

Assessing and Responding to a State's Financial Dependency on the Federal Government

Presented to the
Government Financial Management Conference

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August 22, 2012

Participant Objectives

- Understand the implications of intergovernmental financial dependency and related risks (IFD)
- Understand options open for communicating IFD information
- Identify ways in which S&L governments and leaders of Federal departments and agencies can share leadership in returning the U.S. to fiscal sustainability

What is Intergovernmental Financial Dependency?

- The transfer of significant amounts of financial resources among the three levels of government in the U.S., and
- The direct operating activities of one government occurring within the communities of another government

Paraphrased from the “Intergovernmental Financial Dependency Risk Prospectus,” presented to the Government Accounting Standards Board by GASB staff, dated March 19, 2007.

Comments on Federal Fiscal Sustainability





Published Assertions on Sustainability

“While this Report’s projections of expenditures and receipts under current policies are highly uncertain, there is little question that current policies cannot be sustained indefinitely.” –2011 Citizen’s Guide, “Conclusion”

“In addition, debt held by the public continues to grow as a share of the economy; this means the current structure of the federal budget is unsustainable over the longer term.” - Statement by the Comptroller General of the U.S.

Source: 2011 Financial Report of the United States Government

<http://www.gao.gov/financial/fy2011financialreport.html>

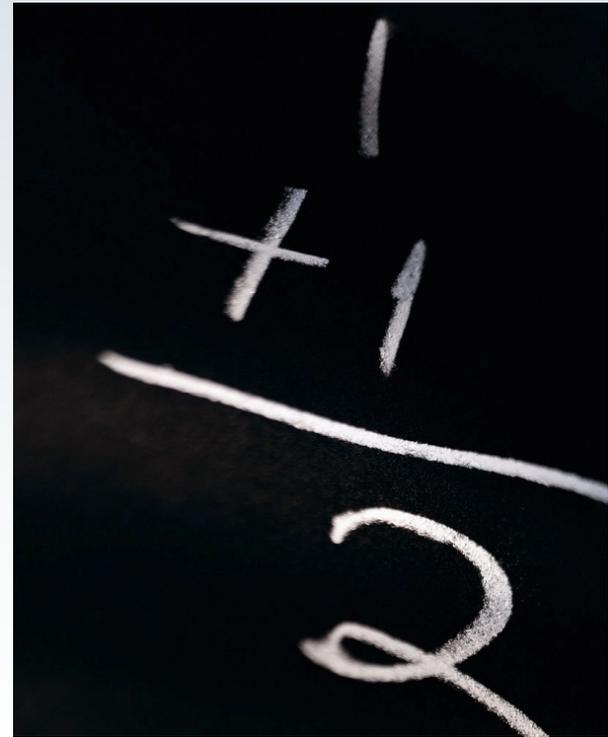
Analysis of Federal Liabilities, Intragovernmental Debt, and Social Insurance Obligations

	<u>\$ Billions</u>	
	<u>2011</u>	<u>2010</u>
<u>Federal Liabilities:</u>		
Publicly-held Debt	\$10,174*	\$9,060**
Federal Employee & VA Benefits	5,792	5,720
Other	1,526	1,576
<u>Intragovernmental Debt—Owed to Social Security, Medicare/Other Trust Funds</u>	4,711	4,577
<u>Federal Social Insurance Obligations</u>		
Social Security	9,157	7,947
Medicare—Parts A, B & D	24,572	22,813
Other	101	97
Total Liabilities, Intragovernmental Debt & SI Obligations	<u>\$56,033</u>	<u>\$51,790</u>
Current-dollar GDP 3 rd qtr 2011, 4 th qtr 2010 (Source: BEA)	<u>\$15,176</u>	<u>\$14,755</u>
Liabilities and Obligations as % GDP	369%	351%

*67% of 2011 GDP **62% of 2010 GDP

Source of Data: 2011 Financial Report of U.S. Government

Key Measures of State Government Intergovernmental Financial Dependency



Key Dependency Measures

Nebraska, Maryland, Virginia, and Total U.S. (\$ in Billions)

<u>Key Dependency Measurement</u>	<u>NE</u> <u>2010</u>	<u>MD</u> <u>2010</u>	<u>VA</u> <u>2010</u>	<u>Total</u> <u>U.S.</u> <u>2010</u>
Direct Federal Revenues to State	\$3.3	\$13.2	\$14.0	\$787.0
Percentage of Total State Revenues – All Sources	32.3%	35.9%	31.2%	39.7%*
Direct Federal Grants to Local Governments (2009)	\$0.3	\$1.1	\$1.1	\$57.6
Federal Purchases from State Businesses	\$1.3	\$26.5	\$58.3	\$474.2
Federal Payments to Individuals – Wages, Pensions, Social Security, Medicare	\$10.4	\$51.7	\$62.6	\$1,937.3
Total Direct and Indirect Federal Flows	<u>\$15.3</u>	<u>\$92.5</u>	<u>\$136.0</u>	<u>\$3,256.1</u>

Key Dependency Measures

Nebraska, Maryland, Virginia, and Total U.S. (\$ in Billions)

<u>Key Dependency Measurement</u>	<u>NE</u> <u>2010</u>	<u>MD</u> <u>2010</u>	<u>VA</u> <u>2010</u>	<u>Total</u> <u>U.S.</u> <u>2010</u>
Total Direct and Indirect Federal Flows	\$15.3	\$92.5	\$136.0	\$3,256.1
Real GDP by State Inflation Adjusted to 2005~	\$79.7	\$264.9	\$380.6	\$13,006.1
<u>Total Federal Flows</u> Gross State Product	19.1%	34.9%	35.7%	\$26.8%*
Military Facilities- Count	122	120	232	4,150
Military Facilities- Present Replacement Value	\$3.1	\$21.9	\$45.0	\$676.1
Military Facilities – Military and Civilian Personnel (thousands)	12.3	125.0	221.3	2,536
Federal Leased/Owned Buildings (millions sq/ft) (2011)	1.9	29.2	28.6	300.1

* = Average

9 ~ = Source: BEA, obtained 1/12/12

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Key Dependency Measures

States by Percentage of Revenue

<u>State (Top 5)</u>	<u>Direct Federal Revenues to State (billions)</u>	<u>Percentage of Total State Revenues – All Sources</u>
1- South Dakota	\$2.5	55.2%
2- Rhode Island	\$5.8	54.7%
3- Louisiana	\$18.2	54.2%
4- Arizona	\$16.3	51.7%
5- Georgia	\$25.3	49.6%
<u>State (Median)</u>		
25- Florida	\$40.4	41.0%
26- California	\$97.7	39.9%
<u>State (Lowest)</u>		
50- Wyoming	\$1.1	15.6%

Average 50 States = 39.7%

Key Dependency Measures

States by Percentage of State GDP

<u>State (Top 5)</u>	<u>Total Direct and Indirect Federal Flows (billions)</u>	<u>Real GDP by State (billions)</u>	<u>Direct and Indirect Federal Flows as Percentage of GDP</u>
1- Kentucky	\$58.7	\$144.6	40.6%
2- West Virginia	\$21.7	\$56.0	38.8%
3- Alabama	\$57.6	\$154.1	37.4%
4- Virginia	\$136.1	\$380.6	35.7%
5- New Mexico	\$25.9	\$72.8	35.5%
<u>State (Median)</u>			
25- Kansas	\$30.2	\$114.0	26.5%
26- Ohio	\$110.2	\$426.1	25.9%
<u>State (Lowest)</u>			
50- Delaware	\$8.1	\$56.2	14.5%

50 State Average = 26.8%

Other Key Dependency Measures

Top 5 States per Category

<u>State</u>	<u>Military Facilities</u>
1- California	349
2- Montana	252
3- Virginia	232
4- North Dakota	200
5- Florida	182

<u>State</u>	<u>Military Personnel</u>
1- California	267,475
2- Virginia	221,279
3- Texas	219,534
4- Georgia	166,264
5- North Carolina	164,706

<u>State</u>	<u>Federal Leased/Owned Buildings (Sq. Ft)</u>
1- Maryland	29,239,031
2- Virginia	28,617,619
3- California	25,734,634
4- Texas	21,667,759
5- New York	17,033,000

The Risks of Intergovernmental Financial Dependency

For State and Local Governments:

- Significant fluctuations in direct intergovernmental revenue flows and indirect flows which impact economic activity and tax revenues!
- Potential fluctuations to income and asset values associated with U.S. Treasury Securities, considering changes in Federal Reserve policy and levels of holdings by foreign governments!



Risks of Intergovernmental Financial Dependency (cont'd)

For Selected Federal Departments and Agencies:

- Adjusting to \$2.1 Trillion in reductions over 10 years, beginning January 1, 2013.
- Likely reductions in staffing complements, with a related potential negative impact on:
 - Grants management reporting and controls
 - The timing and scope of IG and GAO audits and investigations
 - The timing of modifications to systems and controls

Government's Choice-
Become Informed and Proactive

OR

Be Reactive?



How to be Proactive

S&L Government Financial Leaders Should:

1. Communicate with senior elected and appointed leaders on how IFD impacts their government
2. Pursue reporting options so that government stakeholders have information on IFD
 - Including tracking GASB's PV "Economic Condition Reporting: Financial Projections," December, 2011
3. Support shared leadership by Governors in returning the Federal Government to fiscal sustainability



Summary of GASB's PV Document

- The GASB identifies five components necessary for understanding fiscal sustainability
- The GASB defines a financial projection
- The GASB identifies reporting criteria and requirements for disclosing information relating to fiscal sustainability



Response to GASB's PV Document

- In general the comment letter response has been against the GASB PV
- There are inherent conceptual flaws within the GASB PV
- CLA State and Local leadership has made formal recommendations to the GASB

The Case for Shared Leadership!





The Components of Shared Leadership

1. Track proposals by the Congress and the administration to assess their impact on state revenues and federal grants and contributions
2. Assist Governors with interpreting the impact of proposed changes and communicating with citizens about those changes
3. Exchange information with other state and local elected officials
4. Request opportunities to regularly testify before Congressional committees on reshaping the Federal government

Top 15 Discretionary Cuts, Consolidations, and Savings- FY 12 & 13

Dollars in Millions

Program	Department / Agency	2012 Cut	% of Total	2013 Cut	% of Total
Low-Priority Construction Projects	Corps of Engineers	\$ 5,002	17.5%	\$ 4,731	23.5%
Low Income Home Energy Assistance Program	Dept. HHS	3,472	12.1%	3,020	15.0%
Grants-in-Aid for Airports	DOT	3,350	11.7%	2,424	12.0%
Clean Water and Drinking Water State Revolving Funds	EPA	2,384	8.3%	2,025	10.1%
Job Corps	DOL	1,703	5.9%	1,650	8.2%
Impact Aid - Payments for Federal Property	Dept. Education	1,291	4.5%	1,224	6.1%
Pest and Disease Programs	Dept. Agriculture	816	2.8%	762	3.8%
Forest Service Integrated Resource Restoration	Dept. Agriculture	806	2.8%	793	3.9%
Community Services Block Grant	Dept. HHS	679	2.4%	350	1.7%
Assistance for Europe, Eurasia, and Central Asia	Dept. State	627	2.2%	514	2.6%
Robotic Exploration of Mars	NASA	587	2.0%	361	1.8%
Cruiser Modernization Program	DOD	573	2.0%	101	0.5%
Superfund Remedial	EPA	565	2.0%	532	2.6%
Fossil Energy Research and Development	Dept. Energy	534	1.9%	421	2.1%
C-27 Joint Cargo Aircraft	DOD	480	1.7%	-	0.0%
All other Programs	All other Agencies	5,769	20.1%	1,226	6.1%
Total Discretionary Cuts, Consolidations, and Savings		\$ 28,638	100%	\$ 20,134	100%

Source: FY13 President's Budget, Cuts Consolidations, and Savings

<http://www.whitehouse.gov/omb/budget/CCS>

Mandatory Cuts, Consolidations, & Savings – FY13-22

Dollars in Millions

<u>Fiscal Year</u>	<u>Mandatory Cuts</u>	<u>Mandatory Savings</u>	<u>Total Mandatory Cuts & Savings</u>
2013	\$ 8,384	\$ 5,966	\$ 14,350
2014	8,927	14,488	23,415
2015	7,755	19,900	27,655
2016	6,547	24,616	31,163
2017	<u>6,507</u>	<u>32,339</u>	<u>38,846</u>
Total: 2013-2017	\$ 38,120	\$ 97,308	\$ 135,428
Total: 2013-2022	\$ 79,193	\$ 339,581	\$ 418,774

Source: FY13 President's Budget, Cuts Consolidations, and Savings

<http://www.whitehouse.gov/omb/budget/CCS>

GAO- Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue- March 2011

Section 1- GAO Identified Areas of Potential Duplication, Overlap, and Fragmentation

- ◇ Identifies 34 areas, which, if effectively addressed, could provide financial and other benefits.
- ◇ e.g. The federal approach to surface transportation infrastructure is fragmented, lacks clear goals, and is not accountable for results.

Section 2- Other GAO Identified Cost-Savings and Revenue Enhancing Areas

- ◇ Identifies 47 areas, where cost saving or revenue enhancing opportunities may exist.
- ◇ e.g. Preventing billions in Medicaid improper payments requires sustained attention and action by CMS.

Source: www.gao.gov/assets/320/315920.pdf

3 Bipartisan Debt-Reduction Proposals

Dollars in Billions

<u>Deficit Reduction Categories</u>	<u>Simpson & Bowles</u>	<u>Rivlin & Domenici</u>	<u>Galston & MacGuineas</u>
Spending Cuts	\$ 2,200	\$ 2,700	\$ 2,900
Tax Increases	960	2,300	2,700
Savings on Interest	673	877	1,100
Deficit Reduction through 2020	<u>\$ 3,833</u>	<u>\$ 5,877</u>	<u>\$ 6,700</u>

Source: Washington Post “Common Threads in Bipartisan Plans to Reduce the Deficit” Nov. 24, 2010

Based on:

Simpson & Bowles- Co-chairs, National Commission on Fiscal Responsibility and Reform

Rivlin & Domenici- Co-chairs, Bipartisan Policy Center

Galston & MacGuineas- The Committee for a Responsible Federal Budget

Concluding Thoughts

Given today's national fiscal environment, are government financial management professionals, meeting the information needs of government stakeholders?

“There is no easy way out of our debt problem, so everything must be on the table. A sensible, realistic plan requires shared sacrifice...”

National Commission on Fiscal Responsibility and Reform
December 2010

CLA Published Guidance on IFD

CLA Publications

IFD: A Study of Key Dependency Measures for the 50 States

www.cliftonlarsonallen.com/IFD50statestudy

IFD: A Guide for State and Local Governments in Preparing a Special Report.

www.cliftonlarsonallen.com/IFDspecialreportguide

CLA Authored Articles

IFD: Why It Matters!, AICPA Journal of Accountancy, October 2011

www.journalofaccountancy.com/issues/2011/Oct/20114206

Our Nation's Governors—Walking a Tightrope Without a Net

www.cliftonlarsonallen.com/walkingatightrope

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