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The Volcker Alliance Calls for Truth and Integrity in State Budgeting Practices

In New Report, The Volcker Alliance Examines Budgeting Practices of California, New Jersey and Virginia; Aims to Find Common Approach for Responsible Budget Practices in all 50 States

New York, NY (June 8, 2015)—The Volcker Alliance, a nonpartisan, nonprofit organization founded by former Federal Reserve Board Chairman Paul A. Volcker to address the challenge of effective execution of public policies and to help rebuild public trust in government, released today a preliminary report examining in detail the budgeting practices of California, New Jersey and Virginia. The report highlights the need for effective and transparent state budgeting practices by "shining a spotlight on opaque and confusing practices and by identifying more appropriate approaches."

The report, "Truth and Integrity in State Budgeting: Lessons from Three States," was introduced by the Volcker Alliance's Chairman Paul A. Volcker at a press conference this morning in New York. A primary aim of the Alliance's efforts is to lay the groundwork for a common approach toward responsible budget practices in all 50 states. By developing a framework for a scorecard with respect to budgeting and financing practices, the Alliance hopes to provide incentives for officials to clarify financial issues and encourage debate on basic policy choices. The report built on earlier findings from the State Budget Crisis Task Force co-chaired by Mr. Volcker and Volcker Alliance Board Member Richard Ravitch from 2011–14.

While the report focuses on three states, it also considers state budget practices nationwide. Among the report's findings is that "many states continue to balance their budgets using accounting and other practices that obscure rather than clarify spending choices. These practices make budget trade-offs indecipherable, lead to poorly informed policymaking, and limit future spending options. Beyond that, they weaken the fiscal capacity of states to support the cities and counties that desperately need their aid."

"Our objective is to encourage useful approaches toward accurate and easily understandable financial reports. We invite and encourage governors, legislators and all who are involved in this process to work with us in developing these approaches," said Mr. Volcker.

Key findings of the report include:

1. **California improved its fiscal health through changes in budgeting practices:**
    a. Voters approved several economic reforms including Proposition 25, which reduced the legislative vote requirement for budget approval from two-thirds to a simple majority, and Propositions 30 and 39, which temporarily raised sales and income taxes and changed the formula for calculating corporations' income taxes respectively. These

reforms resulted in a $254 million dollar surplus in 2013, passage of five consecutive on-time budgets, four general obligation credit rating upgrades from the three major ratings agencies, and reduction of the state's accumulated debt obligations from $34.7 billion in 2011 to $26.9 billion in 2013.

   b. However, significant budget challenges still remain including $131 billion in unfunded pension liabilities, $64 billion in unfunded retiree healthcare benefits, an estimated $64 billion needed to address infrastructure maintenance and improvements, and a tendency to overspend during economic booms.

2. **To balance the state's budget, New Jersey continues to rely on short-term maneuvers such as debt restructuring, diversion of funds, and inconsistent management of revenue collection. New Jersey's reliance on these measures correlates with the chronic inability of the state to match its revenue streams with its expenses.**
   a. New Jersey's relatively slow revenue and economic growth have been accompanied by one of the highest tax burdens in the nation, with strong resistance to tax increases.
   b. Failure to meet its expenditure needs with recurring revenue has left New Jersey with 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.

3. **Virginia has earned a strong reputation for sound financial policy. Its budgeting practices provide for strategic planning for both revenues and capital spending, repeated revenue re-estimation, strict statutory constraints on borrowing, and an actively employed rainy day fund.**
   a. These policies encouraged Virginia to address issues such as pension reform and infrastructure maintenance. 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.

The full report is available at www.volckeralliance.org.

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About The Volcker Alliance

The Volcker Alliance is a nonpartisan, nonprofit organization launched in 2013 to address the challenge of effective execution of public policies and to help rebuild trust in government. Based in New York City, The Volcker Alliance seeks to rekindle intellectual, practical, and academic interest in the implementation of policy – the "nuts and bolts" and, increasingly, the "electrons" of governance – and serve as a catalyst for sustained government improvement. For more information, please visit www.volckeralliance.org.

As a procedural matter, the responsibility for the analysis and specific proposals of the report lie with the Chairman and the staff, not with the Board of Directors collectively or its individual members.