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## **Analysis Calls for Federal Oversight of State, Local Budgeting and Borrowing.**

With COVID-19 funding approaching its expiration date and pandemic-related revenue streams beginning to taper off, a paper published by The Volcker Alliance's Richard Ravitch Public Finance Institute calls on federal regulators and Congress to push for a "higher level of transparency in state and local borrowing" and budgeting, with more oversight.

"For too long, the federal government has maintained an indifferent posture on oversight of or uniformity in state and local budgeting and borrowing practices despite doling out over a trillion dollars a year in aid," said William Glasgall, senior director of public finance at the Volcker Alliance. The paper, "[Sustainable State and Local Budgeting and Borrowing: The Critical Federal Role](#)," examines why oversight of budgeting and borrowing is so limited and outlines steps that can be taken by federal officials to create more accountability.

"Now is the time for Congress and regulators to step in and implement sound, sustainable budgeting and borrowing practices nationwide," Glasgall said.

Each year, Congress provides about \$1 trillion in grants, tax exemptions, and tax credits to state and local governments. Additionally, the municipal bond market—a debt security issued by local, county and state governments to raise money for capital expenditures like highways—is worth \$4 trillion.

Even before the pandemic unleashed historic federal investment, "Congress and the executive branch have demanded surprisingly little in continuing, high-level oversight of states and local budgeting and borrowing," the report notes.

This costs taxpayers and the nation's economy "tens of billions of dollars," reads the report, which was written by experienced municipal finance experts Matt Fabian, a partner at Municipal Market Analytics and Lisa Washburn, the organization's managing director and the chief credit officer.

To reduce that cost, responsible oversight of local and state budgeting and borrowing would help federal regulators prevent fiscal crises before they happen.

"Tightening oversight of state and local budgeting and borrowing are the cornerstones of the Volcker Alliance's Richard Ravitch Public Finance Initiative," the analysis says, noting that Ravitch, the former lieutenant governor of New York State, "was a transformational actor in the federal bailout of New York City after its near bankruptcy in 1975. He was also a key player in the resolution of fiscal crises that led to bankruptcies in Detroit in 2013 and Puerto Rico four years later."

Both crises were caused by the governments' excessive borrowing while they maintained the fiction of balanced budgets, the report says. "To this day, many governments continue to declare their annual or biennial budgets in balance—often in accordance with state statutes or constitutions—even though they have run up over \$2.7 trillion in unfunded obligations for public worker pension and retirement health care costs, and another \$1 trillion in deferred maintenance on

roads, bridges, and other infrastructure.”

Researchers lay out a number of recommendations federal officials can enact. First, state and local governments should be incentivized to switch from a cash or modified cash basis method of producing an annual budget to generally accepted accounting principals (GAAP), which among other things discourage one-time maneuvers like borrowing to balance budgets, for budgets and annual comprehensive financial reports (ACFRs).

“These two accounting methods often produce divergent results because of differences in the way they recognize revenue and expenses. While a balanced state budget may suggest adequate, real-time fiscal health, it may not reflect accrued additional liabilities that pose substantial risks to future fiscal health,” the report says.

Among other recommendations, the analysis notes that federal lawmakers should take a more active role overseeing the municipal securities market. The paper also outlines a six-point agenda for discussion and action regarding budgeting and borrowing.

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