



THE VOLCKER ALLIANCE

Working for Effective Government

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VOLCKER ALLIANCE RELEASES SECOND ANNUAL STUDY: “TRUTH AND INTEGRITY IN STATE BUDGETING: PREVENTING THE NEXT FISCAL CRISIS”

The 2018 edition of Truth and Integrity in State Budgeting grades states on budgeting practices from fiscal 2016 through 2018 and reveals trends based on the critical areas of budget forecasting, budget maneuvers, legacy costs, reserve funds, and budget transparency.

NEW YORK, NY (December 12, 2018) – The Volcker Alliance today released the second annual report of its Truth and Integrity in Government Finance initiative, *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis*. The report contains new grades for all fifty US states in five critical budgeting areas: budget forecasting, budget maneuvers, fiscal reserves, legacy costs (public employee pensions and health care), and budget transparency.

The report shows that although the economic recovery has given states additional resources to pursue best practices, the fiscal pressures felt keenly in the immediate wake of the last recession have not disappeared. Some key takeaways of the report include:

- Almost two-thirds of states are facing moderate to severe fiscal stress from legacy costs despite the near record US economic rebound;
- Nearly all states struggled with budget transparency and failed to fully disclose billions of dollars in deferred infrastructure maintenance; and,
- Legacy costs along with Medicaid and debt service, will continue to squeeze spending on education, infrastructure, and public safety.

“More than nine years after the end of the deepest US recession since the 1930s, states are finally reaping the fruits of the recovery, yet, from the report, we’re still seeing many states struggle to balance budgets in the face of mounting obligations for health care, infrastructure, education, and public employee retirement costs,” said William Glasgall, Senior Vice President and Director, State and Local Initiatives, the Volcker Alliance.

This year’s analysis of the states’ budget practices is based on a revised questionnaire scrutinizing practices in five critical areas. All states received a letter grade ranging from A to D-minus, the lowest possible, for each budget category for fiscal 2016, 2017, and 2018. Hawaii, Illinois,

Massachusetts, New Jersey, Texas, and Wyoming got average grades of D-minus in legacy costs, and more than twice as many states scored only a D. As for the highest marks, no state received more than three As. The three states with three As apiece were Idaho, Utah, and California, a state that improved in numerous categories except legacy costs. *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* shows that states are also pushing to build reserve funds while they can to build a cushion against future economic downturns.

“Given how strong the economy currently is, one would expect the states to have higher grades overall,” said Mr. Glasgall. “These fiscal challenges continue to vex policymakers and taxpayers alike, and it is clear from the results that there are still issues and concerns within state fiscal sustainability.”

The grading period for this report evaluates the following five areas that are the building blocks of budgeting nationwide:

- **Budget forecasting** – how and whether states estimate revenues and expenditures for the coming fiscal year and the long term;
- **Budget maneuvers** – primarily how much states depend on one-time actions to offset recurring expenditures;
- **Legacy costs** – how well states are funding promises made to public employees to cover retirement costs, including pensions and retiree health care;
- **Reserve funds** – both the health of general fund reserves and rainy-day funds and whether governments have clear rules governing their use, replenishment, and relationship to historic revenue volatility; and,
- **Budget transparency** – how completely states are disclosing budget information, including debts, tax expenditures, and the estimated cost of deferred infrastructure maintenance.

The Volcker Alliance conducted a webinar today to unveil the findings with a panel of financial and fiscal experts including Mr. Glasgall and Beverly Bunch, Professor of Public Administration at the University of Illinois at Springfield.

“Our research in state budgeting continues to garner attention. The previous Truth and Integrity in State Budgeting report led to policy changes and we anticipate this report will have even greater impact,” said Thomas W. Ross, president of the Volcker Alliance. “More than 130 registrants signed up for the webinar as the *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* reveals implications for financial markets and taxpayers that are top of mind for academia, government leaders, the business community, and media,” said Mr. Ross.

To help pursue this study, the Volcker Alliance joined forces with professors and students in public finance and budgeting programs at eight universities, and teams of public finance and fiscal experts. Research for the study was conducted by teams of public finance professors and graduate students at City University of New York; Florida International University; Georgia State University; University of California, Berkeley; University of Kentucky; the Chicago and Springfield campuses of University of Illinois; and University of Utah. The schools’ efforts were

augmented by Volcker Alliance staff, data consultants at the research firm Municipal Market Analytics, and special project consultants Katherine Barrett and Richard Greene.

For more information on the Truth and Integrity in Government Finance initiative and to read the latest report, please visit www.volckeralliance.org.

The Volcker Alliance advances effective management of government to achieve results that matter to citizens. The nonpartisan Alliance works toward that objective by partnering with other organizations—academic, business, governmental, and public interest—to strengthen professional education for public service, conduct needed research on government performance, and improve the efficiency and accountability of governmental organization at the federal, state, and local levels. Visit volckeralliance.org to learn more. Follow us on social media @VolckerAlliance and subscribe to the Volcker Alliance newsletter for the latest news and developments. The Volcker Alliance is a 501(c)(3) organization.

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