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Why State Budgets Often Aren't as Balanced as They Seem.

Governors love to tout a balanced budget among their accomplishments. But the truth is, in many cases, that budget isn't as balanced as it looks.

"There is a tendency among states to disguise the problem," Paul Volcker, chair and founder of the Volcker Alliance, said at a Monday press conference releasing the group's first of many planned reports that pick apart state budgets with an eye to gimmicks and other tricks that may make finances appear more stable than they are. Every state except Vermont has a legal requirement to pass a balanced budget, although some have more stringent budget rules than others. Still, Volcker said, "the fact is that many states had have had deep-seated problems they are not facing up to."

The report, Truth and Integrity in State Budgets, focused on New Jersey, California and Virginia. All three have opted for gimmicks at one time or another. California in 2009 issued \$2.6 billion in what were essentially IOUs to pay businesses, local governments, and tax filers due refunds after legislators failed to pass a budget by the beginning of the fiscal year and the state was short on cash to pay bills. Since 2008, New Jersey has relied on transfers from its Clean Energy Program, a fund financed by utility revenue and intended to promote energy efficiency, to help balance its budget. And Virginia, which is often lauded for its conservative fiscal management, moved most of its payments for an \$80 million transportation project into 2016 so that it could close a 2015 budget gap.

The message from the report is ultimately simple: states that habitually paper over budget deficits instead of addressing their structural problems will only see their fiscal stability worsen. California has taken steps to address some of its deficiencies in recent years. Namely, voter-approved tax increases and a voter referendum to strengthen the state's rainy day fund have contributed to revenue surpluses and four general obligation credit rating upgrades from the three major ratings agencies. The state's accumulated debt obligations also dropped from \$34.7 billion in 2011 to \$26.9 billion in 2013.

In Virginia, the state's strong financial reputation is deserved, the report found. Its budgeting practices include strict statutory constraints on borrowing and requirements for depositing money into its rainy day fund, which have allowed the state to turn its attention to issues that have stumped other states. In recent years, Virginia has passed three major pension reforms with a goal of 100 percent funding by 2019, and has actively raised revenues for infrastructure improvements through targeted tax increases throughout the state.

New Jersey, on the other hand, suffers from a "chronic inability" to match its expenses to revenues, the report said. This practice over years has contributed directly to the overwhelming problems the state faces today: a combined \$90 billion pension and post-employment benefits gap, underfunding of public schools despite facing the fifth-highest cost per student in the United States and insufficient funds to address the state's growing infrastructure issues.

New Jersey's struggle isn't the fault of any one administration, said William Glasgall, who helped author the report. "It's a nonpartisan thing, it's gone on for decades," he said. "It's a state that

shows the consequences that you can't afford to pay when you're passing budgets that are balanced in name only."

The alliance wants to eventually issue similarly detailed reports for all 50 states. In a hint of what state budget may next suffer under the spotlight, the group pointed out that Kansas has been making ample use of one-time fixes to balance its budget ever since lawmakers cut that state's income tax.

Richard Ravitch, an alliance board member and former Lieutenant Governor of New York, said he believes that taxpayers have been "fooled by dishonest budgeting" for too long. "When this study is completed," he said, "the public will know exactly how much in one-shots there are embedded in operating revenues."

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