2017). States rarely mention deferred infrastructure maintenance in a substantive way in their budget documents. Not addressing deferred maintenance costs creates an issue of transparency: “Deferred maintenance figures are also important for the legislature to allocate money appropriately ... but there’s very little to motivate legislators to allocate funds if they don’t know the extent to which infrastructure is broken or becoming obsolete. And there’s no way for the public or bond holders to understand what the costs will be, going down the road” (Barrett and Greene 2014). Similarly, tracking budgeted capital expenditures, a state’s annual infrastructure spending, promotes transparency and accountability because it enables governments to anticipate long-term — and potentially large — costs.

None of the southern states publish comprehensive evaluations of deferred infrastructure maintenance costs. In fact, only two states in the entire country produce such information: Alaska and California. California explicitly mentions its estimated cost of deferred infrastructure maintenance liability in the fiscal year (FY) 2019 Governor’s Budget Summary, which also includes the state’s annually produced, five-year infrastructure plan. Alaska’s Legislative Fiscal Analyst’s Overview of the Governor’s Request for the FY 2019 budget supplies a well-organized narrative and table outlining the statewide deferred maintenance backlog. Because of the potentially enormous costs associated with infrastructure maintenance, there is room for all states to improve their transparency practices in this respect.

Lastly, nine southern states disclose budgeted capital expenditures in budget and planning documents, and seven do not. Oklahoma and Texas do not disclose such information in their budget and planning documents, but they produce capital improvement and expenditure plans containing this information. Alabama, Arkansas and West Virginia do not disclose budgeted capital expenditures in budget documents or in any other easily accessible document. Table 3 gives an overview of the transparency and availability

of tax expenditure reports, budgeted capital expenditures and deferred infrastructure maintenance costs in the southern states.

Table 3. Availability of Tax Expenditures and Capital Estimates Information, FY 2018

STATE	TAX EXPENDITURE REPORTS PRODUCED?	WHERE ARE COMPREHENSIVE CAPITAL EXPENDITURES DISCLOSED?	DEFERRED INFRASTRUCTURE MAINTENANCE DISCLOSED?
Alabama	Yes	Not Disclosed	No
Arkansas	No	Not Disclosed	No
Delaware	Yes	Capital Budget Document	No
Florida	Yes	Executive Budget Proposal	No
Georgia	Yes	Separate Documents	No
Kentucky	Yes	Capital Budget Document	No
Louisiana	Yes	Executive Budget Proposal	No
Maryland	Yes	Capital Budget Document	No
Mississippi	Yes	Not Disclosed	No
North Carolina	Yes	Executive Budget Proposal	No
Oklahoma	Yes	Capital Budget Document	No
South Carolina	No	Capital Budget Document	No
Tennessee	Yes	Executive Budget Proposal	No
Texas	Yes	Capital Budget Document	No
Virginia	No	Executive Budget Proposal	No
West Virginia	Yes	Not Disclosed	No

Conclusions

Many pieces of financial information are required to understand the fiscal condition of state governments, particularly estimates of long-term liabilities such as debt and legacy costs. While near-term revenues and expenditures are relatively easy to find for all of the southern states, the additional information discussed in this report can be more difficult to find or understand.

We suggest that states consider the following options for improving their transparency practices.

- Release annual or biennial estimates of all tax expenditures.
- Monitor and publish comprehensive deferred infrastructure maintenance and capital expenditure estimates.
- Provide legacy cost estimates of the total unfunded liabilities, assets and the state's recent history of contributions compared to the actuarially required contribution levels.
- Publish annual or biennial debt management plans that include the overall burden of the major debt classifications, annual debt service costs, debt capacity estimates, and associated legal provisions.

Finally, states should consider consolidating this financial information with revenue and expenditure forecasts into a single document or prominent web page on the state's transparency site. This comprehensive analysis of the state's fiscal condition should contain the financial information as well as supporting narrative explanations of underlying assumptions, forecasted structural health concerns and potential strategies for maintaining or improving the state's financial position. This analysis should then be regularly updated.

In evaluating these recommendations, states must balance the potential benefits of improving transparency practices with the administrative costs and time associated with producing such disclosures. In many cases, the benefits outweigh these drawbacks. The Great Recession dramatically illustrated the need for better transparency practices, and these recommendations help bring attention to the wide array of financial and budgetary practices that contribute to an understanding of a state's fiscal health.

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