

Best Practices in State and Local Finances



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Welcome



- Flaws in the budgeting process
- Common budget gimmicks
- Learning from mistakes – best practices
- What you can do ...



Inherent Flaws in the Budgeting Process

INHERENT FLAWS IN THE PROCESS



- Political process drives short-term decisions
 - Goal – get through next election, not next decade
- Legislative boundaries can lead to fragmentation
 - Legislators/policymakers may tend to focus on what's best for specific constituency vs. state as a whole
- Downturns generate irrational behavior
 - The immediate here and now is to survive current fiscal year using budget tricks and gimmicks

DON'T WASTE A GOOD CRISIS!



Common Budget Gimmicks

Common Budget Gimmicks



- Accelerating revenue
- Deferring payments
 - Slowing down accounts payable process
- Using “creative” budget gap fillers
 - Robbing Peter to pay Paul
 - Moving money between funds
- Delaying fiscal notes
 - Putting in a one-year delay so legislation doesn't need to be paid for or accounted for in current fiscal year budget

Common Budget Gimmicks



- Raiding reserves
 - Rainy day funds
 - Other restricted reserves
- Not distinguishing one-time funding from ongoing funding
 - Concept of “structural balance”
- Changing the rules midgame

Common Budget Gimmicks



- Employee focused
 - Early retirements
 - Furlough days
 - Banked leave time
 - Temporary pay cuts
 - Pension funding holiday
 - Not funding OPEB

So, WHAT'S THE PROBLEM???



All of these tricks and gimmicks simply kick the can down the road and delay the hard decisions, but they will still be need to be made when the stakes are much higher!



Best Practices

Learning From Our Mistakes



- Many states learned valuable lessons from the Great Recession and made the tough decisions
- In Michigan, we incorporated many of these, while some are still a work in progress
- Best practices
 - Consensus revenue forecasts
 - Bring tax expenditures on the books
 - Account for one-time vs. ongoing funding
 - Proper use of debt – operating vs. capital
 - Build and properly use rainy day fund

Learning From Our Mistakes



- Best practices continued ...
 - Transparent budget and accounting information
 - ✦ Especially long term liabilities – pensions and OPEB
 - Invest in infrastructure
 - Stop relying on accounting gimmicks to balance the budget
 - Use multi-year budgeting
 - Implement fiscal notes



What You Can Do ...

What Can You DO?



- Get involved in your government
- Know and watch out for the common tricks and gimmicks
- Follow the revenue
- Know who you can rely on for accurate information
- Familiarize yourself with the best practices for budget transparency

Thank You!



Questions?