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Volcker Alliance Grades Fifty US States on Budget Practices and Transparency
Multi-year study finds few states earn top grades across all categories; highlights best practices; cites $1.6 trillion in legacy costs as "most threatening" to fiscal stability

New York, NY (November 2, 2017)—The **Volcker Alliance** today released a new report examining and grading the budgeting and transparency practices of all fifty US states, in order to highlight states with the most effective procedures and those that fall short, while outlining best practices in each assessment category.

The report *Truth and Integrity in State Budgeting: What is the Reality?* was released at a press conference at the Roosevelt House Public Policy Institute at Hunter College. The result of a multi-year study conducted in partnership with more than fifty professors and graduate students in public finance and budgeting at eleven US schools of public administration or policy, the study assesses the quality of states' budgeting practices, including public worker retirement funding and disclosure of budgetary and other critical fiscal data. The findings were presented by **William Glasgall**, director of the Volcker Alliance's state and local program, along with **Paul A. Volcker**, former Federal Reserve Board Chairman, **Richard Ravitch**, former Lieutenant Governor of New York, **Thomas W. Ross**, president of the Volcker Alliance, and members of the research team.

The Alliance graded states in five categories: Budget Forecasting, Budget Maneuvers, Legacy Costs, Reserve Funds, and Transparency, from fiscal 2015 through October 2017. Each was given grades of A to D-minus. (Three-year average grades appear on the accompanying tables. Individual state grades for each year are contained in the report and at https://www.volckeralliance.org/publications/state-budget-practices.) The grades are based on best practices the Alliance has defined to be necessary for accurate, sustainable, and transparent budgeting.

Of the five categories, Legacy Costs, which includes retirement obligations for public employees and retiree health care, commonly known as other postemployment benefits (OPEB), is "the one most threatening" to fiscal stability, according to the report. Legacy costs include more than $1 trillion in unfunded liabilities accumulated in state and local public worker pension systems, plus at least $600 billion in OPEB obligations.

Only eight states received a three-year average grade of A for their handling of such legacy costs, while nine states were given the lowest possible grade of D-minus in the category. States receiving the highest grades for their handling of legacy costs are Iowa, Idaho, Nebraska, Oklahoma, Oregon, South Dakota, Utah, and Wisconsin. The D-minus graded states are Hawaii, Illinois, Kansas, Massachusetts, New Jersey, Pennsylvania, Texas, Virginia, and Wyoming.

“The mission of the Volcker Alliance is to improve the effectiveness of the administration of government at all levels,” wrote **Mr. Volcker** in his preface to the report. “Making processes such as state budgeting more transparent is important to that goal. By pursuing this investigation, the Volcker Alliance hopes that drawing attention to prevailing practices—and identifying the strongest and weakest among them—will encourage new efforts to raise standards for all states.”

In its report, the Volcker Alliance also addresses the questions of what comprises a balanced budget and how balance is attained. Maneuvers used by some states to create the appearance of balance may disguise structural gaps between revenues and expenditures that will reappear in subsequent budgets. As state and local expenditures are equivalent to more than a fifth of America’s GDP, it is “essential that such expenditures are as transparent as possible, funded responsibly, and not left for future generations to shoulder,” according to the report.

“With state revenue growth estimates being revised downward in 2017 and 2018 despite more than eight straight years of economic recovery, the pressure is great to balance budgets using one-time maneuvers or underfunding long-term obligations for such areas as infrastructure, education, and public employee retirement,” said **Mr. Glasgall**.

Budgetary performance was judged against these five best practices:

- States should use a consensus approach to establishing single, binding estimates for revenues and expenditures before the budgeting process begins.
- States should pay for expenditures in the same year they were accrued and avoid deferring them into the future.
- States should consistently contribute to pension funds and health care benefits for retirees the amounts that actuaries determine to be necessary.
- States should enact clear policies for withdrawals from rainy day and other fiscal reserves, as well as rules for replenishing spent funds and tying the size of fund balances to revenue volatility.
- States should have consolidated budget websites that provide one point of access to all information about a state’s budget, including the state’s budgeting practices, tax expenditures, and infrastructure replacement and debt service costs.

For more information, visit www.volckeralliance.org.

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About the Volcker Alliance

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.

The Volcker Alliance is a 501(c)3 organization.