MONITORING STATE AND LOCAL BUDGETS:

OR

DO YOU KNOW HOW MUCH MONEY IS IN YOUR PUBLIC PURSE?

I. **WHY DO WE CARE?**

☞ *AN IMPORTANT PROVIDER OF PUBLIC GOODS AND SERVICES*

- Education, Safety, and Environment

☞ *AN IMPORTANT "HOLDER" OF HOUSEHOLD WEALTH*

- Capitalization of Public Assets and Public Liabilities

- The Philadelphia Story

☞ *A POTENTIAL SOURCE OF FINANCIAL INSTABILITY*

- Brazil, Argentina, and now Greece

- New York City, WPPSS, and Orange County

II. TODAY'S FISCAL PROBLEMS ARE NOT NEW

☞ *THE US HISTORY OF "DEFAULTS"*

- The 1840 Defaults and the Emergence of Balanced Budget Rules

- The 1930's and the Great Depression

- New York City, Cleveland, Philadelphia, Bridgeport, Philadelphia (AGAIN!), Miami, Washington DC.

III. THE COMMON STRUCTURE OF DEFAULTS

☞ *DEFINING DEFAULT RISK*

$$(\text{Principal} + \text{Interest}) > t_{max} \bullet Y + AID - (\text{Fixed Obligations})$$

or

$$[(\text{Principal} + \text{Interest}) + (\text{Fixed Obligations}) - AID]/t_{max} = Y_{CRITICAL} > Y$$

or

$$Y < Y_{CRITICAL}$$

$$\text{Default Likelihood} = \text{Probability} (Y < Y_{CRITICAL})$$

IV. WHAT WE NEED TO KNOW TO *SEE* A DEFAULT COMING

☞ *IS THERE A DEFAULT COMING?*

The Default Condition:

$$[t_{max} \bullet (Y < Y_{CRITICAL}) + AID] - [(\text{Fixed Obligations}) + (\text{Principal} + \text{Interest})] < 0$$

Looks A Lot Like a Future Current Accounts Deficit

$$[\text{MAXIMAL REVENUES}] - [\text{REQUIRED EXPENDITURES}] = \text{DEFICIT} < 0$$

☞ *YES, IF UNDER THE "BEST OF CIRCUMSTANCES" THERE IS A DEFICIT*

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THE MONITORING PROJECT

A PILOT PR0JECT: Philadelphia's 1976 Budget

ANITA VS. LENNOX

V. THE MONITORING PROJECT

☞ *DEFINING STATE AND LOCAL SURPLUS/DEFICIT*:

- SURPLUS/DEFICIT = (*DEFSURGF*) = CURRENT REVENUES - CURRENT SPENDING

where:

- REVENUES = TAXES + FEES + AID + INTEREST EARNINGS + PROFITS

- SPENDING = WAGES/BENEFITS + TRANSFERS + INTEREST/PRINCIPAL + DEPRECIATION

☞ *SO, HOW HAVE WE BEEN DOING?*

- Bohn/Inman (1996)

- Haughwout/Inman (20??)

- Two short-cuts both biasing our results in direction of *DEFSURGF* > 0.

•• $p \cdot \ell$ = Pensions Contributions =(?)= Normal Costs + Supplemental Costs = $\rho \cdot \ell$

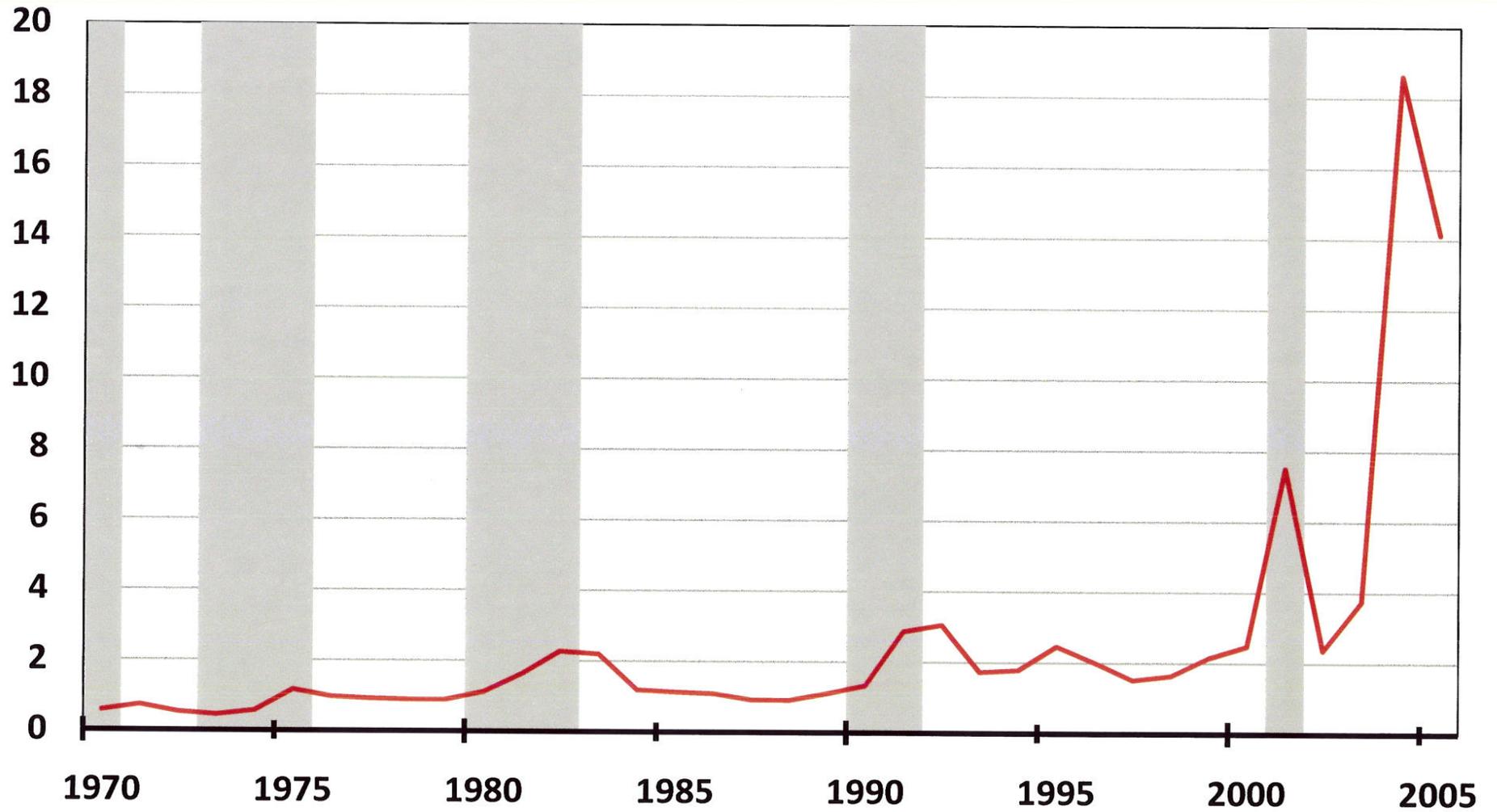•• $m \cdot K$ = Maintenance Expenditure =(?)= Depreciation = $\delta \cdot K$
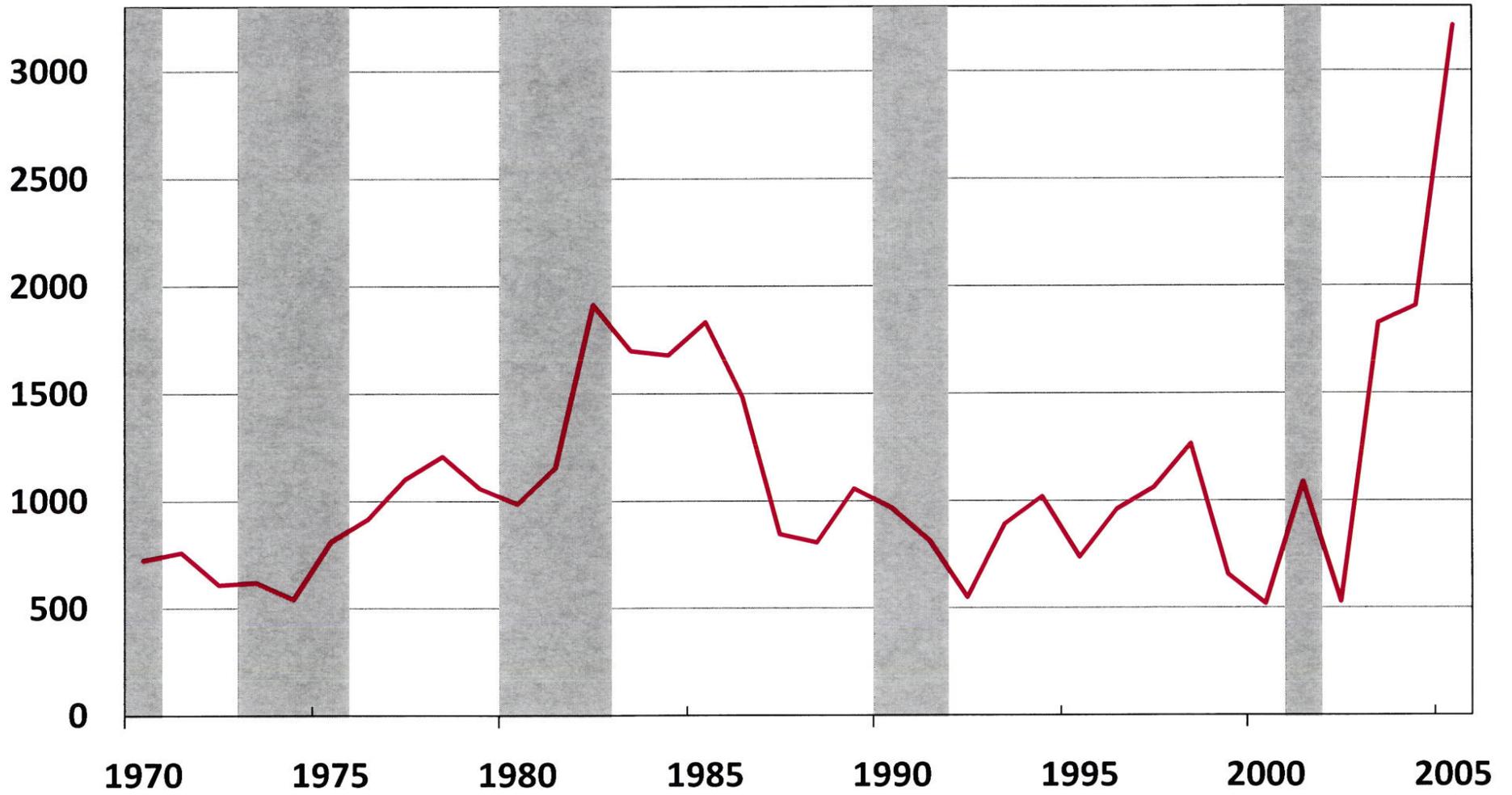
Average DEFSURGF
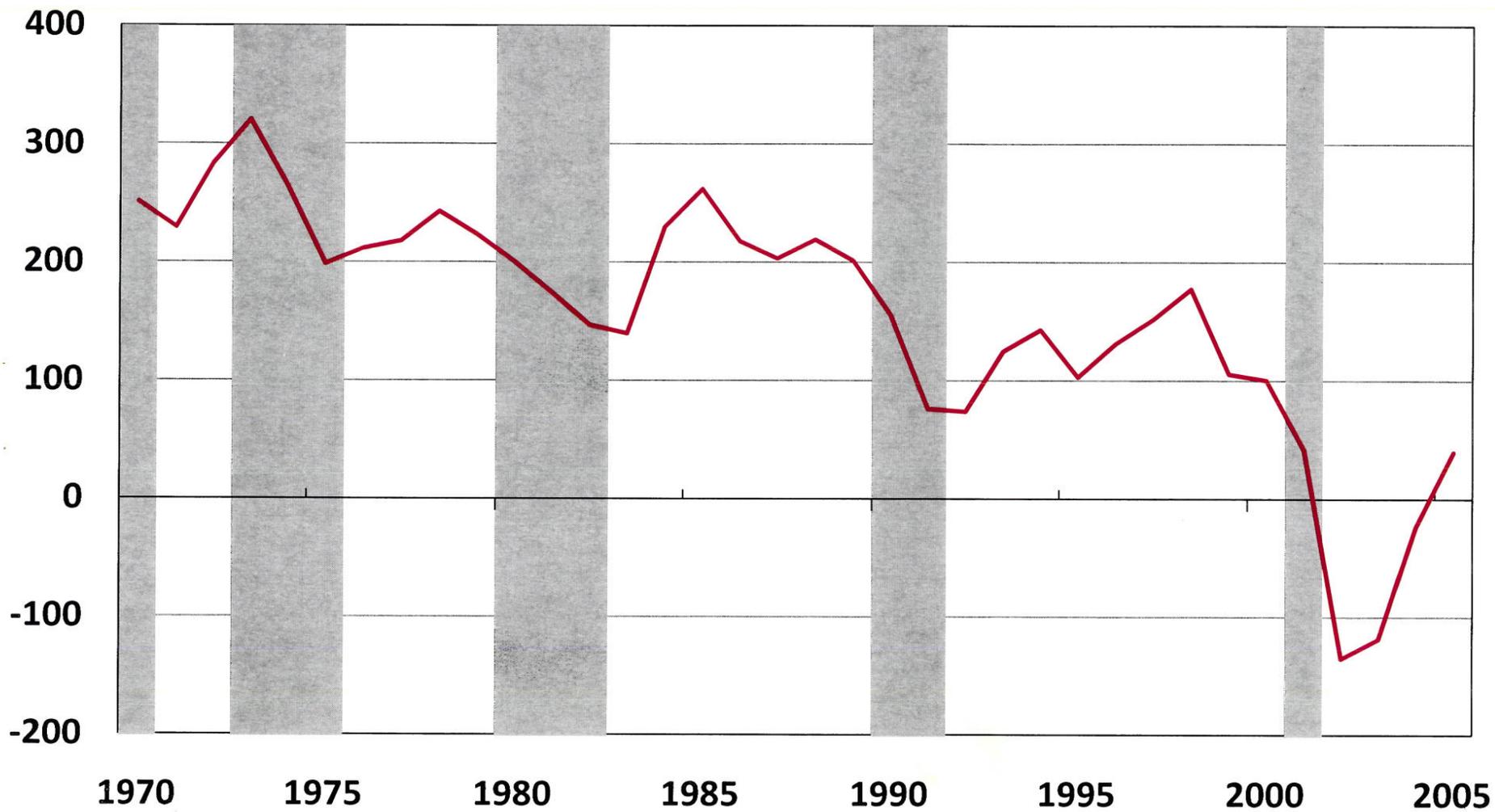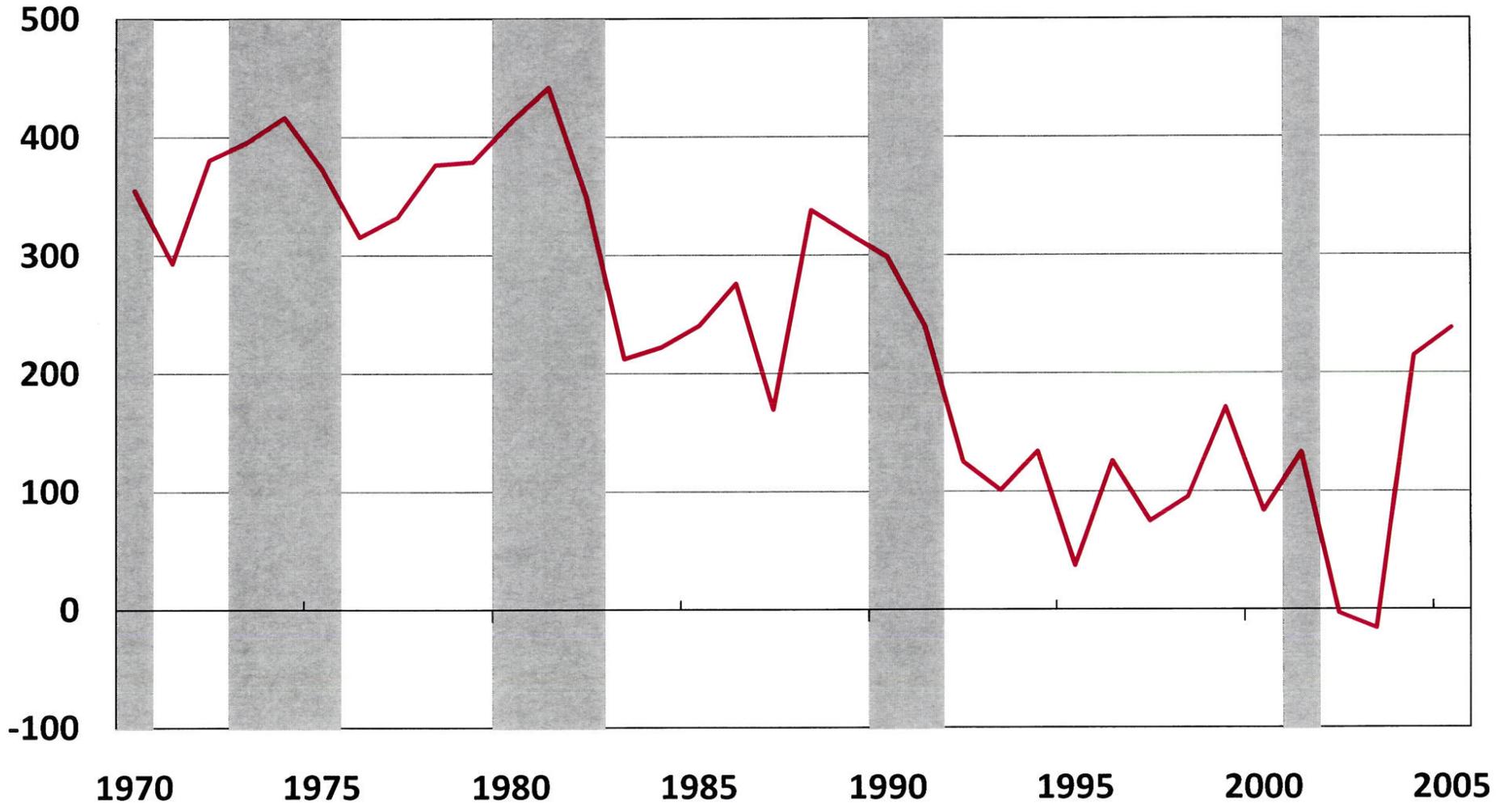
Percentage of States with Negative DEFSURGF
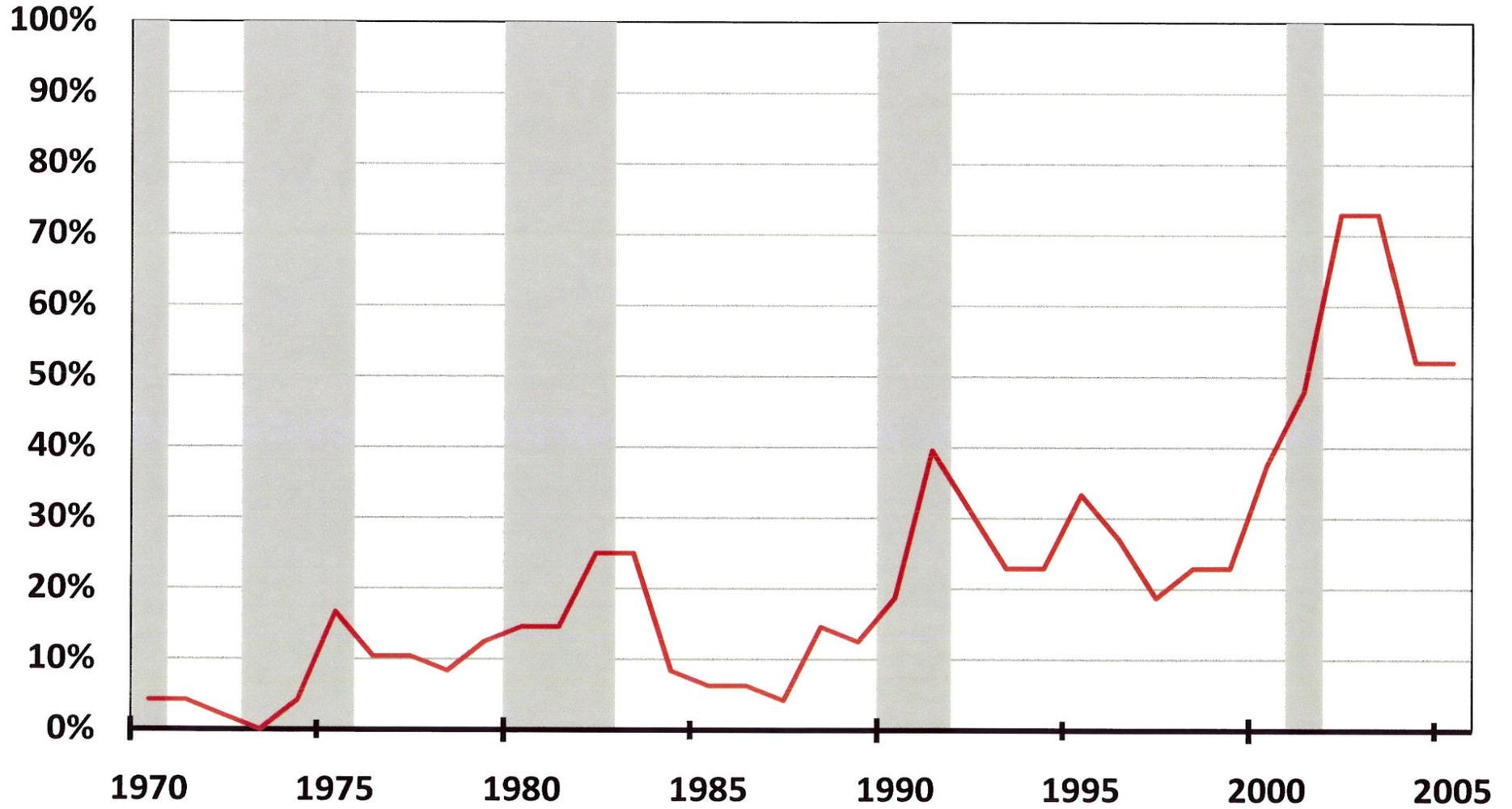
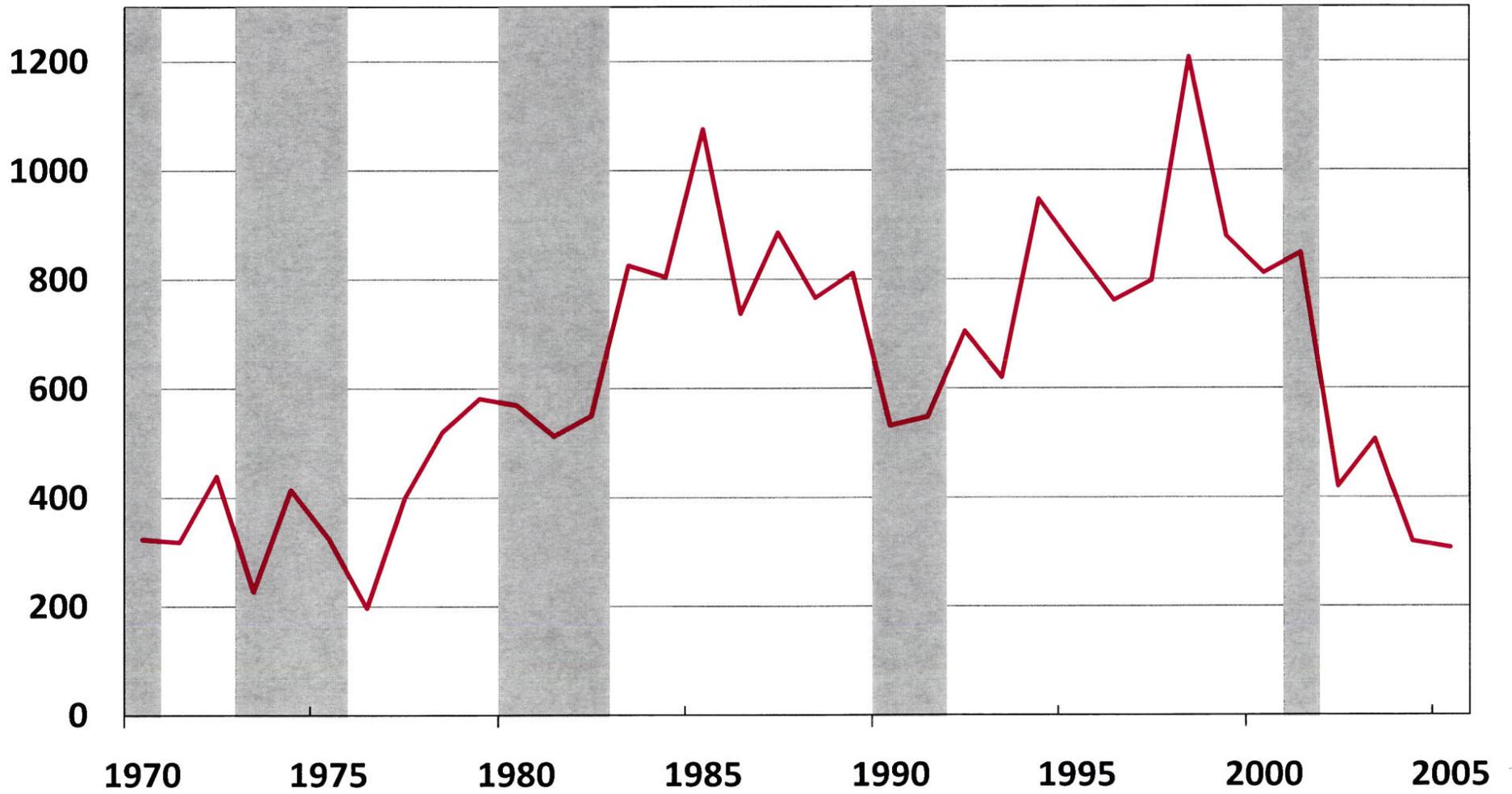# ABS(Standard Deviation of DEFSURGF / Mean of DEFSURGF)

Wyoming DEFSURGF
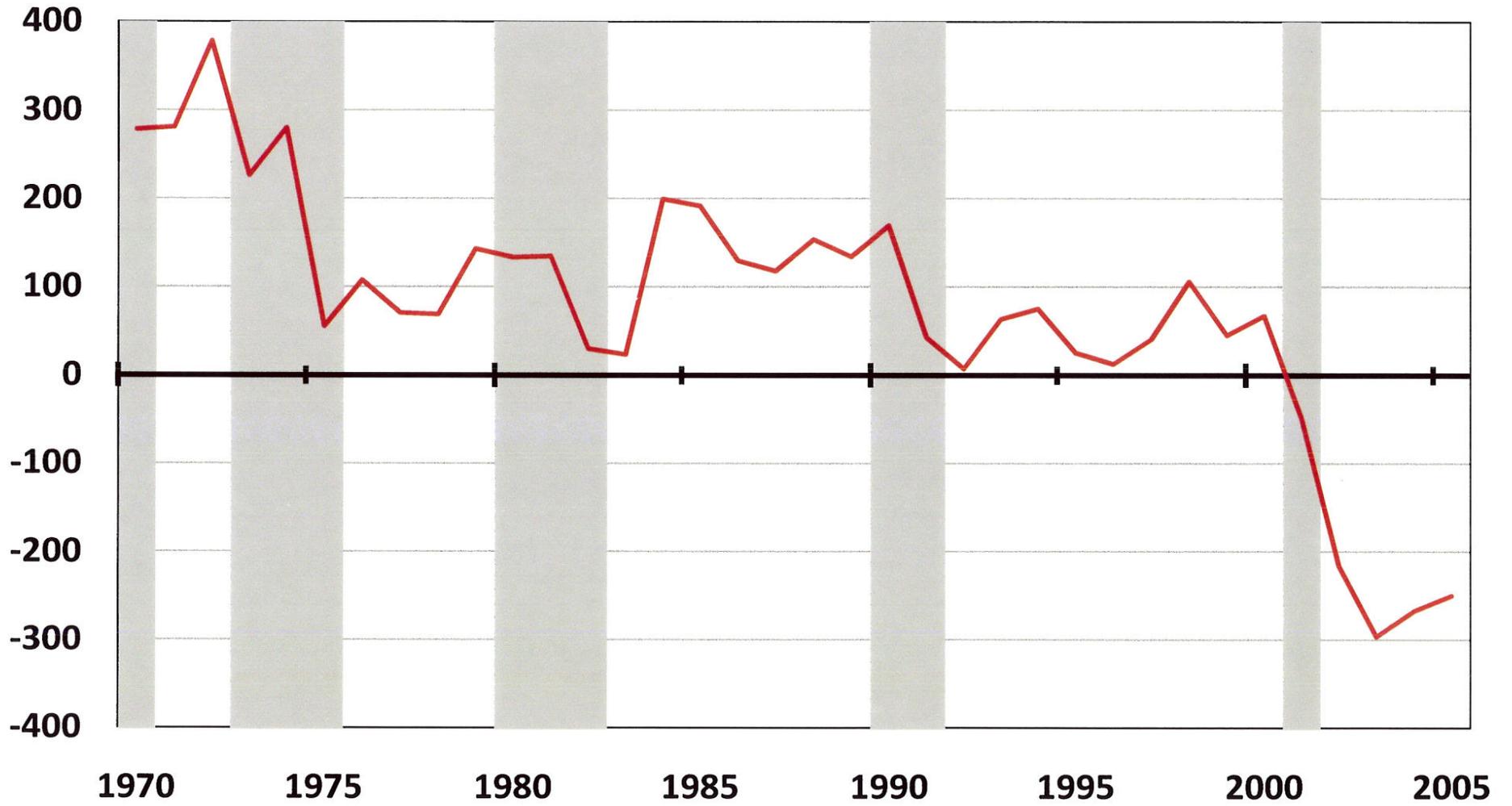
Texas DEFSURGF
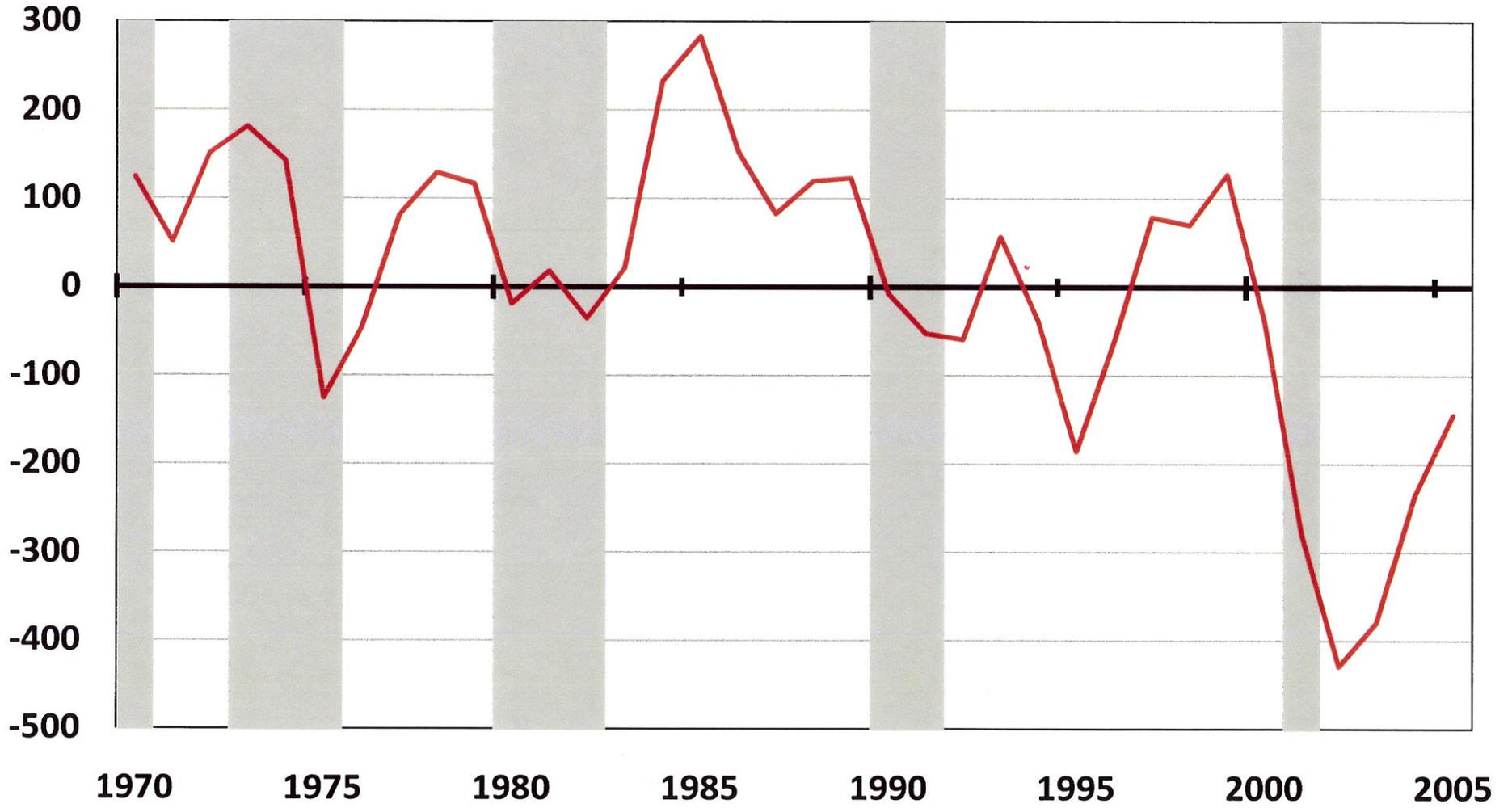
Delaware DEFSURGF
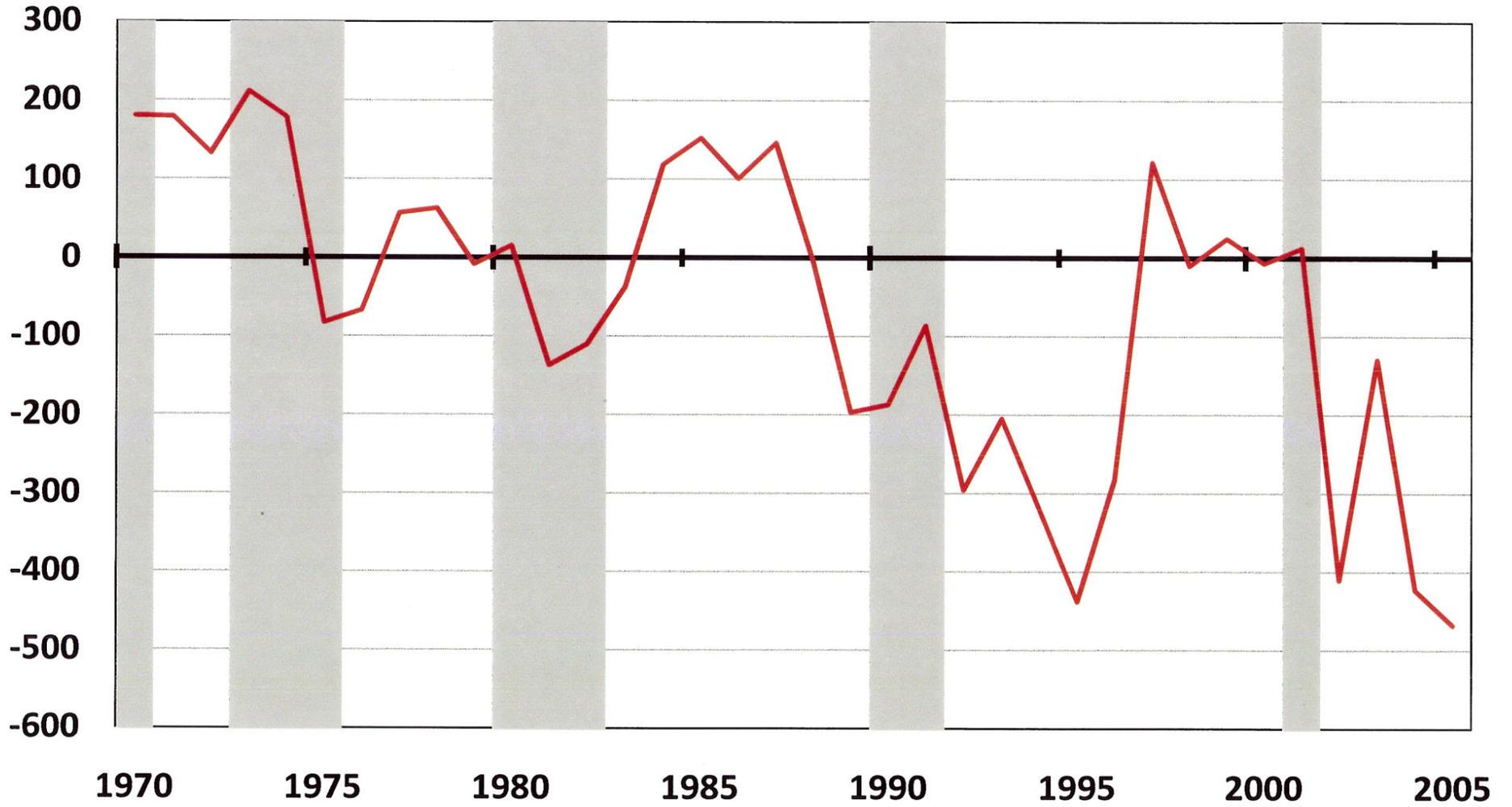
Illinois DEFSURGF

$ - Per capita

Michigan DEFSURGF

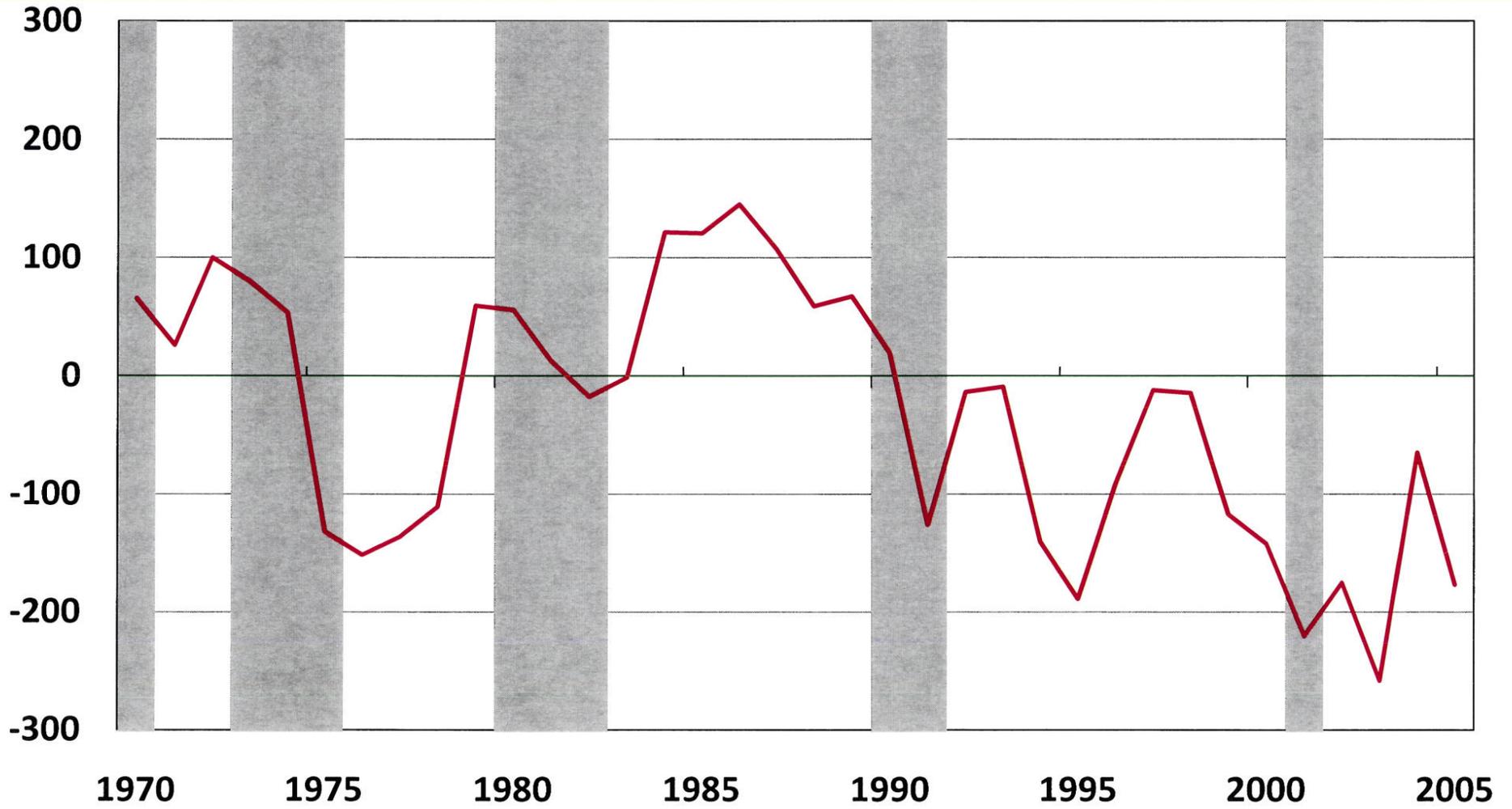$ - Per capita
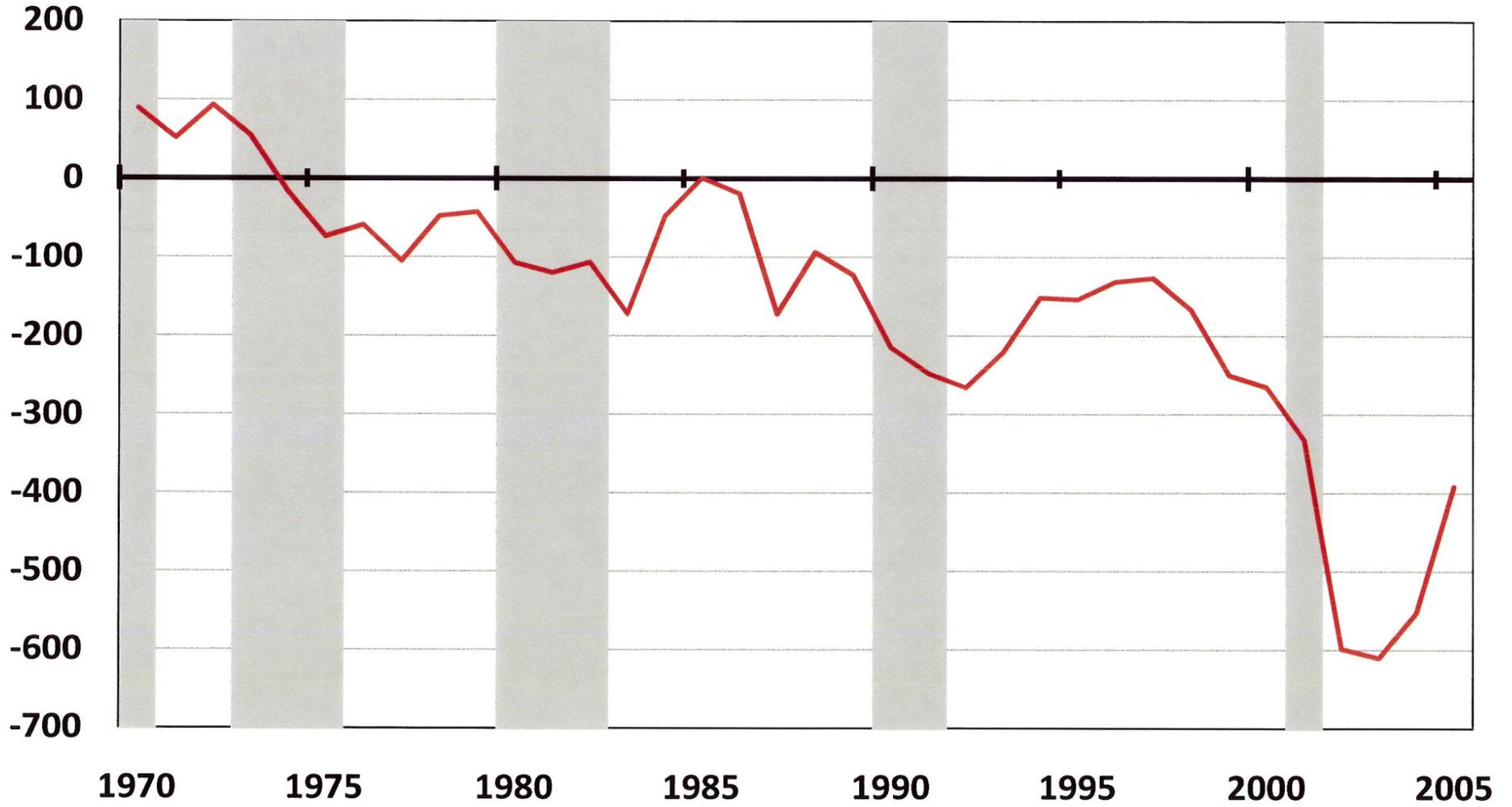
New Jersey DEFSURGF

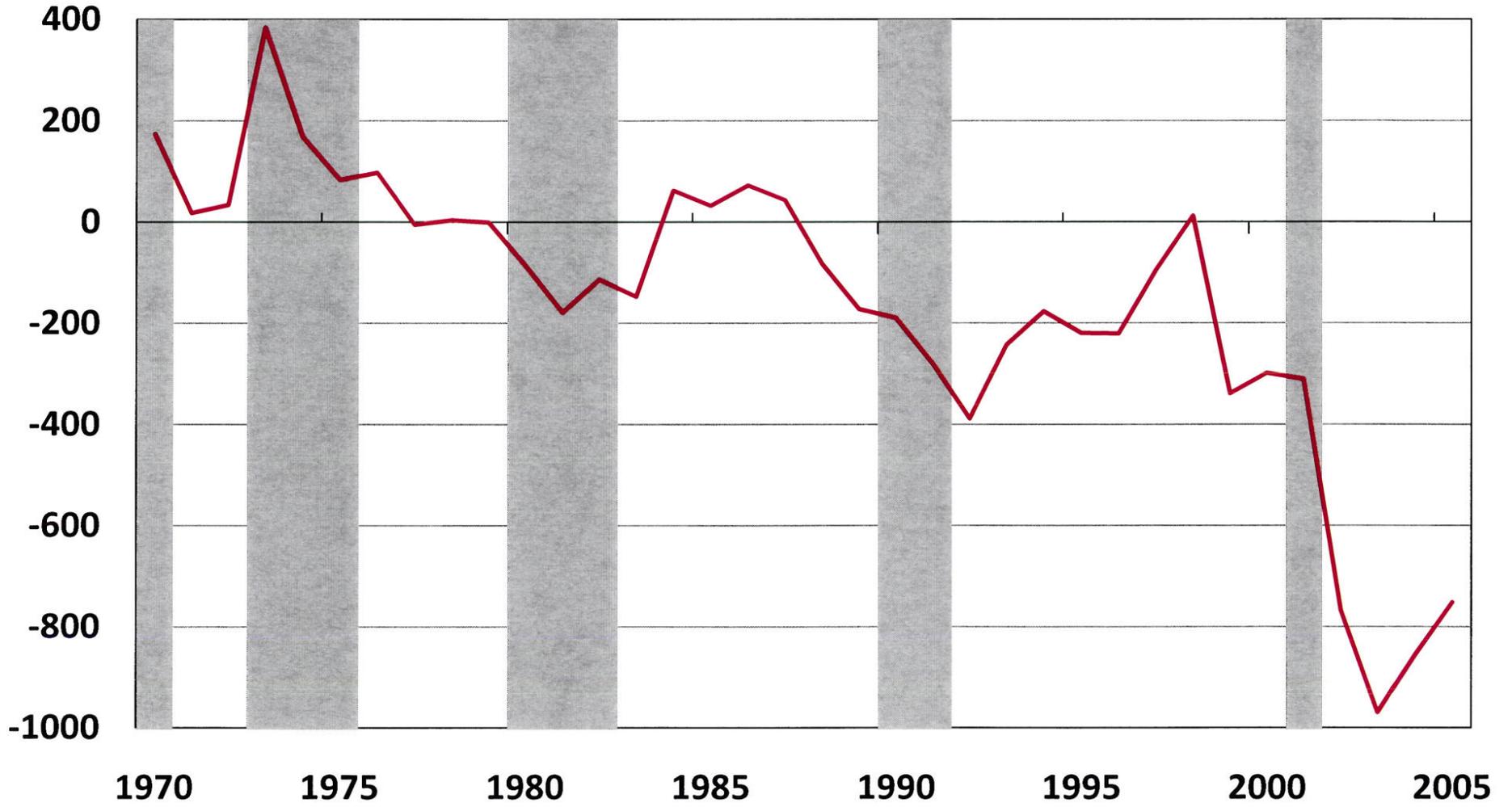$ - Per capita

Pennsylvania DEFSURGF
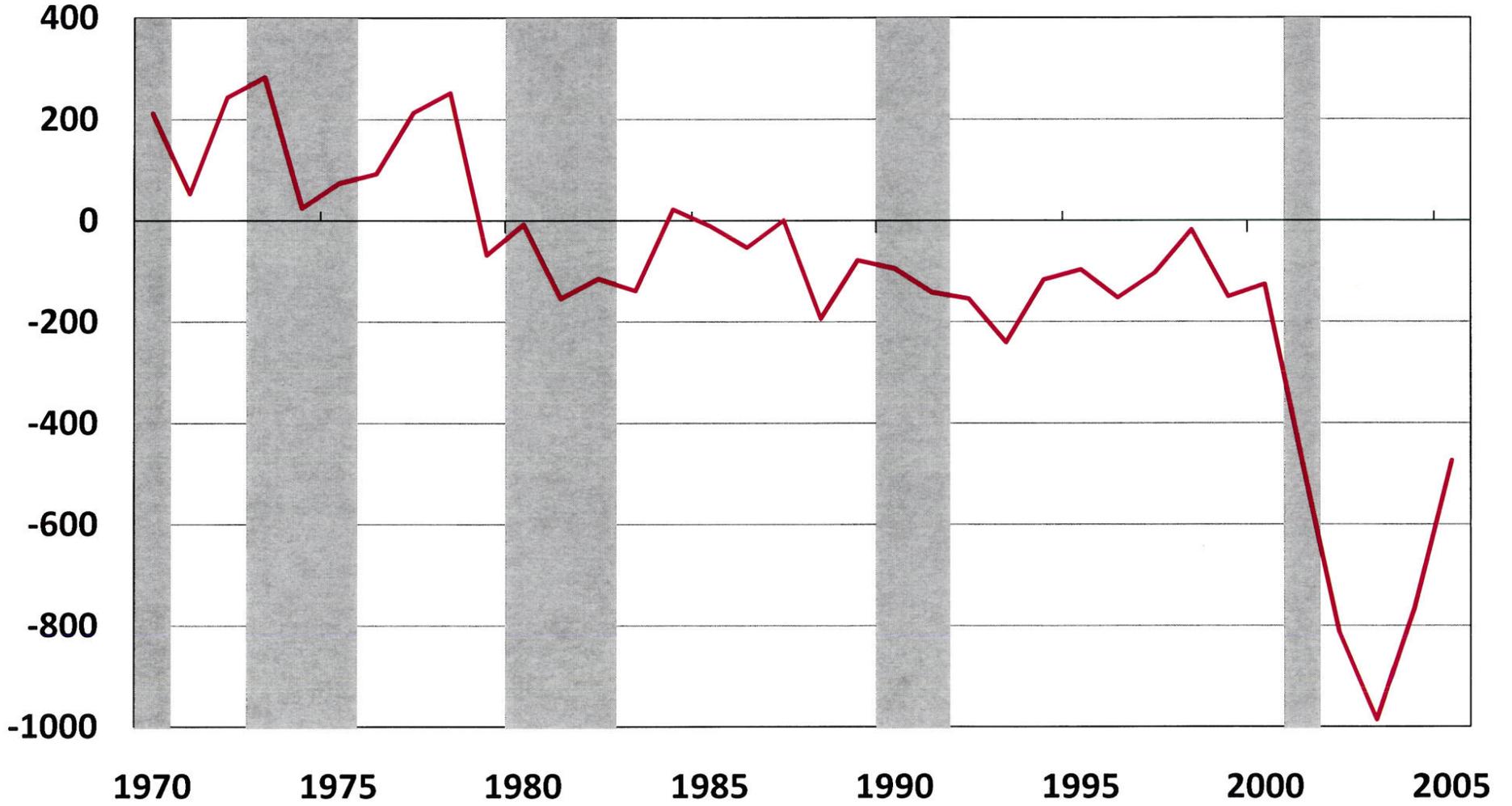
Ohio DEFSURGF

$ - Per capita

New York DEFSURGF

California DEFSURGF

No Mineral vs. Mineral

$ - Per capita
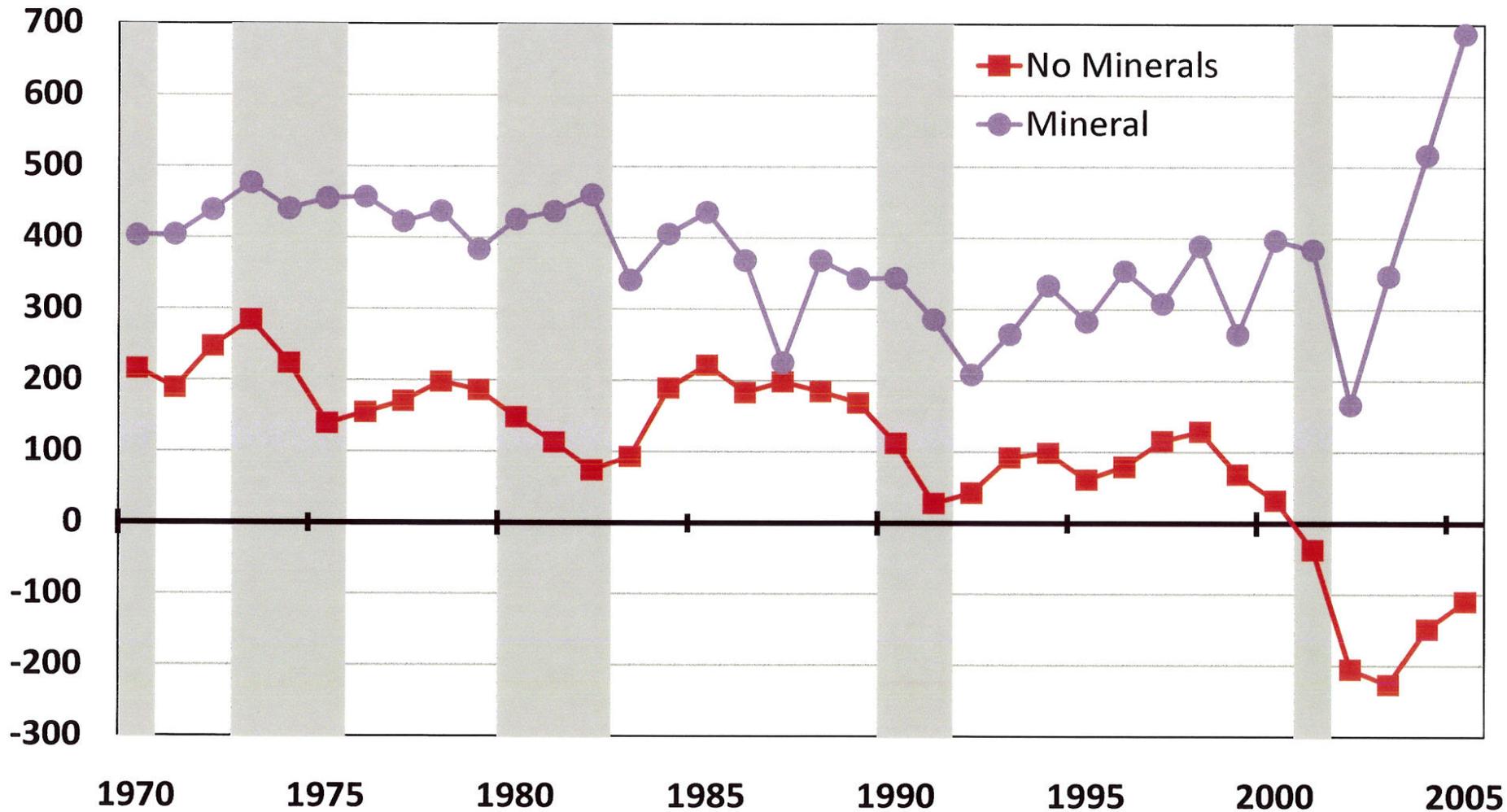
DEFSURGF & FedAid3

$ - Per capita
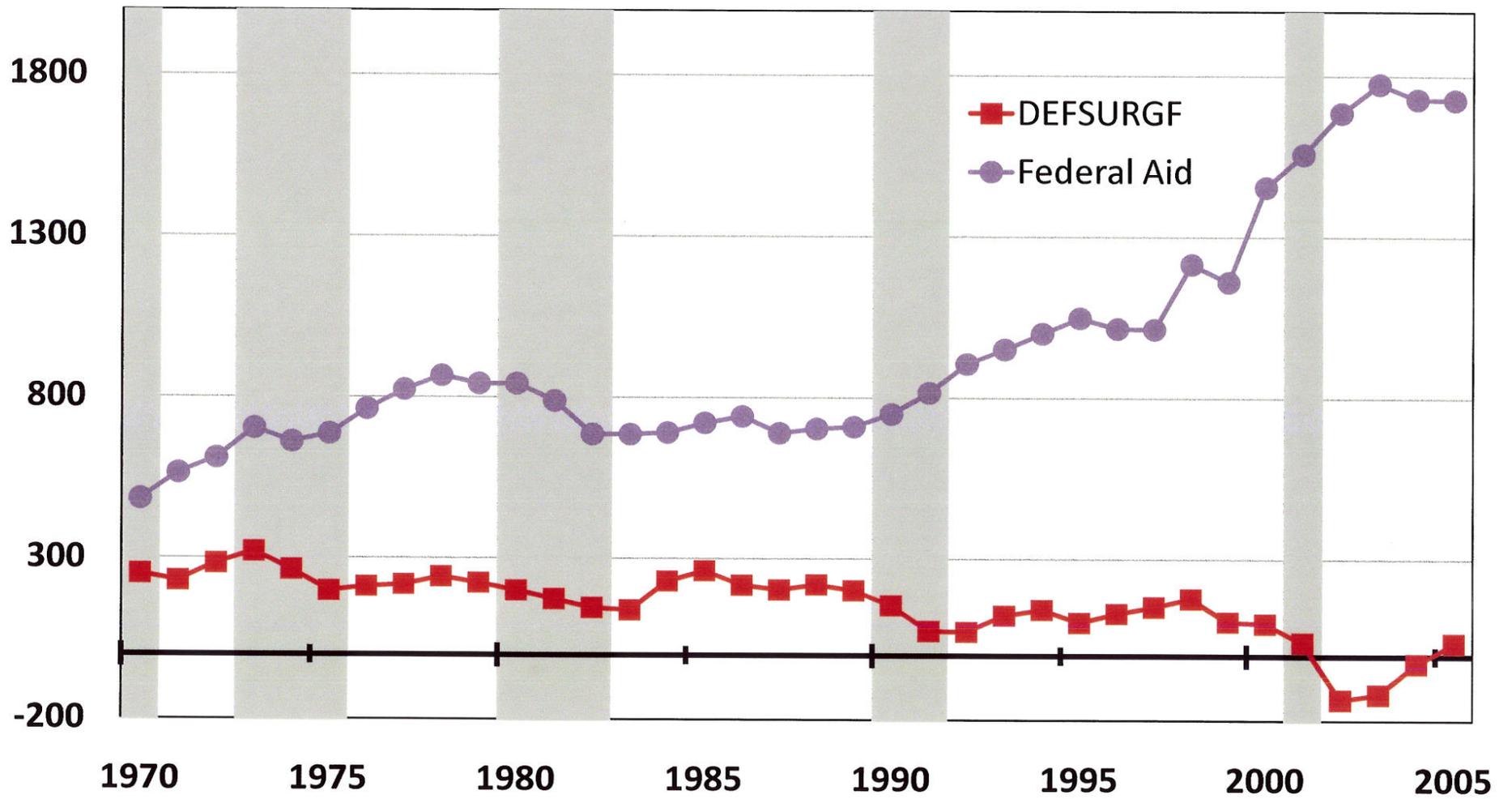
DEFSURGF & Muni "Risk Spread"
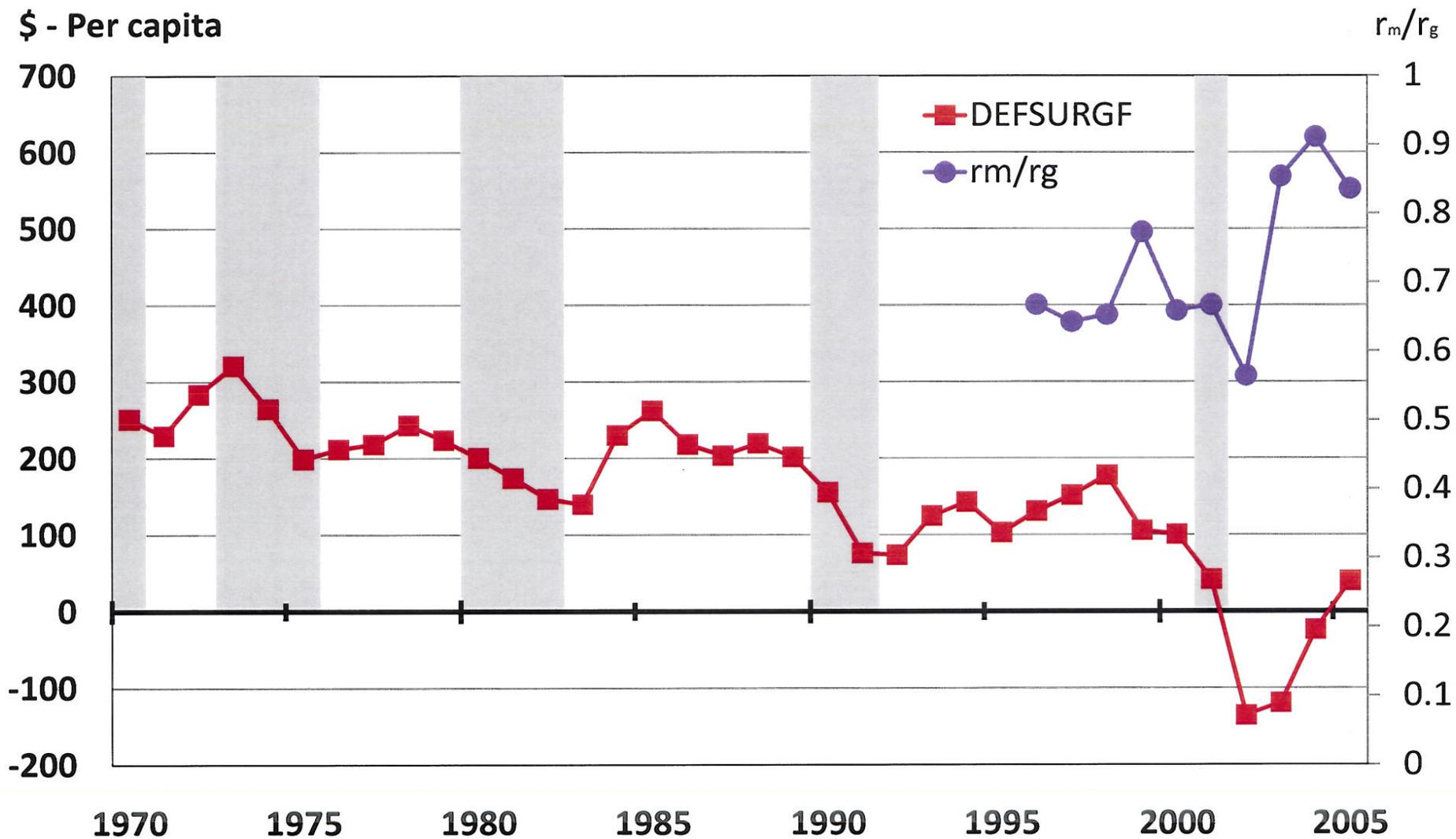
No Mineral: No Carry vs. Carry
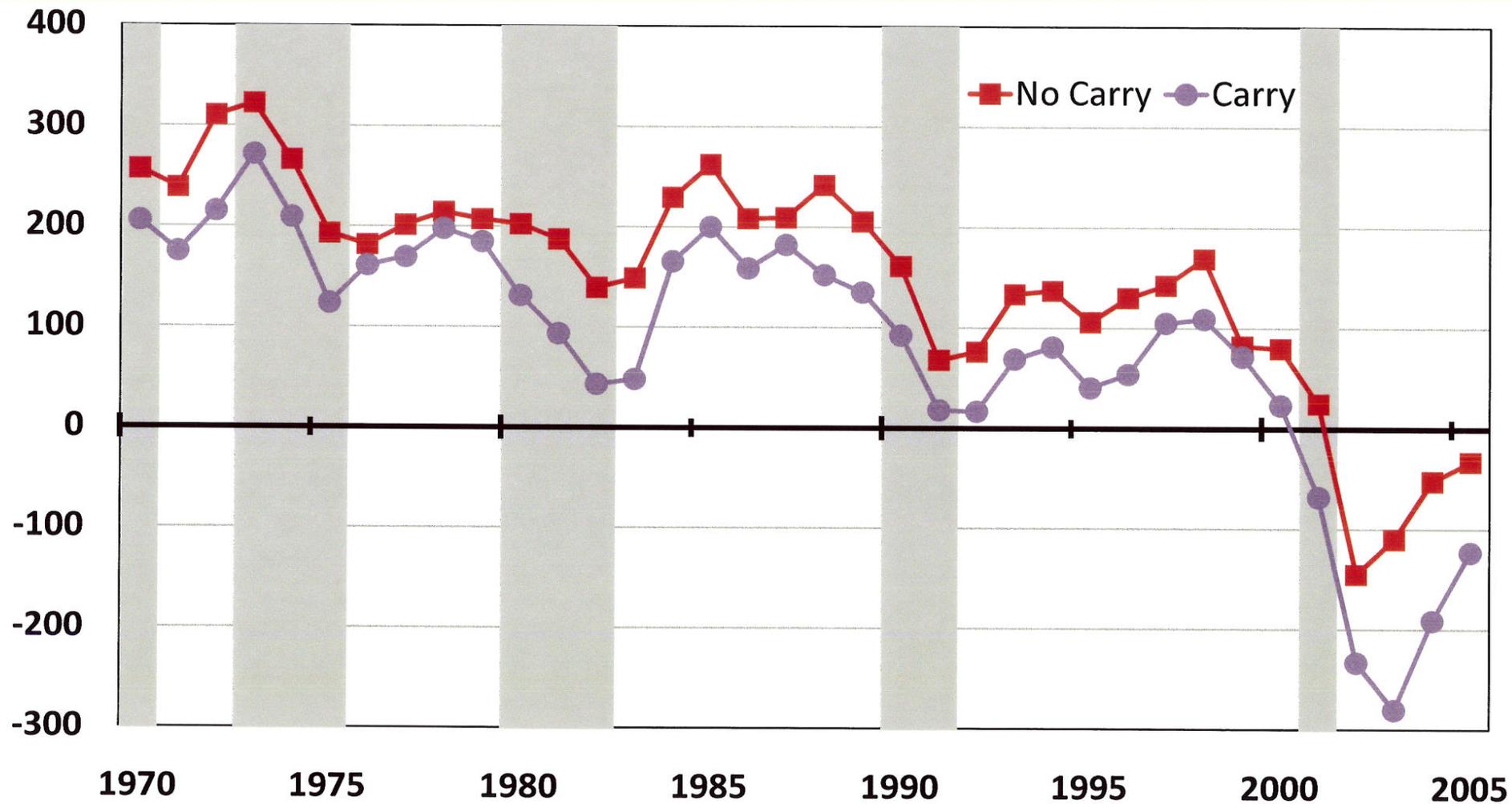
Vermont DEFSURGF
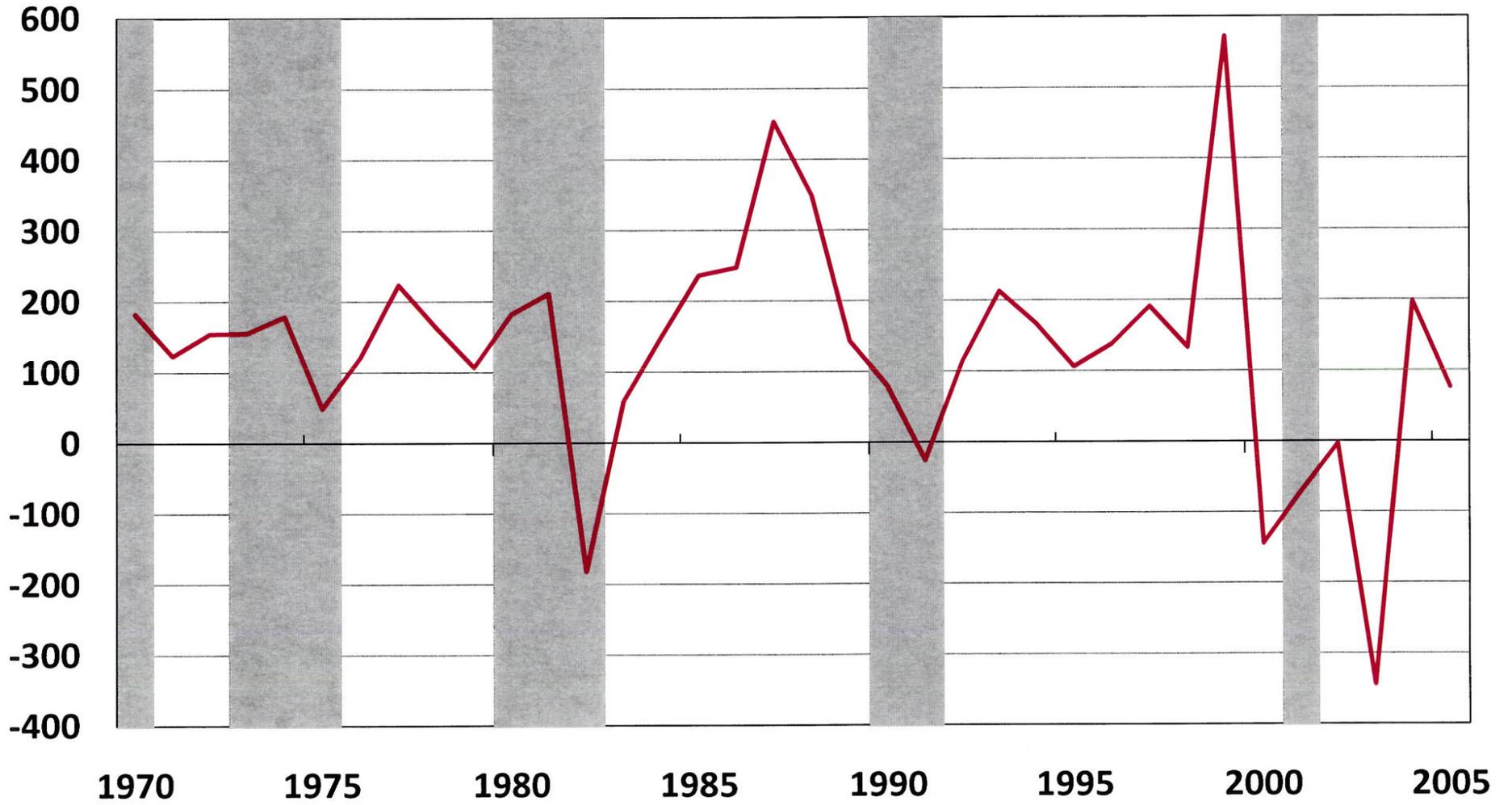
VI. WHAT DOES THE MONITORING PROJECT TELL US ABOUT OUR PUBLIC PURSE?

☞ *FROM THE IDENTITY – "MONEY PAID ≡ MONEY RECEIVED" – WE KNOW:*

$$\text{SURPLUS/DEFICIT} \equiv \{(p - \rho)\ell + [(m - \delta)(K_o - A) + k] + [s - c] - d - \pi A\}$$

SUR ≡ [Add Pension Assets] + [Add Capital] + [Add Cash] + [Retire Debt] + [Buy Assets] > 0

DEF ≡ [Reduce Pension Assets] + [Deplete Capital] + [Cut Cash] + [Add Debt] + [Sell Assets] < 0

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THE *"SAVING FLOWS"* INTO (OR OUT OF) YOUR PUBLIC PURSE

☞ *CAPITAL GAINS AND LOSSES ON EXISTING ASSETS*

$$\Delta W_0 = [\Delta \text{PENSION UFL}] + [\Delta \text{MV ASSETS}] + [\Delta \text{MV CASH/SECURITIES}] + [\Delta \text{MV DEBT}]$$

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THE "CAPITAL GAINS/LOSSES" ON CURRENT ASSETS AND LIABILITIES

☞ *TOGETHER WE HAVE THE VALUE OF YOUR PUBLIC PURSE*

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$$\mathbf{W_1 = W_0 + [SUR/DEF] + [\Delta W_0]}$$

TABLE 1

Average State and
City Government Assets and Liabilities*

| Year	Savings +	Tangible Assets	- Government Debt	- Unfunded Pension Liabilities	≅ Net Worth
1972	$2576	$13,720	$3302	$3341	$9651
1973	2714	13,915	3401	4021	9166
1974	2826	14,113	3502	4477	8902
1975	2815	14,320	3221	4381	9479
1976	2755	14,478	3280	4250	9649
1977	2561	14,573	3179	4568	9391
1978	2765	14,552	3138	4627	9558
1979	2785	14,612	2680	4979	9727
1980	2897	14,750	2456	5119	10,079
1981	2708	14,851	2038	4785	10,740
1982	2717	14,880	1837	4567	11,214
1983	2979	14,902	2345	4093	11,469
1984	3148	14,926	2474	4537	11,096
1985	3296	14,975	2532	4113	11,664
1986	3749	15,050	3148	3862	11,840
1987	4114	15,169	3638	4261	11,458
1988	4395	15,319	3448	4121	12,235
1989	4451	15,463	3571	3727	12,701
1990	4537	15,621	3710	3989	12,539

How Much Money Is in a Philadelphian's Public Purse

Net Worth per Resident

Average State & City

PA & Philadelphia

Philadelphia

PA

72   80   86   90

CRISIS
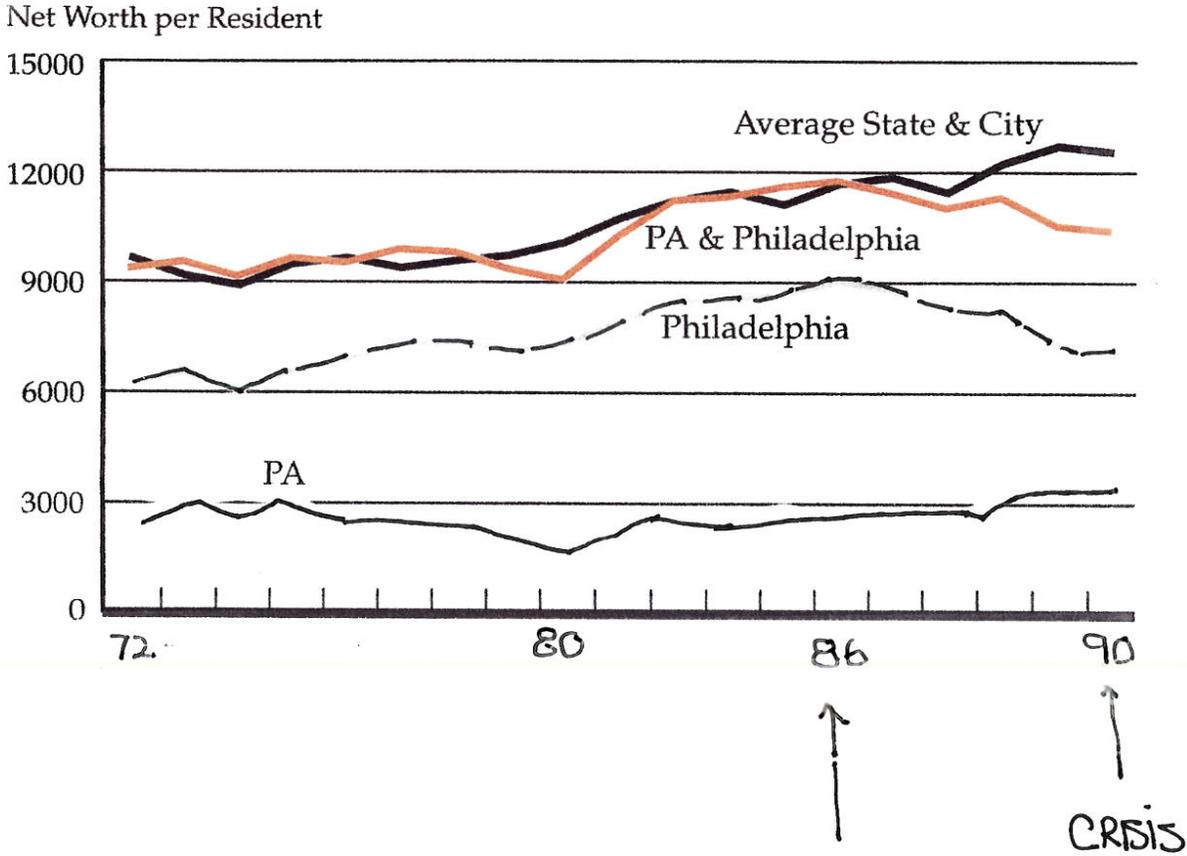
VII. DO WE REALLY NEED AN "OUTSIDE" MONITOR?

☞ *WHY WE NEED A "PUBLIC" MONITOR*

    • Budgetary information is complicated and expensive to assemble.

    • Budgetary information is a public good

☞ *WHO SHOULD BE THAT MONITOR?*

    • Private Money: For Profit Rating Agencies?   Non-Profit Research?

    • Charitable Funding: Local Foundations ?

    • Federal Government? HUD?

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FEDERAL RESERVE RESEARCH DEPARTMENTS

VIII. THE AGENDA OF THE S/L MONITORING PROJECT

☞ *KEEPING TRACK OF CONTEMPORANEOUS SURPLUS/DEFICITS & PUBLIC WEALTH*

• SAMPLE: All States and Their Major Cities; Perhaps Every Two Years

• DATA: Build off of GASB Accounts; Consolidate All Funds

• METHODOLOGY: Common Methodology

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"THE STATE OF THE STATES"

☞ *BUILD THE HISTORICAL RECORD*

• SAMPLE: All States and Their Major Cities; Every Year

• DATA: Build off of Census Accounts

• METHODOLOGY: Common Methodology

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"THE (FED) DATA BASE ON S/L FINANCES"

IX. THE PAYOFF: *STOP THE MISCHIEF*

☞ *"STATE OF THE STATES" to inform current policy debates.*

- Information *is* Power

    •• Lessons from Uganda

    •• Lessons from Philadelphia

☞ *"DATA BASE ON S/L FINANCES" to inform best (and worst) practices.*

- Rules that Work: No Carry BBR's with Independent Courts

- Executive Powers: Vetoes with Veto Coalitions

- Bailouts and Bankruptcy

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TOGETHER (Perhaps) WE CAN STOP THE MISCHIEF