THE CENTER FOR STATE AND LOCAL FINANCE

Alex Hathaway
Center for State and Local Finance

Fiscal Transparency and Accountability

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Overview

- Importance of Institutional Transparency
- Review of the Literature
- Methodology
  - Volcker Alliance questions
  - Detecting structural deficits
- Results
  - Explicit structural deficits
  - Multi-year revenue/expenditure forecasts
  - Other long-term liabilities

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Why the need for more transparency in government?

- Principal-agent problem
  - Voters as principals have needs/wants
  - Government as agent addresses needs/wants through policy
- Fiscal illusion
  - Something-for-nothing policies
    - Push costs into future
    - Devolve costs to other entities

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Review of the Literature

- Benefits
  - Improved accountability, trust, and fiscal performance
  - Reduced corruption
- Drawbacks
  - Misinterpretation of information
  - Vulnerability to interest groups
- Measurement tools
  - Open Budget Index (OBI)
- Best Practices
  - OECD, IMF

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Best Practices Guidelines

IMF

- Clear institutional framework
- Budget preparation guided by transparent macroeconomic/ fiscal policy objectives
- Information should be accessible and understandable to promote accountability
- Timely publication
- External scrutiny for accuracy and accepted quality standard

Code of Good Practices on Fiscal Transparency, IMF, 2007.

OECD

- Budget should be timely and show economic assumptions, detailed commentaries on revenue/expenditure programs, and performance targets
- Include specific disclosures
  - Tax expenditures, assets/liabilities, pensions
- Integrity, control, accountability
  - Accepted accounting practices
  - Freely available to public online

Best Practices for Budget Transparency, OECD, 2002.

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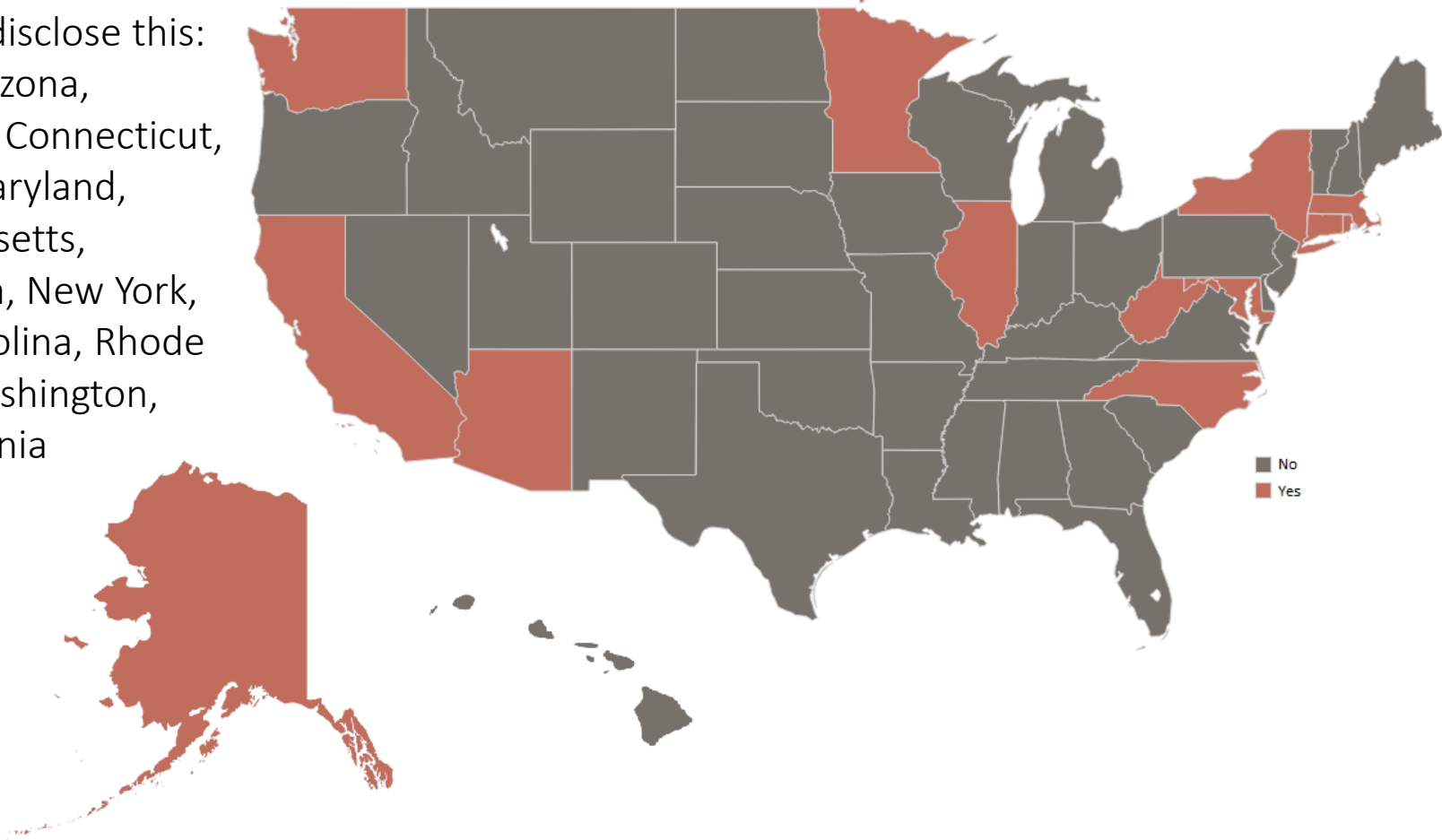CENTER FOR STATE & LOCAL FINANCE

Methodology

- Volcker Questions: Timely & Complete Information
  - Structural Imbalance; Multi-year Forecasts; Long-term Liabilities
- Accessible for an Average Citizen
  - Google search
  - In executive proposal, appropriations act, supporting executive/legislative documents
- Understandable for an Average Citizen

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Results: Structural Imbalance

13 states disclose this: Alaska, Arizona, California, Connecticut, Illinois, Maryland, Massachusetts, Minnesota, New York, North Carolina, Rhode Island, Washington, West Virginia
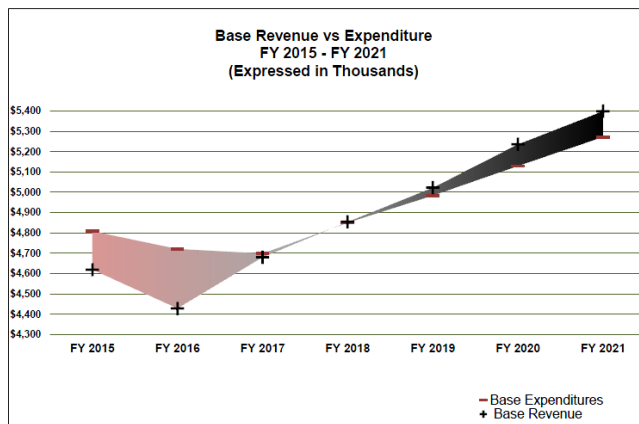
Does the state explicitly disclose structural imbalances?

No

Yes

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West Virginia

Maryland

adjustments to General Revenue of $33 million, but finished the year with a General Revenue Fund surplus of $18.3 million. Lottery funds ended FY 2014 with cash balances totaling $36.5 million which was used to fund FY 2015. FY 2015 also required a midyear adjustment to General Revenue of $38.9 million, but ended the year with a surplus of $12.8 million, $6.4 million of which was transferred to the Rainy Day fund. Lottery funds ended FY 2015 with cash balances totaling $47.9 million which will be used to help fill in the anticipated FY 2016 shortfalls.

Our current FY 2016 General Revenue collections are expected to be about $354 million short of estimates by year end, and additional recommended supplementals totaling $26.9 million cause the FY 2016 budget gap to be $381 million. The Governor recommends closing this budget gap with remedies that include continuing the state's hiring freeze, implementing a midyear budget reduction, expiring excess special revenue cash to the General Fund, supplemental appropriations that move funding from the General Fund to Lottery funds, and revenue reallocations and enhancements.

Lottery Revenue collections for FY 2016 are on pace to exceed their revenue estimates. The Governor recommends that up to $34 million of any surpluses from the Lottery Funds at the end of FY 2016 be appropriated to help fund the state's portion of base Medicaid costs.

While continuing to use our conservative budgeting approach of reducing overall base budget expenditures, the budget for FY 2017 does include increases for the state's share of Medicaid funding, PEIA, Supreme Court, required contributions to Retirement Systems, and various social programs. Although there will be challenges in closing FY 2017's budget gap, the out-years beyond FY 2018 show budget surpluses. Careful budgetary planning and responsible government initiatives will continue to serve West Virginia well in maintaining balanced budgets.

Base Revenue vs Expenditure
FY 2015 - FY 2021
(Expressed in Thousands)

- Base Expenditures
+ Base Revenue

General Fund: Recent History and Outlook
Fiscal 2016-2018
($ in Millions)

	2016 Actual	2017 Working	2018 Baseline
Funds Available			
Ongoing Revenues	$16,216	$16,604	$17,212
Balances and Transfers	325	399	0
One-time Federal Aid	0	0	0
One-time Generally Accepted Accounting Principles Transfer	0	47	0
Short-term Revenues	0	0	0
Total Funds Available	**$16,541**	**$17,050**	**$17,212**
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	$16,249	$17,033	$17,590
One-time Spending	41	46	20
One-time Spending/Reductions	-236	-118	0
Pay-as-you-go Capital	17	63	47
Appropriations to Reserve Fund	85	235	100
Total Spending	**$16,156**	**$17,260**	**$17,756**
Cash Balance/Shortfall	**$385**	**-$209**	**-$544**
Structural			
Balance (Ongoing Revenues Less Operating Costs)	-$33	-$429	-$377
Ratio (Ongoing Revenues/Operating Costs)	99.8%	97.5%	97.9%

State of West Virginia — FY 2017 Executive Budget Report (Volume I), p.12

State of Maryland — FY 2016 Interim Report of the Spending Affordability Committee, p.35

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California

Figure 24

General Fund Surpluses and Reserve Deposits Under Economic Growth Scenario

(In Billions)

Legend:
- Rainy Day Fund Deposit
- Remaining Operating Surplus[a]
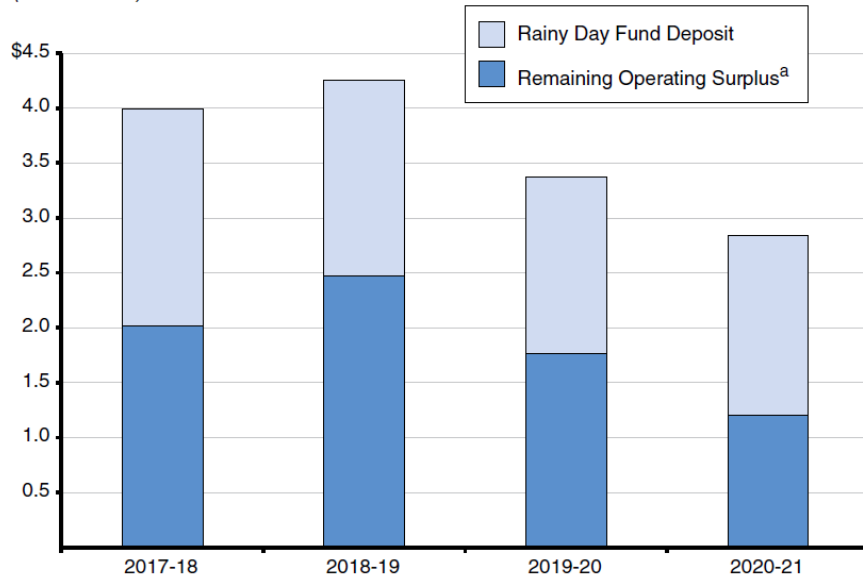
[a] Amount that can be allocated in budget or used to build additional reserves.

Figure 25

Reserve Balances Cover Operating Deficits in Mild Recession Scenario

(In Billions)

Legend:
- Operating Surplus
- Operating Deficit (Covered by Reserves)[a]

	2017-18	2018-19	2019-20	2020-21
Total Reserves Available	$10.4	$9.0	$5.2	-$0.2
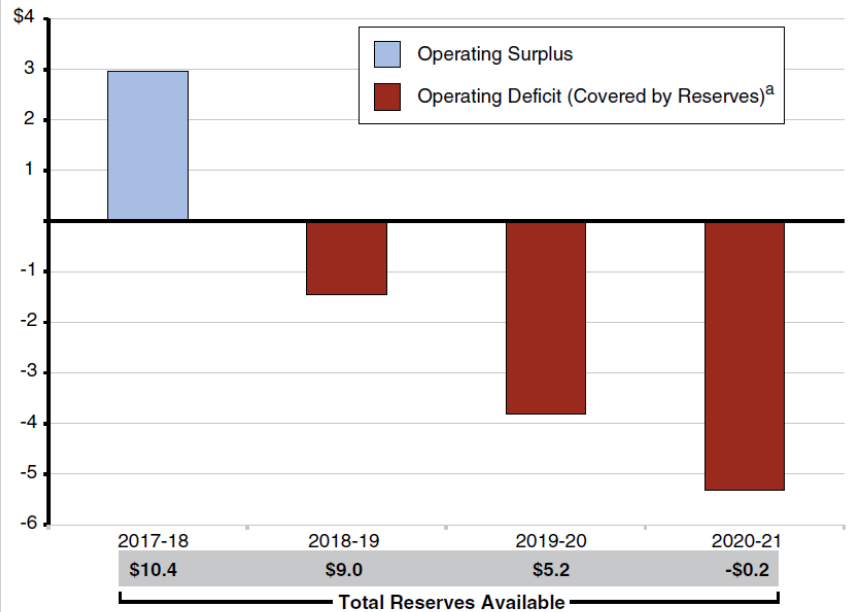
[a] A small portion ($154 million) of the operating deficit in 2020-21 is not covered by reserves.

State of California — The 2017-18 Budget: California's Fiscal Outlook, p.52

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Results: Multi-year Forecasts

- Includes forecasting for revenues, expenditures, major programs (Medicaid/education), and tax expenditures
- 5 states produce multi-year tax expenditure forecasts:
  - California, Minnesota, Pennsylvania, Texas, and Washington

Ease of locating forecasting documents metric:
1. 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
   Keywords: revenue forecast, expenditure forecast, debt service, retirement pension, retirement OPEB, deferred maintenance/repairs, tax expenditure/break/abatement, public education/Medicaid revenue/expenditures
2. Information is in the budget/related documents but requires searching executive/legislative websites or detailed search of budget; an average citizen could locate it
3. Information is in the budget/related documents but difficult to find or requires expert knowledge

Do the states produce multi-year revenue and expenditure forecasts?

Has Multi-year Revenue Forecasts	Ease of Locating?	Has Multi-year Expenditure Forecasts	Ease of Locating?
Alaska	1	Alaska	2
Arizona	1	Arizona	1
Arkansas	1	California	1
California	1	Connecticut	1
Connecticut	1	Florida	3
Delaware	1	Georgia	2
Florida	1	Hawaii	1
Georgia	3	Illinois	1
Hawaii	1	Maryland	1
Illinois	1	Minnesota	1
Kentucky	1	Mississippi	2
Louisiana	1	New York	1
Maryland	1	North Carolina	3
Minnesota	1	Oklahoma	1
Mississippi	2	Pennsylvania	2
Nebraska	2	Rhode Island	2
New Mexico	3	South Carolina	3
New York	1	South Dakota	2
North Carolina	1	Virginia	3
Oklahoma	1	Washington	1
Oregon	1	West Virginia	2
Pennsylvania	2		
Rhode Island	2		
South Carolina	1		
South Dakota	2		
Vermont	1		
Virginia	1		
Washington	1		
West Virginia	2		
Wyoming	1		

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Results: Multi-year Forecasts

15 states have all three: Alaska, Arizona, California, Connecticut, Florida, Hawaii, Illinois, Minnesota, New York, Pennsylvania, Rhode Island, South Carolina, South Dakota, Virginia, West Virginia

Does the state produce multi-year revenue, expenditure, and major program forecasts?

No
Yes

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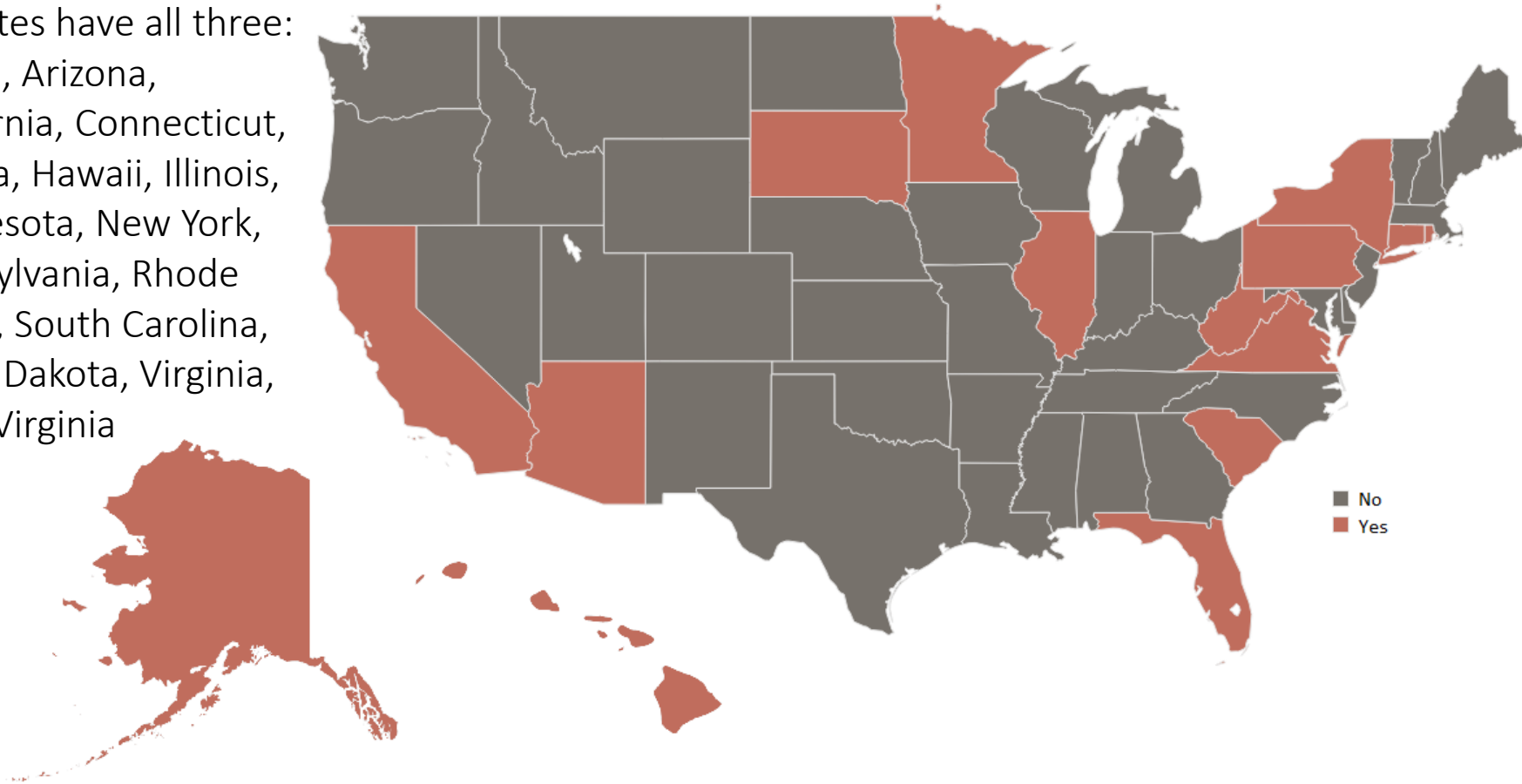
Florida's Major Program Evaluation

Long-Range Financial Outlook Issues Summary Fiscal Year 2016-17 through Fiscal Year 2018-19	Fiscal Year 2016-17		Fiscal Year 2017-18		Fiscal Year 2018-19	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
Critical Needs (Includes Mandatory Increases Based on Estimating Conferences and Other Essential Needs)						
PRE K - 12 EDUCATION						
1 Maintain Current Budget - Florida Education Finance Program	(101.8)	101.8	(22.9)	22.9	(31.3)	31.3
2 Workload and Enrollment - Florida Education Finance Program	530.1	0.0	570.2	0.0	564.0	0.0
3 Adjustment to Offset Tax Roll Changes - Florida Education Finance Program	(428.1)	0.0	(507.9)	0.0	(511.4)	0.0
4 Workload and Enrollment - Voluntary Prekindergarten Education Program	1.3	0.0	4.2	0.0	3.9	0.0
HIGHER EDUCATION						
5 Workload and Enrollment - Bright Futures and Children and Spouses of Deceased / Disabled Veterans	1.7	(17.0)	0.6	(9.5)	0.7	(4.8)
6 Educational Enhancement Trust Fund Adjustment	(48.2)	48.2	(11.7)	11.7	(32.4)	32.4
HUMAN SERVICES						
7 Medicaid Program	593.4	162.5	583.9	407.3	587.3	1,080.9
8 Kidcare Program	(0.5)	52.6	(0.1)	22.1	0.0	21.2
9 Temporary Assistance for Needy Families Cash Assistance	(3.8)	0.0	(0.7)	0.0	(0.8)	0.0
10 Tobacco Settlement Trust Fund Adjustment	11.1	(11.1)	(11.0)	11.0	(1.7)	1.7
11 Tobacco Awareness Constitutional Amendment	0.0	0.1	0.0	1.2	0.0	1.6
CRIMINAL JUSTICE						
12 Criminal Justice Estimating Conference Adjustment	0.0	0.0	5.5	0.0	3.6	0.0
TRANSPORTATION AND ECONOMIC DEVELOPMENT						
13 State Match for Federal Emergency Management Agency Funding - State Disaster Funding (Declared Disasters)	23.6	0.0	13.1	0.0	11.9	0.0
GENERAL GOVERNMENT						
14 Non-Florida Retirement System Pensions and Benefits	(0.7)	0.0	0.5	0.0	0.5	0.0
15 Fiscally Constrained Counties - Property Tax	24.5	0.0	26.4	0.0	28.3	0.0
ADMINISTERED FUNDS AND STATEWIDE ISSUES						
16 Risk Management Insurance	0.0	0.0	0.0	0.0	7.5	4.4
17 Division of Administrative Hearings Assessments	0.5	0.0	0.0	0.0	0.0	0.0
18 Increases in Employer-Paid Benefits for State Employees	60.8	40.1	103.0	71.6	112.4	78.1
19 Transition Costs for People First	0.9	0.8	0.0	0.0	0.0	0.0
Subtotal Critical Needs	664.8	378.0	753.1	538.3	742.5	1,246.8
Total Tier 1 - Critical Needs	664.8	378.0	753.1	538.3	742.5	1,246.8
Total - Other High Priority Needs	934.2	8,023.7	847.1	6,840.7	841.7	7,083.0
Total Tier 2 - Critical Needs Plus Other High Priority Needs	1,599.0	8,401.7	1,600.2	7,379.0	1,584.2	8,329.8

Key Budget Driver Worksheet, Long-range Financial Outlook, FY16/17 through FY18/19, Fall 2015, p.73. Totals added from p.74.

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Results: Long-term Liabilities

- Debt affordability/capacity studies often provide future estimates of long-term liabilities
    - 28 states release them
    - Can be difficult to find
    - May not be produced regularly
- 21 states list the upcoming fiscal year's debt service costs.
- Massachusetts includes pension and OPEB ARC requirements for the upcoming year in budget documents.
- Alaska and Hawaii produce comprehensive deferred maintenance reports for less than three future years

States that produce multi-year forecasts of long-term liabilities				
Debt Affordability/Capacity Studies	Debt Service Schedule Forecasts	Pension Requirement Forecasts Including ARC	OPEB Requirement Forecasts Including ARC	Deferred Maintenance
Alaska	Alabama	Connecticut	Connecticut	California
California	California	Hawaii	Hawaii	
Connecticut	Florida	Illinois		
Florida	Illinois			
Georgia	Maine			
Hawaii	Maryland			
Illinois	Minnesota			
Kansas	Missouri			
Louisiana	New York			
Maryland	Oregon			
Massachusetts	Pennsylvania			
Minnesota	Rhode Island			
Mississippi	South Dakota			
Nevada	Tennessee			
New Hampshire	Washington			
New Jersey	West Virginia			
New Mexico				
North Carolina				
Oregon				
Rhode Island				
South Carolina				
South Dakota				
Tennessee				
Texas				
Vermont				
Virginia				
Washington				
West Virginia				

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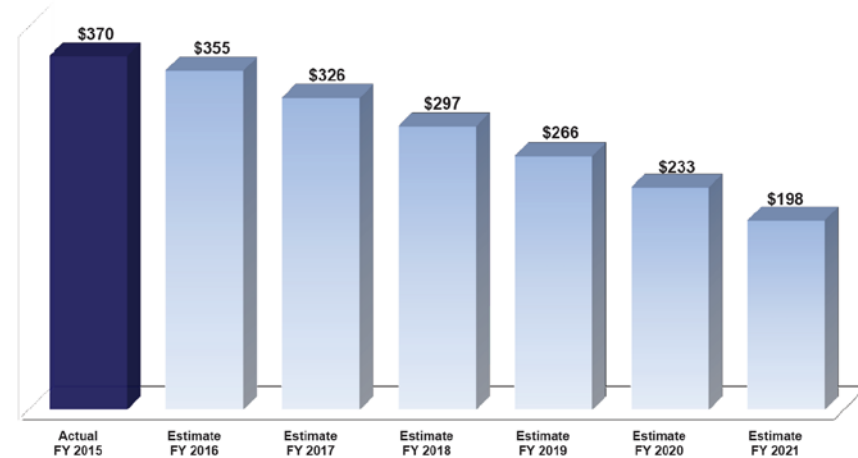
West Virginia

Summary of Debt Service Requirements

Future amounts required to pay principal and interest on general obligation debt at June 30, 2015, were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Amount to be accreted	Total
2016	18,741	14,367	122	33,230
2017	31,575	13,189	485	45,249
2018	32,205	11,960	835	45,000
2019	33,177	10,656	1,163	44,996
2020	33,974	9,372	1,797	45,143
2021-2025	182,015	26,352	14,717	223,084
2026-2030	38,119	1,123	8,311	47,553
TOTAL	**$369,806**	**$87,019**	**$27,430**	**$484,255**

*   Balances do not include unamoritized discounts/premiums/issuance costs.

Net Tax Supported Debt as a Percentage of Personal Income and Per Capita of Similarly Rated States (Rated Aa1 by Moody's Investors Service) (taken from Moody's Investors Service, 2015 State Debt Medians, May 2015)

% of Personal Income		Per Capita	
North Dakota	0.3%	North Dakota	$193
Montana	0.7%	Montana	$254
Colorado	1.4%	Colorado	$478
Idaho	1.4%	Idaho	$494
New Hampshire	1.7%	Arkansas	$669
Arkansas	1.9%	Alabama	$824
Alabama	2.3%	New Hampshire	$848
Florida	2.4%	Florida	$973
Ohio	2.7%	West Virginia	$980
West Virginia	2.7%	Ohio	$1,109
Minnesota	3.2%	Minnesota	$1,538
Oregon	4.1%	Oregon	$1,636
New York	5.7%	Washington	$2,892
Washington	6.2%	New York	$3,092
Massachusetts	8.7%	Massachusetts	$4,887

General Obligation Debt Outstanding Fiscal Year 2015-2021 (Expressed in Millions)

$370	$355	$326	$297	$266	$233	$198
Actual FY 2015	Estimate FY 2016	Estimate FY 2017	Estimate FY 2018	Estimate FY 2019	Estimate FY 2020	Estimate FY 2021

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Connecticut

	State Employee Retirement System Pension Contributions		
Fiscal Year	Actuarially Determined Employer Contribution	State Contribution	Percent
2001-02	$415	$415	100%
2002-03	$426	$421	99%
2003-04	$474	$470	99%
2004-05	$516	$516	100%
2005-06	$623	$623	100%
2006-07	$664	$664	100%
2007-08	$717	$712	99%
2008-09	$754	$700	93%
2009-10	$897	$721	80%
2010-11	$944	$826	88%
2011-12	$926	$926	100%
2012-13	$1,060	$1,058	100%
2013-14	$1,269	$1,269	100%
2014-15	$1,379	$1,372	99%
2015-16	$1,514	$1,502	99%
2016-17 est.	$1,569	$1,569	100%
2017-18 est.	$1,652	$1,652	100%
2018-19 est.	$1,713	$1,713	100%
2019-20 est.	$1,776	$1,776	100%

* In Millions

PENSION OBLIGATIONS - SERS

STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30

Unfunded Pension
Funded Ratio

51% 54% 57% 59% 63% 63% 62% 57% 54% 53% 52% 48% 44% 42% 42%

$3.2 $3.4 $3.5 $3.9 $4.3 $4.5 $4.9 $6.2 $6.9 $7.9 $9.3 $11.7 $11.0 $13.3 $14.9

1992 1994 1996 1998 2000 2001 2002 2003 2004 2006 2008 2010 2011 2012 2014

Unfunded Actuarial Accrued Liabilities
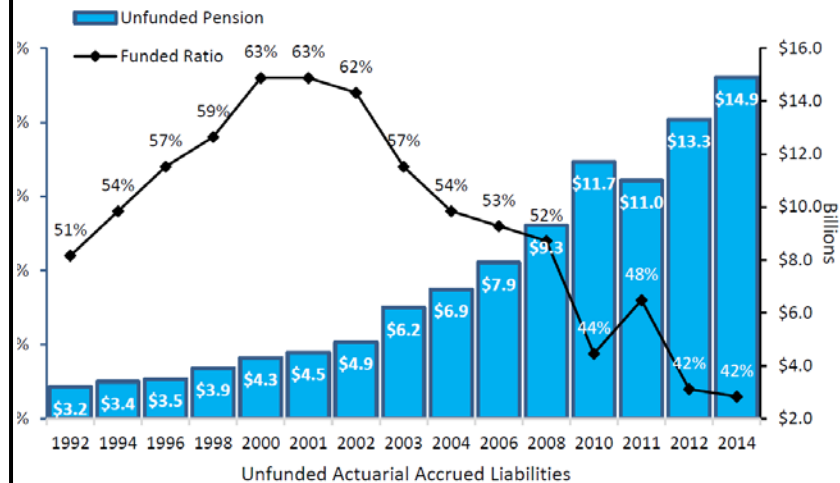
* The certified actuarial valuation as of 6/30/2016 has not been issued.

- Unfunded pension liabilities for the State Employees' pension system have grown since the 6/30/11 valuation due to changes in the economic and demographic assumptions.

- The state's obligations at the end of FY 2014 total $14.9 billion.

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Conclusions

- Every state has room to improve its transparency practices
- Many states have underfunded pension/OPEB obligations but do not consider future burdens
- To see structural imbalances more easily, a single multi-year forecast should include:
  - Revenues/expenditures/long-term liabilities
  - Methodology and discussion about imbalances and potential solutions
- Future Research
  - Political acceptability, fiscal stability of single forecast

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