Institute for Truth in Accounting

THE FINANCIAL STATE OF THE STATES

For comparative purposes data in this report represents fiscal year 2009, because all of the states have not issued their 2010 financial reports as of the issuance date of this report.

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Dedicated to the memory of Ralf Seiffe, who always provided us with steady encouragement and support. He was fundamental in the research for and writing of this report. Ralf is irreplaceable, but we know he would want us to go on and so to honor him we will.

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EXECUTIVE SUMMARY

Because of the lack of truth and transparency in budget processes, the public has not been aware that states have been accumulating debt. The accumulation of more than $1 trillion of debt has occurred despite the existence of a balanced budget requirement in all but one state. As a result, 46 states are in financial holes.

What now exists is a "taxpayer's burden" representing the amount each taxpayer would have to send to their state's treasury to fill in that financial hole. If state budgets had been balanced, no taxpayer's burden would have accumulated. Taxpayer burdens exist because costs, including those for employees' retirement benefits, were incurred by states in prior years, but the responsibility for paying these costs has been shifted unto future taxpayers.

The Institute for Truth in Accounting (IFTA) has expressed its concern and sounded the alarm for years about the financial conditions of the states. This study confirms that these concerns and the concerns of worried citizens are justified. The IFTA has identified the top five "Sinkhole" states, each has a per taxpayer burden of more than $23,000. Connecticut's taxpayer's burden is $41,200, New Jersey - $34,600, Illinois - $26,800, Hawaii - $25,000 and Kentucky - $23,800. In contrast, the IFTA identified five "Sunshine" states. Nebraska, North Dakota, Utah and Wyoming have a per taxpayer surplus, because they have more than adequate assets available to pay their obligations. South Dakota is included as a "Sunshine States", because it has the smallest taxpayer's burden among the other states. Data for this report is derived from states' 2009 financial reports and related retirement plans' actuarial reports.

The principal reason for the creation of taxpayer's burdens is the deficient accounting policies used to calculate state budgets and financial reports. While Generally Accepted Accounting Principles set by the Governmental Accounting Standards Board are improving, this study found that states have maintained more than $823.7 billion of retirement systems' liabilities off-balance sheet. As a result, it is realistically impossible for even the most sophisticated user of such reporting to independently determine and judge a public sector entity's financial condition.

This study appears to be the first of its kind. While other organizations have compared the states' unfunded retirement liabilities, only this study determined the overall financial condition of every state. Each state's financial commitments, including all unfunded retirement liabilities, were compared to the assets available to pay these. Another key feature of this analysis, and one the IFTA believes advances the body of public knowledge regarding state finances, is the assessment of each state's share of the unfunded liability related to each and every multi-employer, cost-sharing pension and Other Post Employment Benefit plan.

To bring truth and greater transparency to state budget processes the Institute has developed a budgeting system called "Full Accrual Calculations and Techniques". FACT based budgeting would require governors and legislatures to recognize expenses when incurred regardless of when they are paid. This improved method of accounting is discussed in detail in this report. The IFTA believes that if FACT based budgeting had been used by state governments over the past 50 years, the states would not be in the high financial risk conditions they are in today.

July 27, 2011

THE FINANCIAL **STATE OF THE STATES**

Institute for Truth in Accounting

TOP 5
Sunshine States

1 Wyoming
Assets Left After Bills Are Funded:
$3,043,191,328
Each Taxpayer's Surplus: $15,100

2 North Dakota
Assets Left After Bills Are Funded:
$1,507,664,000
Each Taxpayer's Surplus: $6,400

3 Nebraska
Assets Left After Bills Are Funded:
$1,488,332,000
Each Taxpayer's Surplus: $2,500

4 Utah
Assets Left After Bills Are Funded:
$1,593,907,000
Each Taxpayer's Surplus: $2,200

5 South Dakota
Money Needed To Pay Bills:
$85,021,000
Each Taxpayer's Burden: ($300)*

BOTTOM 5
Sinkhole States

46 Kentucky
Money Needed To Pay Bills:
$29,028,734,000
Each Taxpayer's Burden: $23,800

47 Hawaii
Money Needed To Pay Bills:
$11,490,322,000
Each Taxpayer's Burden: $25,000

48 Illinois
Money Needed To Pay Bills:
$110,631,129,000
Each Taxpayer's Burden: $26,800

49 New Jersey
Money Needed To Pay Bills:
$106,613,338,000.
Each Taxpayer's Burden: $34,600

50 Connecticut
Money Needed To Pay Bills:
$53,355,852,000
Each Taxpayer's Burden: $41,200

* South Dakota is in the top 5 even though each taxpayer has a relatively small burden.

For comparative purposes data in this report represents fiscal year 2009, because all of the states have not issued their 2010 financial reports as of the issuance date of this report.

TOP 5 SUNSHINE STATES

If the electronic version of this document, the individual Sunshine States Financial State of the State can be found at: www.truthinaccounting.org.

BOTTOM 5 SINKHOLE STATES

If the electronic version of this document, the individual Sinkhole States Financial State of the State can be found at: www.truthinaccounting.org.

INTRODUCTION AND BACKGROUND

The Institute for Truth in Accounting (IFTA) was formed in 2002 to encourage the federal government to issue financial information in a manner that allows the public and elected officials to make informed and knowledgeable policy decisions. The IFTA determined that recognizing the short term and long term financial consequences of public decisions would lead to a more sustainable government.

In 2005 IFTA supporters encouraged the organization to analyze budgeting and accounting practices in its home state of Illinois. Despite the state's constitutional requirement to balance the budget, this study exposed a reported cumulative spending deficit of $20 billion. IFTA researchers also discovered that Illinois does not report all liabilities for public employees' pension and other post-employment benefits, such as health care. When those liabilities were included, IFTA's analysis showed the state was really more than $70 billion in the hole. To make matters worse, Illinois habitually delays issuing its year-end financial report until after the next fiscal year's budget process has been completed. That prevents citizens and public officials from having important information, leading to uniformed public policy decisions.

These findings called for a similar study of all 50 states' budgeting and accounting practices. This project investigated both the methods states use to calculate their budgets and the accounting principles they use to create their Comprehensive Annual Financial Report (CAFR). Results from this study were published in February 2009 in "The Truth about Balanced Budgets – A Fifty State Study." IFTA researchers determined that every state except Vermont has a balanced budget requirement, but almost all run annual deficits in the millions and some cases billions of dollars.

IFTA researchers found deficient budgetary and accounting rules which in general overstated revenues and understated expenses. Budgets systematically ignored some costs that were incurred in the budget year, but will not be paid until future years. It was also determined that the accounting principles available to states allowed omission of some direct liabilities from their balance sheets.[i]

Among the catalog of questionable budgeting and accounting techniques was the treatment of pensions and other post-employment benefits, such as retirees' health care benefits. Budgets and the associated financial accounting actively ignored the true costs of compensating public sector workers. The reason these costs were not considered or reported in the states' primary accounting statements is because state officials use antiquated accounting principles to calculate state budgets. IFTA's study found that under these principles states report balanced budget while very large debts and deferred liabilities were accumulated.

All levels of government derive their just powers from the consent of the governed. This imposes a special duty on government officials to report their actions and the results of those actions in ways that are truthful and understandable by the electorate. Providing accurate, useful and timely information to citizens, the news media and other governmental officials is an essential part of governmental responsibility.

[i] In state government accounting a "balance sheet" is called a "Statement of Net Assets."

The opaqueness of the financial information reported in state budgets and financial reports make it difficult for state governments to meet this responsibility. Our Fifty State projects, which include research done for "The Truth about Balanced Budgets" and this study have confirmed that view and have indicated the necessity of further investigation and analysis of the states' fiscal conditions.

This is the motivation and foundation for the non-partisan mission of the IFTA: To compel governments to produce financial reports that are understandable, reliable, transparent and correct. The IFTA is a non-profit, politically unaffiliated organization composed of business, governmental and academic leaders interested in improving public and private sector financial reporting. The IFTA makes no policy recommendations beyond improvements to budgeting and accounting practices that will enhance the public's understanding of their government's financial matters.

FINDINGS

SUMMARY OF FINDINGS

Faulty Budgeting and Accounting Principles Are the Primary Cause of States' Financial Distress

- Accounting rules have not kept up with growing state missions and associated costs.
- Antiquated budgeting rules and accounting standards are used to calculate balanced budgets.
- Hundreds of billions of dollars of unfunded retirement systems' liabilities are not reported on the face of states' balance sheets.
- The accounting standard requiring states to disclose their amount of contributions into multi-employer, cost-sharing pension plans, which include state and local governments, is being interpreted differently in various states.
- Current compensation costs are pushed onto future taxpayers.
- The assumptions used to calculate unfunded retirement systems' liabilities are unrealistic and understate liabilities, as well as the contributions needed to fund promised benefits.
- The financial information for state organizations, known as "component units," is not clearly disclosed in the financial reports of states.
- Financial and actuarial data is not available in a timely manner.

Accounting Rules Have Not Kept Up with Growing State Missions

The assumed missions of state governments continue to expand over time, to embrace a wide array of programs and other forms of commitments that attempt to provide direct assistance to their constituents, and to their own employees. That is, not only has the scope of the services state governments attempted to provide greatly expanded; so too has public sector employment. As a result, states now commit themselves to a myriad of nearly open-ended liabilities, including permanent commitments obliging them to pay benefits to employees and to eligible recipients regardless of the amounts that may be available in any fund originally established to pay for them.

Therefore, spending commitments being made now have ramifications far out into the future. Unfortunately, how state governments are reporting these future obligations has not, in IFTA's view, kept up with these ever expanding mission changes. Indeed, IFTA's research shows that state and local governments are making more and more financial commitments using data that does not accurately account for or recognize the true costs of the commitments being made.

Unfortunately, the method to calculate state budgets has not evolved. Fund, or cash basis, accounting was appropriate for state missions as they were a century ago. Created in the nineteenth century as the standard accounting method for public entities, this cash-basis system establishes separate *funds* to track and pay for various state functions. Legislatures used this technique to control spending on bridges, roads and other projects by appropriating money into a specific fund for each project. This method allowed only the money in the designated fund to be used for that project and only to the extent that the fund had a positive balance. This effectively controlled the purpose and the amount devoted to any project. When a bridge or a road was to be built, the associated costs were determined before the first shovel was turned and the total cost was finite. Knowing this, the legislature could then appropriate money to a project and let it proceed. If the money ran out before the bridge was complete, work would stop until new funds were appropriated. This self-liquidating feature created self-enforcing controls on spending and gave rise to the notion that the executive branch could not spend more than the "funds available".

States Are Using Antiquated Budgeting Rules

As documented in our last study, and referenced above, states continue to use historical cash-based fund accounting. For those functions that do not relate to a specific project with an associated fund, states have established a "General Fund" which typically has become the primary focus of state budgets. The budgets of specific projects and the General Fund are primarily created using "checkbook" accounting. The calculations used to verify a "balanced budget" include only the checks that will be written and the funds that may be deposited in the state's General Fund during the budget year. Our "The Truth about Balanced Budgets" study outlines the budget techniques used under this system. (1)

Some of these budgetary tactics include:

- Reporting loan proceeds as "funds available". Case in point, Illinois sold bonds in 2003 and used part of the proceeds to make pension fund contributions. California supposedly balanced its budget by borrowing from future lottery earnings in 2009.
- "Sweeping" funds from accounts with specified purposes into the General Fund. Using this tactic, Illinois claims additional budgeted funds are available when money is transferred from trust funds to the General Fund to pay bills and claims.
- Selective use of accrual accounting. Illinois used this ploy, when the state refinanced pension debt at a lower rate and immediately recognized the 20 years' interest savings as budgeted funds available, while some current compensation costs will be included in future budgets when the related retirement benefit checks are written.
- Selling or leasing state property, which provides an instant infusion of cash used to plug budget holes at the expense of a long term revenue stream. Some would have a positive view about selling state property, because if the property is in the hands of the private sector, then property taxes could be charged. But the financial impact over time is not being truthfully reported.
- Tobacco settlement securitization in which states sold securities based on the expected future value of payments from the tobacco settlement. Because securities proceeds were used to pay current bills, states sacrificed longer term revenue streams and accounted for them as current funds available.
- Simply not paying bills if money is not available in the checking account by the last day of their fiscal year. For most states this is June 30.

Cash accounting is an antiquated accounting method. It is simply inappropriate for state governments with expanding educational, health and welfare missions, because it does not achieve accounting's most basic mission of matching revenues and costs. State budgeting using short-term cash basis numbers when making long-term commitments is a recipe for financial disaster as the evidence in this report will show.

On the other hand, accrual accounting recognizes expenses when incurred, regardless of when paid, and revenues when earned, regardless of when received. The use of accrual accounting principles in the budget process would acknowledge the political and economic realities of the Twenty-first Century.

Current Compensation Costs Have Been Pushed onto Future Taxpayers

The largest annual cost incurred by states is employees' compensation. Included in employees' compensation packages are benefits, such as health care, life insurance and retirement benefits, such as pension and Other Post Employment Benefits (OPEB). These benefits are earned each day an employee works and the cost of these benefits accumulates every day as well. As these benefits are promised and have been earned, a liability is created that will be paid sometime in the future. Prudent management demands that the value of this liability be estimated, and assets provided, to make sure the payments can be made when they come due.

Because of the historical use of cash basis accounting, with its focus on checks written today, most retirement benefits, that will be paid in the future, have been ignored in budget calculations. Some ask, "Those payments won't have to be made for 30 years, so why worry about them now?"

One way to think about this is to compare it to a credit card balance. When one uses a credit card, the product or service bought is consumed in the present with the promise that the cost will be paid sometime in the future. When the bill from the credit card company arrives, the cardholder has the choice to pay off the balance or to pay only some portion of the balance. If the cardholder chooses to pay only a portion of the balance, then the money that would have gone to pay the entire balance can be spent on something more gratifying than paying debt. But because the cardholder makes the decision to pay the balance in the future does not negate the fact that the product or service was consumed when the charge was made.

If a balance is left on the card, then the cardholder makes an implicit decision to devote some future portion of his earnings to pay the balance and the interest that will accumulate between the time of the purchase and the time it is paid. Imagine what would happen to the balance on the card if the cardholder began to pay less than the minimum payments or even skipped payments in some months—or even for several years? Then the cardholder will be penalized having to pay the original amount of the item purchased *plus* interest and penalties.

In a similar way, states are "charging" some current compensation cost to the retirement plans' "credit card". When employees work they provide current services to the state. The salary portion of the compensation cost is being paid in the current payroll period while the retirement benefits' portion is being charged to the state's credit card. Actuaries determine the state's retirement plans' "credit card" balance and calculate the minimum payments or contributions. The balance is called the "Unfunded Actuarial Accrued Liability". A state has the choice to pay off the unfunded balance or to pay only some or all of the contributions. If the state chooses to pay only a portion of the balance, then the money that would have gone to pay the entire balance can be spent on something that citizens would view more favorably than paying money into the retirement plans. But because the state makes the decision to pay the balance in the future does not negate the fact that the retirement benefits' portion of the compensation cost was incurred when the employees earned them.

To the extent the retirement plans are not funded, the state makes an implicit decision to devote some future taxes to pay the balance and the interest that will accumulate between the time the compensation cost was incurred and the time the benefits are paid. But most states do not even pay their minimum contributions and a few states have skip their retirement plan contributions altogether. Future taxpayers will be burdened with paying the unfunded retirement promises *plus interest* without receiving any services for those tax dollars.

This is in direct conflict with the reason for states' balanced budget requirements---to maintain inter-generational equity.

What's worse, in the case of pensions and other future benefits, is that current accounting rules have allowed states to ignore the total amount of the liabilities associated with most of these accumulating costs. That's like your credit card company sending you a statement without a balance and telling you all you need to focus on are your minimum payments. The effect is to create the illusion—for individuals and states—that they can continue to spend and they don't need to worry about their credit card balances, as long as they have enough to pay their minimum payments or contributions.

Retirement Liabilities Are Calculated Using Unrealistic Assumptions

States use professional actuaries to estimate the pension and retirees' health care liabilities and the contributions needed to fund promised benefits. These actuaries use a number of opinions about future events to make their estimations. Taken together, these opinions are known as the actuarial assumptions. Actuarial assumptions integrate unknown but somewhat predictable events such as employee retirement ages, increases in the benefit structures, costs for future medical care and a host of other cost drivers. In addition actuaries estimate the future earning power of assets and calculate what investments must be made today to have the money available to pay promised benefits in the future.

Actuarial assumptions are used to calculate the value of assets retirement plans have on hand to pay benefits. IFTA researchers found that some plans use what is called "smoothing" to calculate this value and the contributions needed to adequately fund future benefits. Smoothing calculates the value of a retirement plan's assets at the average market value over a period of time, usually 5 years, attempting to adjust for market gains and losses. Because of the recent market crash, this method results in assets being valued in excess of current market values.

There is a great deal of risk involved in offering employees' retirement benefits, especially under defined benefit plans. One of the largest risks is the fluctuation in the market value of plan assets. The use of smoothing techniques to determine the actuarial value of plan assets masks this risk.

This risk should be highlighted, not hidden, from the public. A drop in market value of plan assets may result in the government having to provide additional resources to adequately fund guaranteed benefits. Taxpayers will be responsible to provide these additional resources, therefore they must be informed of this possibility in the most transparent way possible by requiring states to use the current market value of assets.

IFTA researchers discovered legislatures may manipulate assumptions to make plan funding appear better. For example in Illinois after the severe downtown in the markets, legislation was passed requiring the state's five retirement systems to change valuation methods to begin smoothing market gains and losses on investments over a five-year period beginning with the valuation for the year ended June 30, 2009. With this change the June 30, 2009 funding ratio of the Teachers' Retirement System was reported as 52.1 percent. Without this change the funded ratio would have been reported as 39.1 percent. (2)

Another example of the impact of smoothing versus market value can be found in the annual valuation of the Teachers' and State Employees' Retirement System of North Carolina. As of December 31, 2009 the pension fund asset value was assumed to be over $55.8 billion using smoothing, while the actual market value was $50.4 billion. (3) This is a more than 10% difference.

Actuaries also use what is known as a present value calculation to estimate a plan's future benefits and the contributions that will be needed to pay those benefits. The present value of the pension and OPEB liabilities is the amount that would have to be invested today—at an assumed rate of return—to ensure money will be available to pay future benefits. The assumed rate of return is the actuarial assumption of what plan assets are expected to earn before being used to pay benefits. A higher rate of return requires smaller contributions from the employer and results in the estimation of a lower liability. Conversely a lower rate of return requires the state to contribute more into the plan to pay promised benefits and increases the estimate of the liability. Most state pension plans use a rate of return of more than 7%. Many argue that this rate of return is too high, especially considering the recent downturn in the economy and the market value of plan assets.

Some state plan administrators are beginning to express their concerns about the reasonableness of the assumed rate of return. The executive director and the president of Montana's Public Employees Retirement system commented, "The economic outlook of the plans is based primarily upon investment earnings. For fiscal year 2009, the PERS-DBRP experienced a negative 20.69 percent rate of return; for the last three years an average annualized rate of return of negative 3.80 percent; for the last five years an average annualized rate of return of 0.98 percent; and for the last ten years an average annualized rate of return of 1.89 percent. These longer term returns are below the annual actuarial return assumption of 8.00 percent and act to erode the funded status of the plan." (4)

Like many states, the Colorado Public Employees' Retirement Association uses an 8% rate of return assumption to calculate its unfunded liability and funding requirements. In the Management's Discussion and Analysis section of the system's CAFR the following observations are made, "For the year ended December 31, 2009, the total fund had a rate of return of 17.4 percent on a market value basis. Colorado PERA's annualized net rate of return over the last three years was negative 1.5 percent, over the last five years it was 3.9 percent, and over the last 10 years it was 3.3 percent." (5)

The state of Alaska provides greater transparency in this area by showing two amounts of unfunded liabilities based upon interest rate assumptions. A schedule in the actuarial report disclosed that if the OPEB plan's assets were valued using a discount rate of 8.25%, then the unfunded liability was $3.2 billion. If the plan used a discount rate of 4.5% return, the unfunded liability would increase to more than $8.6 billion. (6) The latter rate is in line with current "risk free" interest rate assumptions, which some believe are more responsible for retirement plans.

A 2007 United States Government Accountability Office study highlighted the magnitude that various rates of return have on the pension plan contributions state and local governments would have to make to fully fund their pension obligations on an ongoing basis. Their "higher return" scenario (6% rate of return) required contributions of 5% of salaries per year. Their "base case" (5% rate of return) required contributions of 9.3% of salaries per year. Their "lower-return" scenario (4% rate of return) required contributions of 13.9% of salaries per year and their "risk-free" scenario (3% rate of return) required contributions of 18.6% of salaries per year. What may appear to be small differences in interest rates generate significant differences in contributions required to fully fund plans. The study noted that "real returns on various investment instruments over the last 40 years" was 5%. (7)

A great deal of discussion is currently underway involving the appropriate discount rate. In future work the IFTA hopes to analyze the impact of using more realistic rates of return on retirement plans' unfunded liabilities and funding requirements. Considering the current market the rate of return used by most states is fraught with risk. The number of impending "baby boom" retirees exacerbates this problem, requiring fund payouts potentially before the market fully recovers.

Billions of Dollars of Liabilities Are Maintained Off-Balance Sheet

Even applying the unrealistic assumptions used by states to calculate their unfunded retirement liabilities, IFTA researchers found the states have accumulated pension and OPEB liabilities totaling more than $904.4 billion. This study determined only $80.7 billion of these liabilities had been reported on state balance sheets. Therefore more than $823.7 billion of these liabilities are maintained off-balance sheet.[ii] This lack of transparency is due to the reporting requirements established by the Governmental Accounting Standards Board (GASB).[iii]

Until 1997 states were not required to disclose their unfunded pension liabilities. That year GASB instituted an accounting standard that required states to disclose some unfunded pension liabilities. States are required to slowly (over 40 years) to add the unfunded liabilities onto their balance sheets. The standard also requires the unfunded liabilities incurred by benefit enhancements to be added over 30 years.

In addition the standard required states to include on their income statements,[iv] as "pension expense", the cost of retirement benefits employees earn each year. Also included in pension expense is the amortization of benefit enhancements and prior costs, including the pre-1997

[ii] See Appendix IV Schedule of Total Bills for detail by state.

[iii] Like FASB does for corporations, GASB sets Generally Accepted Accounting Principles for state and local governments.

[iv] In state government accounting an "Income Statement" is called a "Statement of Activities".

liabilities. The combined of these two elements, plus interest, is known as the *Annual Required Contribution* (ARC). With certain adjustments the ARC is the employer's entire required contribution[v] for the year. If a state government habitually makes contributions into its pension plan in the amount of its ARC, it will eventually fully fund pensions. If it makes a contribution which is less than the ARC, this deficiency becomes a *Net Pension Obligation (NPO).* The Net Pension Obligation is reported on the state's balance sheet and accumulates each year the ARC is not fully provided. But only the sophisticated readers of the state CAFR may know that this liability as reported on the balance sheet is not the state's total unfunded pension liability. IFTA researchers found that <u>pension related liabilities of almost $347 billion do not appear on state balance sheets.</u>

An even larger liability is the states' obligation for Other Post-Employment Benefits, the majority of which are retirees' health care benefits. It was not until 2008 that GASB instituted reporting requirements for this liability. Until that time most states had not even calculated these liabilities, which represent the future health care benefits their employees had *already* earned as a part of compensation. For the most part, states have not set aside money to pay these benefits, relying on a "pay-as-you-go" system. Like the pension liabilities, rather than putting the OPEB liabilities on state balance sheets at one time, states can amortize the pre-1998 unfunded OPEB liabilities up to 30 years. To the extent the state does not contribute the calculated OPEB expense to the related plan, a *Net OPEB Obligation (NOO)* is reported on the state's balanced sheet. This study found that <u>OPEB related liabilities of almost $477 billion do not appear on state balance sheets.</u>

To calculate each state's financial condition this study addresses the pension and OPEB under-reporting problems by considering the total unfunded liabilities that actuaries have calculated states owe to date. In governmental accounting these liabilities are called "Unfunded Actuarial Accrued Liabilities". While IFTA researchers often had difficulty finding actuarial valuations, they persevered and analyzed each pension and OPEB plan, and included the applicable unfunded benefits liabilities in the calculation of each state's financial condition.

Determining the states' retirement liabilities was often difficult, due the opacity of the CAFRs and actuarial reports for state benefit plans as well as their component units. Moreover calculation of some states' pension liability is made even more difficult, if not impossible, because the state is involved in a multi-employer, cost-sharing pension system. Under such a system a number of employers, which may include municipalities, universities, colleges school districts and the state, have created one system that combines their pension assets and liabilities. Very limited information about the multi-employer, cost-sharing pension system is required to be included in the state's CAFR. In the vast majority of instances, the state's portion of the Unfunded Actuarially Accrued Pension Liability is not included.

More detail is provided in the Methodology section below.

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[v] This is the "entire required contribution" states are mandated by GASB to report on their Income Statements, not necessarily the amount that would be required to adequately fund the pension benefits according to sound actuarially calculations.

Pension Contributions Disclosure Is Unclear

Accounting for Pensions by State and Local Governmental Employers (GASB 27) requires a state that participates in a multi-employer, cost-sharing plan to disclose certain information in notes to its financial statements. Among these disclosures are its contractually required contributions (CRCs) to the plan and the percentage of the state's CRC actually contributed for the reported year and for the two preceding years. According to GASB 27 these contribution amounts should only include the state contributions, not any contributions made by other employers in the plan.

In a few states IFTA researchers found the state's contributions were not disclosed as required by GASB 27, so the researchers attempted to obtain the information from the state's CAFR preparer. It is perhaps shocking, to say the least, to be told (as IFTA staff was) by some financial statement preparers that they did not even know how much the state's share of the unfunded liability was, nor did they know how much the state contributed as an employer. Perhaps even more remarkable was when IFTA researchers attempted to obtain this information from the staff of the retirement plan's administrators; we learned that even they did not have the amounts readily retrievable. Explained one state pension plan's finance manager, "We do not break out UAAL (Unfunded Actuarial Accrued Liability) or contributions by employer type. Therefore, the information you are requesting is not available. You will need to use the state's share of plan active members to calculate the state's share of the UAAL."

To say that the plan does not break out contributions by employer seems to be essentially admitting that the plan administrator does not know the amount of money received by the plan and from whom.

The IFTA believes some states were not in compliance with GASB 27, because of confusion between the disclosure requirements of GASB 27, which requires the state as an employer to disclose of the *state's* contributions; and GASB 25, which requires disclosure of the contributions made by all the plan's employers.

According to GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, a state has an additional disclosure requirement when a state handles a multi-employer, cost-sharing plan as a state trust fund. In this case a "Schedule of Employer Contributions" may be required in the state CAFR's Required Supplemental Information (RSI). The RSI Schedule of Employer Contributions should include contributions from all employers. This requirement is waived if the RSI information is included in a publicly available stand-alone financial report of the plan.

Component Units Disclosure Requirements Are Confusing

For financial reporting purposes state governments distinguish between "Primary Government" and "Component Units." Component units are legally separate, financially accountable entities that include such organizations as colleges, universities, toll roads and other financing authorities.

GASB defines a component unit as one in which state officials appoint a voting majority of an organization's governing body; a state is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the Primary Government. [8]

Balance sheets and income statements in state CAFRs have a column for the "Primary Government" and a separate column for "Component Units". Discretely Presented Component Units, while legally separate from the state, are required to be included in the state financial statements because, as indicated by GASB, "the nature and significance of their relationship with the Primary Government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete." [8] The reporting of Primary Government and the component units is confusing and deters transparency.

Part of this confusion is the fact that the account balances and transactions of all component units are not incorporated in the Component Units column. Some component units, despite being legally separate from the Primary Government, are so intertwined with the Primary Government that they are, in substance, the same as the Primary Government and are reported as part of the Primary Government. Therefore, the account balances and transactions of "Blended Component Units" are not included in the Component Units column. Rather the account balances and transactions of Blended Component Units are "blended" into the Primary Government column. [8]

To calculate each state government's financial condition, IFTA researchers combined the Primary Government's and Component Units' balance sheet accounts. This made it necessary to remove the inter-fund (Due to/Due from) balances, so assets and liabilities would not be overstated. During this process IFTA researchers determined that the schedules of inter-fund balances and transactions for component units in the notes to the CAFR included Discretely Presented Component Units, as well as Blended Component Units. This made it very difficult for even a seasoned accountant to reconcile the inter-fund receivables and payables reported in the Primary Government column and in the (Discretely Presented) Component Units column. For example a schedule of "Due to Primary Government" may include $12 million owed by component units. While on the face of the balance sheet in the "Component Units" column the "Due to Primary Government" would be $5 million, which represents only the amount owed by the Discretely Presented Component Units. The other $7 million owed by the Blended Component Units is not included in the Component Units column, because the Blended Component Units accounts balances are included in the Primary Government account balances. To further complicate this reconciliation some component units' fiscal year ends may not match that of their state, creating a mismatch in fiscal year funds transfers.

IFTA researchers also reviewed the summary balance sheets and income statements found in the front of state financial reports. These summarizies are included in the Management's Discussion and Analysis sections, which according to the GASB, "should introduce the basic financial statements and provide an analytical overview of the government's financial activities". [9] As mentioned above the GASB considers the exclusion of Discretely Present Component Units to be "misleading or incomplete". [8] Yet the summary schedules included in these "analytical overview(s)" did not incorporate the Discretely Present Component Units' financial data.

IFTA researchers also found that critical information for Discretely Presented Component Units' pension and retirees' health care plans are not usually included in the notes of state CAFRs.

Financial and Actuarial Data Is Not Available In A Timely Manner

Despite the need for timely information during decision making processes, such as the budget process, many states issue their Comprehensive Annual Financial Report long after their fiscal year end. The last state to report their June 30, 2009 CAFR was Hawaii. It was issued on October 20, 2010, 477 days after the fiscal year end.

As of July 22, 2011 Hawaii had not issued their fiscal year 2010 CAFR. Illinois' 2010 CAFR was published to the web on July 7, which was after the IFTA's detailed analysis was complete. Therefore for comparative purposes all states' fiscal year 2009 data was used in this report.

Among the most important information included in the CAFRs is the financial condition of retirement plans. These are, in turn, based on actuarial valulations that are usually even more severely out of date. For example analysis shown in 2009 CAFRs implies presentation of 2009 data. In fact these reports actually reflect data from actuarial valuations dated 2008 or before. In today's volatile marketplace, the use of outdated retirement plan data is potentially very harmful. Estimates of current retirement plan balances, calculated using "smoothing" as discussed above, are artificially high given the current market conditions. Therefore current funding requirements, based on these overly optimistic balance estimates, will most likely be insufficient to cover future promises.

RESULTS

UNINFORMED DECISIONS ARE BEING MADE WITH OUT-OF-DATE DATA

The IFTA's research determined that states make critical financial decisions using data that is woefully inadequate in two ways:

- The data in state financial reports and budgets does not accurately recognize all the costs and liabilities associated with pensions and health care benefits. This means users cannot independently judge their state's true financial condition and elected officials balanced budget claims.
- Prior year financial results are often reported too late to use in current budget cycles. The IFTA's prior study found that most states' annual reports were not published until more than eight months after the fiscal year end with nine states publishing annual reports even later than that.

BALANCED BUDGETS RESULT IN BILLS TOTALING $1 TRILLION

This report determined that as of the fiscal year end 2009 states did not have the assets necessary to pay $1,029.8 billion of their bills as they come due. As Appendix III indicates states have only $924.8 billion of assets available to pay $1,954.6 billion of bills as they come due. At that time states had reported only $80.7 billion of retirement liabilities on their balance sheets. A detailed review of actuarial reports and other documents revealed the states' unfunded retirement liabilities totaled $904.4 billion, which indicated that an additional $823.7 billion of unfunded retirement liabilities were maintained off-balance sheet.

A TAXPAYERS' BURDEN EXIST IN FORTY SIX STATES

A major intention of balanced budget laws is that state governments should not be able to shift the burden of paying for current-year services and benefits to future-year taxpayers. This is a significant part of accountability because it reduces the state's ability to incur costs without having an impact on the state's current budget calculations. Yet the IFTA's study found that forty six states have created future taxpayers' burdens.

The main reason for these taxpayers' burdens is that all compensation costs, especially related to earned retirement benefits, have not been included in prior budgets and the money that should have been put aside to provide for these costs was spent elsewhere. As a consequence future taxpayers will have to pay taxes for services and benefits that were received by prior taxpayers.

Evidence of these practices is illuminated in state annual financial reports. As indicated in Appendix IV we identified $383.6 billion of unfunded pension and $520.8 of unfunded retirees' health care liabilities. But only $80.7 billion of these liabilities were reported on the face of state balance sheets. Collectively $823.7 billion of the costs of pension and health care benefits earned and promised have not been included in prior state budgets and financial statements.[vi] Future taxpayers are responsible for the $823.7 billion in unfunded liabilities whether they appear on their state's balance sheet or not.

Taxpayers are also ultimately responsible for unfunded promises on the part of the federal and local governments. For citizens in Bridgeport, Connecticut, using the same methodology, our calculations show that amount to be $634,100 per taxpayer. Bridgeport taxpayers would have to write a check to their city for $27,100, to their state for $41,200 and to the U.S. Treasury for $607,000 to cover government promises already made on their behalf.

TOP 5 SUNSHINE STATES AND BOTTOM 5 SINKHOLE STATES IDENTIFIED

The IFTA has identified the "Top 5 Sunshine States": Wyoming, North Dakota, Nebraska, Utah and South Dakota. Four of the "Sunshine States" were identified as such because these states had an "Each Taxpayer's Surplus", which represents each taxpayer's share of the assets the state had available to cover bills, including retirement obligations. South Dakota was included as a "Sunshine States", because it had the smallest taxpayer's burden among the other states. Each of these state's "Financial State of the State" can be found in the front of this document.[vii]

The IFTA also identified the "Bottom 5 Sinkhole States": Connecticut, New Jersey, Illinois, Hawaii and Kentucky. These states are sinking in debt and like the other 40 states have an "Each Taxpayer's Burden" amount, which represent each taxpayer's share of the money needed to pay the state's bills, including retirement obligations. Each of the Sinkhole State's "Financial State of the State" is also in the front of this document.

Each of state's detailed Financial State of the State is located in Appendix V-Roll Out of the States.[viii]

[vi] See Appendix IV Schedule of Total Bills for detail by state.

[vii] In the electronic version of this document the graphically enhanced versions of the Financial State of the State for each of the "Sunshine States" and "Sinkhole States" can be found at: www.truthinaccounting.org.

[viii] In the electronic version of this document each state's detailed Financial State of the State can be found at: www.StateBudgetWatch.org.

RECOMMENDATIONS

To be informed participants in their democracy citizens must be provided with truth and transparent information. States' efforts to begin digging out from their current financial holes must start with an honest accounting of the governmental entity. Only then can responsible alternatives to place the state on solid financial footing be developed and debated.

RECOMMENDATIONS TO ELECTED OFFICIALS

Responsible budgeting requires accurate and timely data. Truthful budgetary accounting must incorporate all current compensation costs, including the portion of retirement benefits employees earn every year. Accurate accounting requires all real and certain expenses be reported in the state's budget and financial statements when incurred, not when paid. Therefore elected officials should:

- Take the first step to sound financial planning: determine the true financial condition of their state. We have demonstrated how to do this in each state's "Financial State of the State". See Appendix V-Roll Out of the States.[ix]
- Start to follow the intent of your state's balanced budget requirement. Balanced budget requirements exist in state constitutions and/or statutes to prevent current legislatures and governors from passing current period costs onto future period taxpayers. This is a matter of equity; it is simply not fair for one generation to burden a future generation with costs for which no services or benefits are received.
- Recognize that responsible budgeting requires truthful data based upon sound accounting principles.
- Institute Full Accrual Accounting Calculations and Techniques (FACT) based budgeting, which would include all costs when incurred, not when paid. See Appendix VI for features of FACT based budgeting.
- Include in budget calculations the costs and obligations associated with pensions and retirees' health care benefits, which like salaries are a form of compensation.
- Leave actuarial assumptions to professional actuaries.
- Create no additional taxpayers' financial burden and reduce the burden you have inherited as quickly as possible.
- Mandate the issuance of the state CAFR no more than 180 days after fiscal year end.
- Require retirement plans' actuarial valuations be prepared using the same fiscal year end as the state CAFR and issued before the CAFR.
- For states that participate in multi-employer, cost-sharing plans, require the plans' actuaries to calculate and disclose each employer's share of the Unfunded Actuarially Accrued Liabilities and mandate the state CAFR preparer to include this information in the financial report's notes. The CAFR of the Wisconsin Department of Employee Trust Funds for the year ended December 31, 2009 provides a good example of such a disclosure. [(10)]

[ix] In the electronic version of this document each state's detailed Financial State of the State can be found at: www.StateBudgetWatch.org.

RECOMMENDATIONS TO STATE FINANCIAL REPORT PREPARERS

Key Recommendations

- Maintain a record of the contributions the state, as an employer, makes into each retirement plan.
- To comply with GASB 27, disclose in the CAFR notes the contributions the state, as an employer, made into each retirement plan for the reporting fiscal year and two prior years.
- Include the Unfunded Actuarially Accrued Liabilities of all pension and OPEB plans in the state CAFR footnotes.
- If a column for Component Units is presented in the financial statements, then a column titled "Total Government" should also be included. This column would add the amounts in the Component Units column to those of the Primary Government column.
- In the notes to the CAFR prepare separate inter-fund schedules for the account balances and transactions of the Blended Component Units and the Discretely Presented Component Units.
- Incorporate Discretely Presented Component Units in the summarized Statement of Net Assets and Statement of Activities included in the Management's Discussion and Analysis section of the CAFR.

Recommendations for the CAFR

- Present all numbers in a consistent format throughout the report, including notes, using either thousands (000) or Millions (M) to reduce carrying errors. The number of significant digits should be standardized as well.
- Standardize pension and OPEB documents, exhibits and notes for all states and component units.
- Include in the state CAFR links to all of the state's pension and OPEB plans' websites and related actuarial reports.
- Include in the state CAFR links to component units' financial reports, retirement plans and related actuarial reports.
- In the CAFRs or Actuarial Valuation Reports of multi-employer, cost-sharing retirement plans disclose each employer's share of the unfunded actuarially accrued liability, including that of the state. Wisconsin and a few other states have done this. Others should follow suit by directing their actuaries to reveal this level of detail in their reports.
- All exhibits should have columns and rows totaled to the extent they are additive.

Recommendations for the Electronic Version of CAFR

- Publish the electronic version of the CAFR and related documents in searchable pdf format. Users should be able to select and reprint sections of the CAFR of interest to them.
- Include bookmarks (or a clickable table of contents) identifying each section of the electronic version of the CAFR to provide direct access to various parts of the document.
- "Unlock" electronic versions of the CAFR and any subsidiary reports, so analysts can copy and embed exhibits in their own reports.

- Match the page numbers of the hard copy CAFR with the numbers that appear in the pdf software's page number box.

Most of these suggestions do not require GASB action and some states have already begun to make these improvements to their reporting practices. However, GASB could promote the process by including these recommendations in their standards.

RECOMMENDATIONS TO ACCOUNTING STANDARDS SETTERS

Many of IFTA's concerns are being addressed in GASB current exposure drafts - *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*(11) and its companion *Financial Reporting for Pension Plans--an amendment of GASB Statement No. 25.* (12) In these proposals GASB has concluded that there have been significant changes in government-wide accrual accounting since the current standards were created in 1994 and that users of financial reports need standardized presentations. In addition GASB is especially interested in developing "concepts regarding what constitutes a liability and an outflow of resources". The IFTA urges the implementation of these amendments as soon as possible.

Among the major specific proposals in the exposure drafts are:

- That "[P]ensions are a form of compensation, like salaries, which governments provide in return for work." (13) GASB concludes from that observation that pension obligations should be recorded when earned, not when paid. This changes public sector pension accounting from a form of cash basis accounting to accrual basis accounting.
- The pensions earned by employees shall be defined as the *total pension liability.* The presumption is that employers will provide some assets to fund the future payment of pensions. To the extent these are actuarially under-funded, the amendments would define the shortfall as the employer's *net pension liability.*
- Contributions due but not paid would be reported separately, presumably as a payable.
- The IFTA believes that the proposed amendments would require that all pension liabilities be reported on the face of the balance sheet including:
    - The Total Pension Liability
    - The Net Pension Liability, i.e. the plan's total Unfunded Actuarial Accrued Liability.
    - The state's share of the liability related to multi-employer, cost-sharing plans.
    - All component unit plans and their share of multi-employer, cost-sharing plans.
- Use of *The American Academy of Actuarial Standards of Practice* would mostly likely mandate the use of more realistic discount rates to calculate retirement plans' accrued benefits and required contributions. Additionally the choice of methods to calculate accrued benefits would be standardized.
- A lower discount rate, based on a portfolio rate of municipal securities, should be used for the unfunded portion of the Net Pension Liability.
- A more realistic approach to the amortization of prior service costs that relates these costs to the expected remaining tenure of the employees concerned.
- Incorporation and recognition of accrued benefit changes and likely cost of living benefit increases at the time they are created.

In addition to the pension related changes proposed by GASB, we further recommend that GASB adopt the following improvements:

- Extend the disclosure and reporting requirements outlined in the Pension Accounting and Financial Reporting exposure drafts to Other Post-Employment Benefits.
- Require the value of plan assets to be calculated using current market value, not using a smoothing technique.
- Call for each employer's share of Unfunded Actuarially Accrued Liabilities to be included in multi-employer, cost-sharing retirement plans' CAFRs.
- Format the current government-wide Statement of Net Assets and Statement of Activities to include an additional column for "Total Government", which adds the "Primary Government" column to the "Component Units" column.
- Synchronize the fiscal year of the state and its component units. This would eliminate timing differences within inter-fund accounts. This is in line with private sector corporations and subsidiaries being required to use the same fiscal year end.
- Call for the inclusion of Discretely Presented Component Units in the summarized Statement of Net Assets and Statement of Activities included in the Management's Discussion and Analysis section of the CAFR.
- Require the disclosure of information about component units' retirement plans in the state's CAFR.
- Issue a clarification of the GASB 25 and GASB 27 disclosure requirements for contributions into multi-employer, cost-sharing plans. Of special note should be that GASB 27 requires disclosure in the state CAFR notes only the *state contributions* into each multi-employer, cost-sharing plan. However, GASB 25 requires disclosure in a "Schedule of Employers' Contributions" of the contributions made by all employers.

RECOMMENDATIONS TO THE PUBLIC AND PUBLIC INTEREST ORGANIZATIONS

- Encourage your governor and legislators to follow the intent of your state's balanced budget requirement by truthfully balancing the budget.
- Promote accountability of your elected officials by demanding that your state's taxpayers' burden not be increased and be reduced as quickly as possible.
- Voice your support for the GASB's amendments to pension reporting proposals.
- Advocate for state and local units of government to support GASB's amendments to pension reporting proposals and for those governmental units to voluntarily adopt the recommended improvements in the interim.
- Until those changes are made, keep in mind that the liabilities reported on your state's balance sheet (Statement of Net Assets) does not necessarily include the all of the state's pension and retirees' health care liabilities.
- With that caveat, read your state's Comprehensive Annual Financial Report including all notes about retirement systems. To find a link to your state's financial report click on your state on the map at www.StateBudgetWatch.org.
- Understand the financial condition of your state by reviewing its Financial State of the State. A link to your state's 2009 Financial State of the State can found at www.StateBudgetWatch.org. Each state's 2010 Financial State of the State will be available at www.StateBudgetWatch.org when it is completed.
- Demand that state actuarial reports be available to outside analysts. This could be in the form of a link in the electronic version of your state's CAFR and a note in the hard copy version. This will increase transparency regarding assumptions, qualification for the various plans, etc.

- Let governmental officials know you expect them to implement the recommendations to CAFR preparers outlined above.
- Educate legislators on the value of introducing and obtaining sponsors for an act to require truthful accounting in your state and local governments. A pro forma Truth in Accounting Act for Illinois is included in Appendix VII of this document.

METHODOLOGY

A COMPREHENSIVE APPROACH TO ANALYZING STATES' FINANCIAL CONDITIONS

To determine a state's financial condition IFTA researchers used a thorough, detailed approach comparing all of the state's bills, including those related to retirement systems, to all of the state's assets available to pay these liabilities. The results of that comparison are presented in the following "Financial State of the State" presentations.[x]

A key feature of the analysis, and one the IFTA believes advances the body of public knowledge regarding state finances, is the assessment of each state's share of unfunded liabilities related to multi-employer, cost-sharing pension and OPEB care plans. The IFTA determined that a comparison of a state's unfunded retirement plans' liabilities without consideration of the bonds issued to fund plans contributions and the assets available to fund all liabilities would be incomplete.

Specifically IFTA researchers began by identifying all assets, including capital assets (buildings, roads, bridges, parks, etc.) and other assets (cash, investment and money in fund accounts, etc.). Some of these assets are available to pay the state's bills or liabilities, while the use of others are restricted by law or contract and are not available to pay bills. These restrictions include external constraints imposed by creditors, grantors, contributors or other governments, as well as internal legal or constitutional provisions. Researchers then calculated "Assets Available to Pay Bills" by subtracting capital assets and those restricted by law or contract from total assets.

In the calculation of each state's financial condition the assets and liabilities of the Primary Government and its "Discretely Presented Component Units" were included. These units include entities such as state colleges, universities, financing authorities and toll-ways. As indicated in the Kansas CAFR "Discretely Presented Component Units are entities that are legally separate from the state, but are financially accountable to the state, or whose relationships with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete." [(14)]

In most states the Primary Government and Discretely Presented Component Units have balances due from and due to each other. To avoid overstating the state's assets and liabilities IFTA staff removed these receivables and payables.

IFTA researchers then identified "State Bills", which include liabilities disclosed in state financial report, such as accounts payable, bonded indebtedness, as well as pension and OPEB obligations found in the state CAFR, retirement systems' CAFRs and actuarial valuation reports. Only the liabilities incurred to date were included. Then IFTA researchers derived the "Money Needed to Pay Bills" by subtracting the State Bills from the "Assets Available to Pay Bills".

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x In the electronic version of this document each state's detailed Financial State of the State can be found at: www.StateBudgetWatch.org.

The results of IFTA's analysis is expressed as "Each Taxpayer's Financial Burden". This financial burden represents, on a per taxpayer basis and in today's value, the bills a state has elected to fund as they come due rather than when they were incurred. Forty-six states have created an unfavorable financial burden, representing the amount needed to pay the state's obligations per taxpayer. Only four states have an "Each Taxpayer's Surplus," which represents, on a per taxpayer basis, an excess of funds available to be used to meet the state's obligations to citizens, employees and creditors.

A financial burden accumulates when current costs are passed onto future taxpayers. The "Money Needed to Pay Bills" is similar to a term used by government accountants called "Unrestricted Assets". The Money Needed to Pay Bills reported on each state's Financial State of the State can be calculated by subtracting, from the Unrestricted Assets reported on the state government-wide Statement of Net Assets, the additional unfunded retirement liabilities IFTA researchers found have already been incurred, but the state has chosen not to set aside adequate funds to pay benefits.

In the analysis of retirement systems IFTA researchers found many states administer multi-employer, cost-sharing plans that cover employees from more than one state or local government related employer. For example these employers can include different state agencies, counties, cities, universities, colleges and school districts[xi]. In analyzing these types of plans special care was taken to calculate the state's share of each plan's unfunded liability. A few states' actuarial reports disclosed each employer's share of the plan's unfunded liability. But, because current accounting standards do not require such an allocation, many states do not provide such transparency of their multi-employer, cost-sharing plans. In many states IFTA researchers found it necessary to estimate the state's liability based upon the state's share of historical contributions. Some states did not disclose an allocation of plans' liabilities or the state's contributions into such plans. In these cases the state's share of multi-employer, cost-sharing plans' unfunded liabilities were estimated based on the data available, such as the percent of state employees in the plans.

IFTA researchers reviewed other studies of state retirement systems and found that some allocated the total unfunded liabilities of multi-employer, cost-sharing plans to the states. These studies did not recognize that other employers, such as municipalities and school districts, have and will continue to contribute to such plans. For example one study indicated the unfunded liability related to the Public School Retirement System of Missouri was a state liability. IFTA's review of this plan determined that state contributes have been less than one percent of the plan's total contributions. Therefore, the plan's unfunded liability was not included in IFTA's calculation of State Bills.

The IFTA believes that the methods developed and used to complete this report have produced the most precise estimates, that is currently available, of every state's actual assets and liabilities. Each state's "Money Needed to Pay Bills" amount reported in Appendix II is an approximation of the Unrestricted Assets each state would have reported on their 2009 Statement of Net Assets, if the proposed amendments to pension reporting were in place and extended to OPEB reporting. This approximation does not take into consideration the amendment's provisions regarding the assumptions used to calculate the actuarial value of assets or actuarial accrued liabilities.

[xi] After reviewing selected school districts' financial information, if it was determined that the state provided more than 75% of school districts' funding, then the school districts' share of the pension liability was allocated to the state.

DESCRIPTION OF EACH STATE'S FINANCIAL STATE OF THE STATE

Each state's Financial State of the State[xii] is summarized on a page containing three major charts.

The first chart, titled "This State's Bills Exceed Its Assets,"[xiii] summarizes the IFTA's comprehensive assessment of all state assets that could be used to pay state bills.

- "Assets" are those reported on the state's balance sheet.[xiv]
- "Capital Assets" include infrastructure like buildings, roads, bridges and parks that realistically cannot be used to pay bills.
- "Restricted Assets" are those assets that are restricted by law or contract. See a detailed definition in the Methodology section of this report.
- "Assets Available to Pay Bills" is the amount left after subtracting Capital Assets and Restricted Assets from total Assets.
- "Bills" is the amount of accumulated debt and unfunded promises the state has made per the third chart.
- "Money Needed to Pay Bills"[xv] is calculated by subtracting Bills from Assets Available to Pay Bills.
- "Each Taxpayer's Financial Burden" is the Money Needed to Pay Bills divided by the number of state taxpayers. The number of each state's taxpayers is based on the number of federal filers who paid federal taxes. [(15)] This amount is to be approximates the number of households per state.

The second chart, titled "All Liabilities Are Not Clearly Disclosed," highlights the state's retirement obligations by showing accumulated compensation costs that were not included in prior budgets or financial statements.

- "Net Reported Liabilities" is derived from third chart.[xvi]
- "Additional Retirement Obligations" is the difference between the Reported Retirement Liabilities and Unfunded Pension Benefits Due and Unfunded Retirees' Health Care Benefits Due shown in the third chart.
- "State Bills" is derived by adding these two items together.

[xii] Each state's detailed Financial State of the State can be found in Appendix V - "Roll Out of the State." If this is an electronic version of this document, then each state's detailed Financial State of the State can be found at: www.StateBudgetWatch.org.

[xiii] The wording on the charts for the Sunshine States (Wyoming, North Dakota, Nebraska and Utah) will be different, because they have assets to pay their bills. The title of this chart in those states is "This State Has the Money to Pay Its Bills."

[xiv] Reported assets are adjusted for Net Pension Assets and Net OPEB Assets, and the receivables between the Primary Government and its Discretely Presented Component Units.

[xv] The Sunshine States have "Assets Left after Bills are Funded".

[xvi] Reported liabilities are adjusted for Net Pension Liabilities and Net OPEB Liabilities, and the payables between the Primary Government and its Discretely Presented Component Units.

The third chart[xvii] titled, "'State Bills" includes:

- o "State Bonds" found in the state CAFR.
- o "Other Liabilities" include accounts payable and other liabilities reported on the Statement of Net Assets.[xviii]
- o "Less: Debt Related to Capital Assets" is subtracted because in determining assets available to pay state bills, capital assets were not included.
- o "Net Reported Liabilities" is the sum of the three items above.
- o "Less: Reported Retirement Liabilities"is the amounts of Net Pension Obligation (NPO) and Net OPEB Obligaiton (NOO) reported on the Statement of Net Assets. Descriptions of the NPO and NOO can be found earlier in this report. [xix]
- o "Unfunded Pension Benefits Due" represents the unfunded pension liabilities calculated as described in the Methodology section of this study. This amount includes the unfunded pension liabilities disclosed in the state CAFR's notes and required supplemental information, and the state's component units' unfunded pension liability, and the state's share of the unfunded pension liabilities of mutli-employer, cost-sharing pension plans.
- o "Unfunded Retirees' Health Care Benefits Due" represents the unfunded Other Post-Employment Benefits (OPEB) liabilities calculated as described in the Methodology section of this study. This amount includes the unfunded OPEB liabilities disclosed in the state CAFR's notes and required supplemental information, and the state's component units' unfunded OPEB liability, and the state's share of the unfunded OPEB liabilities of mutli-employer, cost-sharing pension plans.
- o "State Bills" is the Net Reported Liabilities, minus the Reported Retirement Liabilities, plus the Unfunded Pension Benefits Due and the Unfunded Retirees' Health Care Benefits Due.

[xvii] This section is not included in the more graphically enhanced version of the Financial State of the State produced for each of the Bottom 5 Sinkhole States or Top 5 Sunshine States. These enhanced versions are at the beginning of this report. The detailed Financial State of the State with this section can be found in Appendix V - "Roll Out of the State." If this is an electronic version of this document, then each state's detailed Financial State of the State can be found at: www.StateBudgetWatch.org.

[xviii] Other liabilities are adjusted for Net Pension Assets/Liabilities and Net OPEB Assets/Liabilities, and payables between the Primary Government and its Discretely Presented Component Units.

[xix] The Unfunded Pension Benefits Due includes the Net Pension Obligations amount reported as a part of the state's other liabilities. The Unfunded Retirees' Health Care Benefits Due includes Net Other Post-Employment Benefit Obligations reported as a part of the state's other liabilities.

APPENDICES

Appendix I – Graph of Worst 25 States Taxpayer's Burden

Appendix II – Graph of Top 25 States Taxpayer's Burden (Surplus)

Appendix III – Financial State of the States Schedule

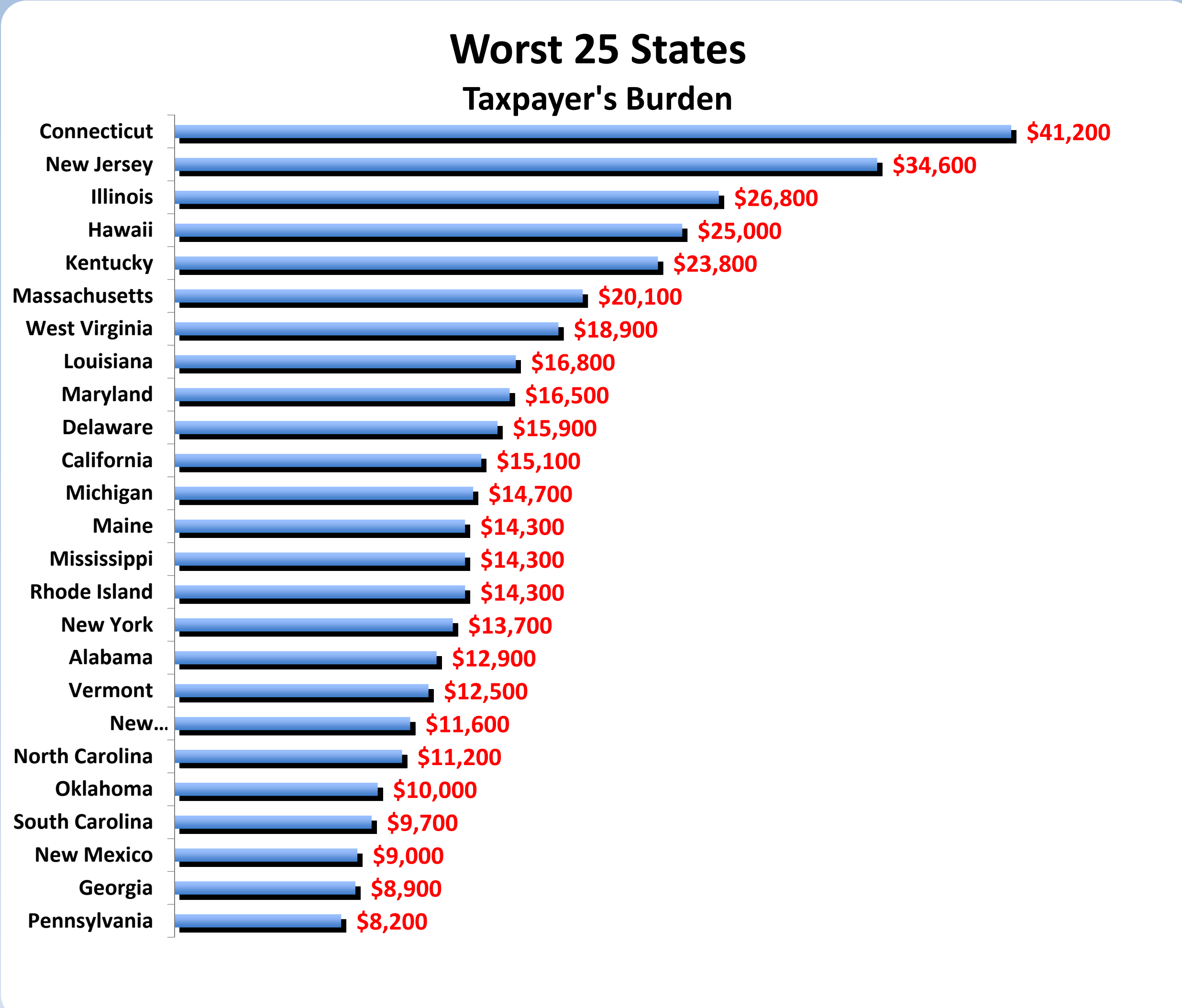
Appendix IV – Schedule of Total Bills

Appendix V – Roll Out of the State

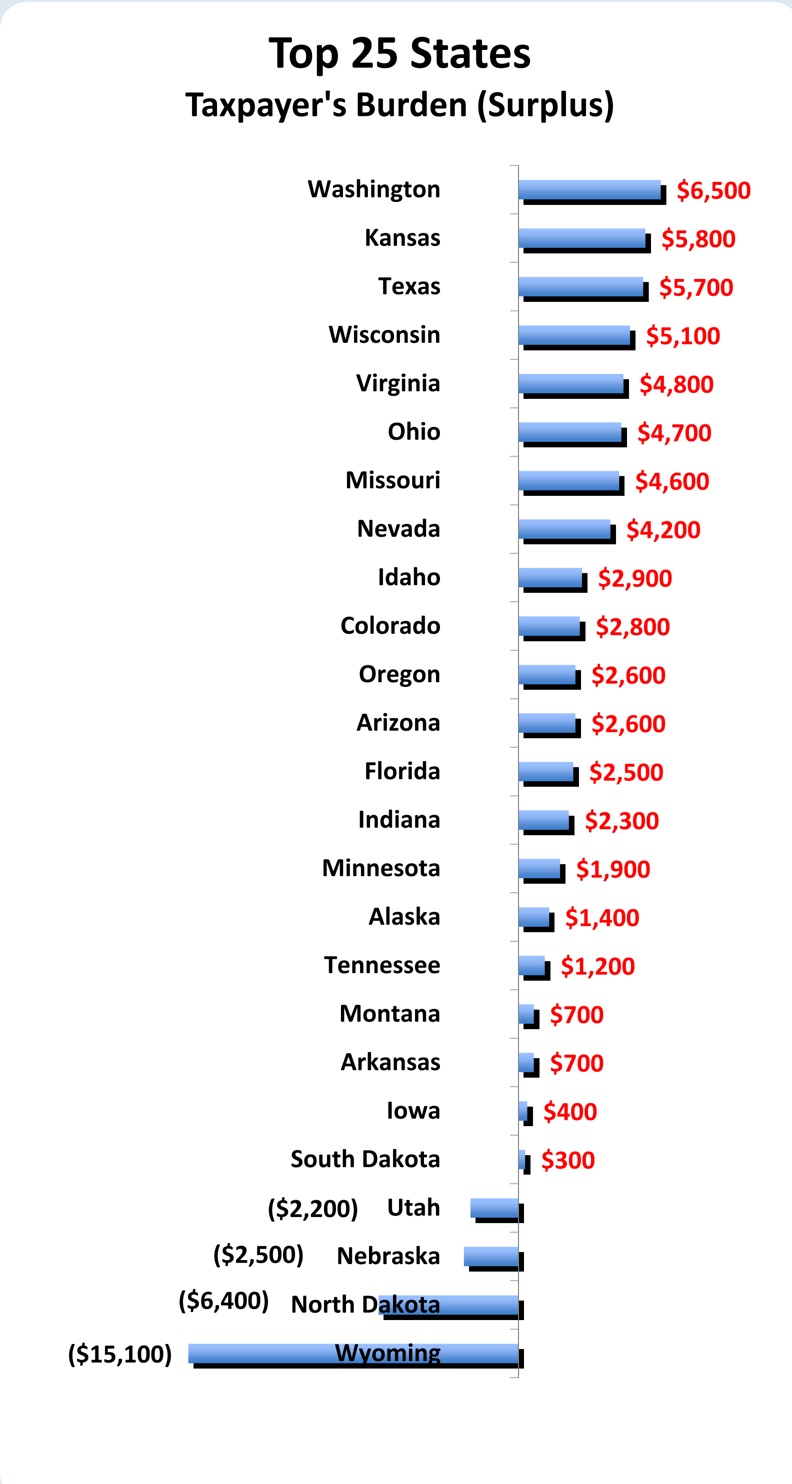
Appendix VI – F.A.C.T. Based Accounting and Budgeting

Appendix VII – Pro Forma Truth in Accounting Act

APPENDIX I


Worst 25 States
Taxpayer's Burden
Connecticut
$41,200
New Jersey
$34,600
Illinois
$26,800
Hawaii
$25,000
Kentucky
$23,800
Massachusetts
$20,100
West Virginia
$18,900
Louisiana
$16,800
Maryland
$16,500
Delaware
$15,900
California
$15,100
Michigan
$14,700
Maine
$14,300
Mississippi
$14,300
Rhode Island
$14,300
New York
$13,700
Alabama
$12,900
Vermont
$12,500
New...
$11,600
North Carolina
$11,200
Oklahoma
$10,000
South Carolina
$9,700
New Mexico
$9,000
Georgia
$8,900
Pennsylvania
$8,200

APPENDIX II


Top 25 States
Taxpayer's Burden (Surplus)
Washington $6,500
Kansas $5,800
Texas $5,700
Wisconsin $5,100
Virginia $4,800
Ohio $4,700
Missouri $4,600
Nevada $4,200
Idaho $2,900
Colorado $2,800
Oregon $2,600
Arizona $2,600
Florida $2,500
Indiana $2,300
Minnesota $1,900
Alaska $1,400
Tennessee $1,200
Montana $700
Arkansas $700
Iowa $400
South Dakota $300
($2,200) Utah
($2,500) Nebraska
($6,400) North Dakota
($15,100) Wyoming

APPENDIX III

THE FINANCIAL STATE OF THE STATES

---------------------------------------(in Billions)------------------------------------

State	Assets	Less Capital Assets	Less assets restricted by law or contract	Assets available to pay bills	Bills	Money needed to pay bills	Each Taxpayer's Financial Burden
Alabama	$42.3	$25.1	$7.1	$10.1	$26.7	$16.6	$12,900
Alaska	$69.6	$9.2	$32.2	$28.2	$28.6	$0.4	$1,400
Arizona	$35.5	$21.9	$6.4	$7.2	$11.7	$4.5	$2,600
Arkansas	$22.0	$12.4	$1.6	$8.0	$8.6	$0.6	$700
California	$266.1	$126.5	$30.7	$108.9	$272.5	$163.6	$15,100
Colorado	$35.0	$18.1	$5.3	$11.6	$16.3	$4.7	$2,800
Connecticut	$29.3	$14.9	$4.4	$10.0	$63.3	$53.3	$41,200
Delaware	$12.0	$7.6	$0.7	$3.7	$8.5	$4.8	$15,900
Florida	$158.3	$84.9	$17.5	$55.9	$69.9	$14.0	$2,500
Georgia	$50.6	$29.7	$5.2	$15.7	$38.8	$23.1	$8,900
Hawaii	$19.6	$13.2	$2.4	$4.0	$15.4	$11.4	$25,000
Idaho	$13.9	$6.3	$2.6	$5.0	$6.2	$1.2	$2,900
Illinois	$55.0	$29.0	$6.4	$19.6	$130.2	$110.6	$26,800
Indiana	$50.5	$18.7	$4.9	$26.9	$31.5	$4.6	$2,300
Iowa	$21.1	$10.0	$4.1	$7.0	$7.5	$0.5	$400
Kansas	$21.1	$14.0	$2.0	$5.1	$10.4	$5.3	$5,800
Kentucky	$42.4	$26.0	$3.9	$12.5	$41.5	$29.0	$23,800
Louisiana	$45.4	$21.7	$8.5	$15.2	$36.3	$21.1	$16,800
Maine	$13.9	$5.3	$1.7	$6.9	$13.3	$6.4	$14,300
Maryland	$44.3	$26.9	$3.5	$13.9	$47.0	$33.1	$16,500
Massachusetts	$63.1	$38.3	$4.6	$20.2	$68.3	$48.1	$20,100
Michigan	$50.2	$23.4	$5.8	$21.0	$66.2	$45.2	$14,700
Minnesota	$40.0	$17.8	$8.3	$13.9	$17.3	$3.4	$1,900
Mississippi	$23.8	$15.0	$2.3	$6.5	$16.9	$10.4	$14,300
Missouri	$43.9	$33.6	$6.9	$3.4	$11.8	$8.4	$4,600
Montana	$12.6	$4.5	$3.1	$5.0	$5.2	$0.2	$700

THE FINANCIAL STATE OF THE STATES
(Continued)

--(in Billions)-----------------------------------

State	Assets	Less Capital Assets	Less assets restricted by law or contract	Assets available to pay bills	Bills	Money needed to pay bills	Each Taxpayer's Financial Burden (Surplus)
Nebraska	$17.1	$9.4	$3.7	$4.0	$2.6	($1.4)	($2,500)
Nevada	$13.7	$7.2	$2.1	$4.4	$8.0	$3.6	$4,200
New Hampshire	$6.2	$4.1	$0.7	$1.4	$7.1	$5.7	$11,600
New Jersey	$74.0	$39.9	$9.9	$24.2	$130.8	$106.6	$34,600
New Mexico	$25.7	$10.4	$6.9	$8.4	$13.5	$5.1	$9,000
New York	$274.0	$149.6	$17.0	$107.4	$192.4	$85.0	$13,700
North Carolina	$74.0	$46.0	$6.8	$21.2	$51.1	$29.9	$11,200
North Dakota	$11.3	$2.5	$2.6	$6.2	$3.9	($2.3)	($6,400)
Ohio	$92.3	$34.5	$11.0	$46.8	$64.8	$18.0	$4,700
Oklahoma	$33.8	$14.7	$5.8	$13.3	$23.7	$10.4	$10,000
Oregon	$37.1	$14.2	$5.7	$17.2	$20.3	$3.1	$2,600
Pennsylvania	$81.2	$33.3	$9.3	$38.6	$73.5	$34.9	$8,200
Rhode Island	$12.0	$5.1	$1.3	$5.6	$10.7	$5.1	$14,300
South Carolina	$39.4	$23.4	$5.3	$10.7	$22.9	$12.2	$9,700
South Dakota	$9.2	$3.8	$2.0	$3.4	$3.5	$0.1	$300
Tennessee	$40.9	$26.5	$4.0	$10.4	$12.6	$2.2	$1,200
Texas	$195.6	$89.6	$51.5	$54.5	$93.1	$38.6	$5,700
Utah	$30.7	$15.7	$5.2	$9.8	$10.9	$1.1	($2,200)
Vermont	$8.0	$2.2	$0.8	$5.0	$7.8	$2.8	$12,500
Virginia	$72.4	$31.5	$11.1	$29.8	$42.6	$12.8	$4,800
Washington	$68.8	$32.0	$8.7	$28.1	$43.1	$15.0	$6,500
West Virginia	$21.6	$11.1	$2.7	$7.8	$17.8	$10.0	$18,900
Wisconsin	$39.3	$21.9	$6.0	$11.4	$21.2	$9.8	$5,100
Wyoming	$23.6	$6.3	$7.5	$9.8	$6.8	($3.0)	($15,100)
							Average
All States	$2,583.4	$1,288.9	$369.7	$924.8	$1,954.6	$1,029.8	$9,150

Appendix IV

SCHEDULE OF TOTAL BILLS

(In Billions)

State	State Bonds	Other Liabilities	Less Debt Related to Capital Assets	Net Reported Liabilities	Less Reported Retirement Liabilities	Unfunded Pension Benefits Due	Unfunded Retirees' Health Care Benefits Due	Total Bills
Alabama	$1.6	$11.2	$3.3	$9.5	$0.3	$3.2	$14.3	$26.7
Alaska	$1.5	$11.1	$1.9	$10.7	$0.0	$6.0	$11.9	$28.6
Arizona	$5.2	$9.8	$5.5	$9.5	$0.0	$2.0	$0.1	$11.6
Arkansas	$2.9	$4.6	$1.9	$5.6	$0.3	$1.3	$1.9	$8.5
California	$101.2	$121.7	$31.5	$191.4	$9.5	$23.8	$66.8	$272.5
Colorado	$6.7	$5.6	$3.6	$8.7	$0.0	$6.7	$0.9	$16.3
Connecticut	$22.7	$9.9	$6.5	$26.1	$4.5	$15.9	$26.0	$63.5
Delaware	$3.8	$2.3	$2.8	$3.3	$0.8	$0.4	$5.6	$8.5
Florida	$37.0	$34.4	$9.4	$62.0	$0.2	$5.2	$3.0	$70.0
Georgia	$11.0	$13.9	$11.3	$13.6	$0.4	$18.0	$7.6	$38.8
Hawaii	$6.1	$4.1	$6.7	$3.5	$0.9	$3.9	$8.9	$15.4
Idaho	$3.1	$1.9	$1.0	$4.0	$0.0	$2.2	$0.1	$6.3
Illinois	$29.1	$45.0	$10.0	$64.1	$23.5	$62.4	$27.1	$130.1
Indiana	$3.1	$22.3	$5.0	$20.4	$1.0	$11.0	$1.2	$31.6
Iowa	$4.3	$2.5	$1.2	$5.6	$0.1	$1.2	$0.8	$7.5
Kansas	$4.4	$2.7	$3.3	$3.8	$0.0	$6.3	$0.2	$10.3
Kentucky	$10.6	$10.9	$3.0	$18.5	$2.9	$14.9	$11.0	$41.5
Louisiana	$10.3	$11.1	$4.5	$16.9	$1.8	$7.0	$14.3	$36.4
Maine	$0.5	$7.2	$0.8	$6.9	$0.1	$4.0	$2.5	$13.3
Maryland	$12.9	$11.3	$7.8	$16.4	$2.5	$17.7	$15.3	$46.9
Massachusetts	$3.9	$56.2	$27.4	$32.7	$2.0	$20.9	$16.8	$68.4
Michigan	$8.2	$23.9	$5.2	$26.9	$1.7	$8.4	$32.6	$66.2
Minnesota	$11.1	$8.6	$5.3	$14.4	$0.1	$2.0	$1.1	$17.4
Mississippi	$3.9	$4.0	$1.8	$6.1	$0.1	$10.1	$0.8	$16.9
Missouri	$5.1	$5.4	$5.0	$5.5	$0.3	$3.5	$3.1	$11.8
Montana	$0.4	$4.3	$0.5	$4.2	$0.1	$0.5	$0.6	$5.2

SCHEDULE OF TOTAL BILLS
(Continued)

(In Billions)

State	State Bonds	Other Liabilities	Less Debt Related to Capital Assets	Net Reported Liabilities	Less Reported Retirement Liabilities	Unfunded Pension Benefits Due	Unfunded Retirees' Health Care Benefits Due	Total Bills
Nebraska	$0.7	$2.4	$0.7	$2.4	$0.0	$0.2	$0.0	$2.6
Nevada	$3.9	$2.7	$2.3	$4.3	$0.0	$1.8	$1.9	$8.0
New Hampshire	$1.5	$1.2	$1.5	$1.2	$0.3	$3.5	$2.7	$7.1
New Jersey	$4.2	$76.1	$24.9	$55.4	$13.3	$31.0	$57.7	$130.8
New Mexico	$3.6	$5.5	$2.0	$7.1	$0.0	$4.2	$2.2	$13.5
New York	$3.4	$198.8	$63.8	$138.4	$9.2	($8.9)	$72.1	$192.4
North Carolina	$15.9	$12.0	$5.3	$22.6	$0.0	$0.5	$28.0	$51.1
North Dakota	$2.6	$2.6	$2.0	$3.2	$0.0	$0.6	$0.1	$3.9
Ohio	$22.4	$37.5	$6.7	$53.2	$0.0	$5.7	$5.9	$64.8
Oklahoma	$1.8	$12.2	$5.1	$8.9	$0.0	$14.8	$0.0	$23.7
Oregon	$11.3	$8.4	$3.6	$16.1	($1.7)	$1.8	$0.7	$20.3
Pennsylvania	$20.8	$31.6	$8.4	$44.0	$1.2	$12.5	$18.2	$73.5
Rhode Island	$3.9	$5.0	$2.1	$6.8	$0.0	$3.0	$0.9	$10.7
South Carolina	$11.9	$7.4	$9.8	$9.5	$0.0	$4.2	$9.2	$22.9
South Dakota	$2.8	$0.7	$0.3	$3.2	$0.0	$0.2	$0.1	$3.5
Tennessee	$1.7	$7.8	$1.6	$7.9	$0.3	$2.7	$2.3	$12.6
Texas	$31.8	$32.0	$22.2	$41.6	$1.6	$24.7	$28.4	$93.1
Utah	$6.1	$6.1	$2.6	$9.6	$0.0	$0.9	$0.4	$10.9
Vermont	$0.6	$5.2	$0.7	$5.1	$0.5	$1.1	$2.1	$7.8
Virginia	$21.9	$16.2	$8.3	$29.8	$1.7	$10.7	$3.8	$42.6
Washington	$16.2	$33.6	$13.4	$36.4	$0.6	$3.5	$3.8	$43.1
West Virginia	$2.1	$7.7	$1.9	$7.9	$0.1	$6.0	$4.0	$17.8
Wisconsin	$14.5	$9.9	$4.6	$19.8	$0.2	$0.0	$1.6	$21.2
Wyoming	$1.3	$5.0	$0.1	$6.2	$0.0	$0.4	$0.2	$6.8
All States	$542.5	$948.5	$360.1	$1,130.9	$80.7	$383.6	$520.8	$1,954.6

Appendix V – Roll Out of the States

Each State's Financial State of the State
Can Be Found on the Following Pages

For the electronic version of this document each state's Financial State of the State can be found at: www.StateBudgetWatch.org.

APPENDIX VI

F.A.C.T. Based Accounting and Budgeting

Full Accrual Calculations and Techniques

Governments have evolved from being in the business of funding/building infrastructure and operating the rather limited machinery of the state's internal operations to being concerned with the health, welfare and lifestyle of its citizens. These changes involve committing to citizens and employees programs, services and benefits not just for the current period but for years to come. Full Accrual Calculations and Techniques (FACT) will allow governments' accounting and budgeting systems to evolve to provide a comprehensive indication of the total activity of Government and the long-term effects of currently policy.

Accrual-based measurement records revenues and expenses in the period the activity generating revenues, increasing liabilities or consuming resources occurs, regardless of when associated cash is actually received or paid. Accrual measurement is useful in budgeting and accounting for situations where transactions are not completed in one period.

By recording accounts payable and receivable, and thus the change in value of the assets and liabilities, FACT accounting keeps a running tally of what a government owns and owes in economic terms. If a government promises pension benefits in the current period and must pay retirement claims in future periods, the liability and expense is recorded when the event occurred. When the cash is actually paid, the liability is removed.

F.A.C.T. Based Accounting and Budgeting:

- Presents a complete picture of your governments' financial conditions, especially long term commitments.
- Illuminates the long term effects of current decisions.
- Limits elected officials' ability to expand programs and services by deferring the payment of current costs.
- Recognizes all costs and all legitimate revenues regardless of when money is paid or received.
- Provides full costing information, including government employees' retirement benefits.
- Supplies information necessary for accurate performance measurements.
- Adopts the use of a consolidating budget documents to facilitate the public's ability to understand governmental financial consequences of the budget.
- Produces corporate style balance sheets and income statements, which is the format more citizens understand.
- Facilitates the evaluation of budgeted amounts versus the actual revenues earned and costs incurred, because budget documents are presented in the same format as the government's financial statements.
- Promotes accountability.
- Produces financial information that is comprehensive, comparable and consistent.
- Provides information necessary to evaluate intergenerational fairness.
- Provides better information for decision making.

APPENDIX VII

Pro Forma Truth in Accounting Act

Legislative intent. It is the intent of this Act to develop a State budget process that:

(1) Permits the State government, which derives it just powers from the consent of the governed, to fulfill its special responsibility to report on its actions and results of those actions.
(2) Establishes the State's duty to report the best estimate of its own financial condition.
(3) Provides financial transparency.
(4) Presents a comprehensive indication of the total activity of government and the long-term effects of current policy.
(5) Highlights the long-term financial implications of the budgetary process.
(6) Provides full costing information to determine accountability and performance measurements.
(7) Strengthens the governor's and the general assembly's ability to determine compliance with the intent of Section 8 Article 2 of the Illinois Constitution requirement, which is to preserve intergenerational equity promulgated by the Governmental Accounting Standards Board (GASB).
(8) Emphasizes the budget's imposition of undue burdens for past and current year services upon future taxpayers, including unborn Illinois residents and Illinois residents who, at the time a budget is enacted into law, are too young to vote.
(9) Allows the governor, legislators and the public to determine if future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.
(10) Recognizes revenues when earned and costs when incurred rather than when they are paid.
(11) Reflects the principle that inter-period borrowing to fund operating expenses violates the intent of Section 8 Article 2 of the Illinois Constitution.
(12) Defines "trust funds" as those with fiduciary component.
(13) Requires production of the State's Comprehensive Annual Financial Report within 90 days after the State's fiscal year end.

Effective the beginning of the next fiscal year, the financial accounting and reporting standards to be used by all State government and statement agencies shall be in compliance with accounting standards as prescribed by the Governmental Accounting Standards Board (GASB).

Definitions.

(1) "Capital Assets" and "Fiduciary funds" shall be defined using GASB concepts outlined in Governmental Accounting Standards Board Statement 34.
(2) "Net Pension Obligation (Asset)", "Net Other Post Employment Obligation (Asset)", "Actuarial Value of Assets", "Actuarial Accrued Liability" and "Unfunded Actuarial Accrued Liability (UAAL)" "Actuarial Present Value of Total Projected Benefits" shall be defined using GASB concepts outlined in GASB Statement 45, GASB Statement 25 and GASB Statement 27, as amended by GASB 50.
(3) "Government-Wide Generally Accepted Accounting Principles (Government Wide GAAP)" shall be the accounting standards used in the preparation of the State's government-wide

financial statements, using GASB concepts outlined in the Governmental Accounting Standards Board Statement 34. While the Governmental Accounting Standards Board does not prescribe standards for preparing governmental budgets, the accounting standards' concepts shall be applied to the budget documents prepared under this section.

(4) "Estimated Balance Sheet" shall be the estimated Statement of Net Assets prepared using the GASB concepts outlined in GASB 34.
(5) "Capital Assets" shall be defined using GASB concepts outlined in GASB Statement 34.
(6) "The State Pension Plans" are the State's Single-Employer pension plans and the portion of Agent Multiple-Employer pension plans attributed to the State.
(7) "The State OPEB Plans" are the State's Single-Employer Other Post Employment Benefit (OPEB) plans and the portion of Agent Multiple-Employer OPEB plans attributed to the State.
(8) "Off Balance Sheet Pension Liabilities" shall be the difference between the State pension plans' Estimated UAAL and the estimated Net Pension Obligation (Asset) included in the estimated Balance Sheet.
(9) "Off Balance Sheet OPEB Liabilities" shall be the difference between the State OPEB plans' Estimated UAAL and the estimated Net OPEB Obligation (Asset) included in the estimated Balance Sheet.
(10) "Benefit Enhancements" is defined as the Actuarial Present Value of Total Projected Benefits attributed to the estimated increase in the benefits of retirees or beneficiaries granted by the proposed budget or, proposed or enacted changes to the State Pension Law. The benefit enhancements that result from plan members' expected future service amount may be reduced by the amount of specified revenue sources enacted into law.
(11) "Estimated Retirement Plans' Assets Gain or Loss" is defined as the change in the Actuarial Value of Assets at the beginning of the budget period and the Actuarial Value of Assets at the end of the budget period.
(12) "Increase (Decrease) in Pension Benefits Due" shall be the change in the State's pension plans' estimated Actuarial Accrued Liability at the beginning of the budget period and the sum of each pension plan's estimated Actuarial Accrued Liability at the end of the budget period.
(13) Increase (Decrease) in OPEB Benefits Due" shall be the change in the State's OPEB plans' estimated Actuarial Accrued Liability at the beginning of the budget period and the State's OPEB plans' estimated Actuarial Accrued Liability at the end of the budget period.
(14) Amounts Due Pension Funds shall be defined as the UAAL for the State Pension Plans, including the portion of Multiple-employer plans attributed to the State.
(15) Retirees' Health Care Benefits (OPEB) shall be defined as the UAAL for the State OPEB Plans, including the portion of Multiple-employer plans attributed to the State.
(16) "Fiscal Budget Documents" shall be the estimated Balance Sheet, the estimated Statement of Activities, the estimated Statement of Cash Flow, the estimated Statement of Fiscal Balance, the estimated Statement of Fiscal Deficit and the estimated Financial State of the State.

The General Assembly shall publish, by means of the Internet on a web page controlled by the General Assembly, the text of all appropriations bills. Each publication shall include embedded time reading until at least 72 hours after the time of electronic publication. No amendment to an appropriation bill shall be considered on second reading until at least 72 hours after the amendment has been published electronically.

The Comptroller shall publish the Comprehensive Annual Financial Report (CAFR) no more than

90 days after the end of each State fiscal year. The CAFR shall be prepared in accordance with the principles of full accrual accounting. The Report shall include explanations of any variance that exists between the estimates adopted by the General Assembly for each year, and the actual numbers reported. The Comptroller shall, by administrative rule, determine a time line and protocol for the publication of this Report. The governmental units and components units shall submit their financial information to the Comptroller's office no more than 60 days after the end of the State fiscal year.

The General Assembly shall not enact any bill to appropriate funds within any fiscal year prior to their adoption of the joint resolution reflecting the estimate for that fiscal year.

Section 25 – All State funds shall be fiduciary funds unless explicitly provided otherwise by law.

Commission on Government forecasting and Accountability Act (25 ILCS 155)

[25 ILCS 155/4(a)—[existing law]

Commission on Government Forecasting and Accountability Act

Section 4 (a)

Definitions. "All applicable revenue sources" and "any other funds to be obtained from all applicable revenue sources"

1. "All applicable revenues "shall be defined as only of "own source" revenues including:
   - a. Personal Income Tax
   - b. Corporate Income Tax
   - c. Corporate Personal Property Replacement Tax
   - d. Sales Tax retained by the state
   - e. Excise Taxes (e.g. alcohol, gasoline, energy)
   - e User Fees
   - g. Fines and Penalties
   - h. Gaming Taxes
   - e Excise Taxes (e.g. alcohol, gasoline, energy)
   - j. Unencumbered funds provided by other governmental units
   - k. Or any other revenue source for which the state has no ongoing or unfulfilled obligation to any other party.

2. "Other Funds Available" shall be defined as:

   - a. Funds which result from the actions of another entity or government;
   - b. Funds received that are held in trust or have a fiduciary element;
   - c. pass-through funds or funds received by the state when acting as an agent or collector for another entity;
   - d. Pension contributions made by state employees not used to pay pensions or used to purchase assets for the state's pension funds;

e. That portion of sales tax collections which retailers pay to the state but which will be remitted to home rule and local governments;
f. Court-ordered collections of child support;
g. Inter-period borrowings;
h. Prepaid tuition plans
i. Any other source of funds for which the state has an unfulfilled or ongoing obligation.

Sec. 4. (a) The Commission shall publish, at the convening of each regular session of the General Assembly a report that:

a. Estimates "All Applicable Revenues" as defined in Section 1 above;
b. Estimates "Other Funds Available" as defined in Section 2 above;
c. The report shall clearly separate and distinguish All Applicable Revenues and Other Funds Available when estimating the funds estimated to be available for purposes of calculating funds estimated to be available as required under Article 8 Section 2(b) of the Illinois Constitution.

25 ILCS 155/4(a-5) [new]: The annual March estimates issued by the Commission shall include an estimated Balance Sheet, an estimated Statement of Activities, and an estimated Statement of Cash Flow. The March estimates shall include a variance report of the ongoing fiscal year's budget and appropriations.

25 ILCS 155/4(a-6) [new]: The Commission shall also prepare:

1) The Statement of Fiscal Balance [see Exhibit 1] which shall include:
   a) The columns used in the estimated Balance Sheet.
   b) The Total Net Assets, as determined in the estimated Balance Sheet,
   c) The Off- Balance Sheet Pension Liability
   d) The Off Balance Sheet OPEB liability
   e) The resulting Fiscal Balance.
2) The Statement of Fiscal Deficit [see Exhibit 2] which shall include:
   a) The columns used in the estimated Statement of Activities.
   b) The change in net assets, as determined in the estimated Statement of Activities,
   c) Benefit Enhancements,
   d) Retirement Plans' Assets Gain or Loss,
   e) Increase (Decrease) in Pension Benefits Due,
   f) Increase (Decrease) in OPEB Benefits Due
   g) The resulting Fiscal Deficit.
3) The estimated Financial State of the State [see Exhibit 3] which shall include:
   a) Amounts reported on the State's Comprehensive Annual Financial Report (CAFR) for the State's fiscal year two years prior to the current budget year.
   b) The estimated values from last period's budget.
   c) The estimated values from the current budget period.
   d) What we own:
      i) Capital Assets.
      ii) Other Assets which is derived from the Total Assets reported on the Statement of Net Assets/Balance Sheet minus Capital Assets.
      iii) OUR ASSETS shall equal the Total Assets.
   e) What we owe:
      i) The amount of State bonds, including, but not limited to, General Obligation Bonds and Special Revenue Bonds.

ii) Amounts Due Pension Funds.
iii) Retirees' Health Care Benefits (OPEB).
iv) Other Liabilities which is derived by subtracting the State bonds, the Net Pension Obligation and the Net OPEB Obligation from the Total Liabilities reported on the Statement of Net Assets/Balance Sheet.
v) OUR BILLS which is the sum of (g)-(j).

f) Where we stand:
   i) Illinois' Financial Position
   ii) Each Illinois Family's Share, which is derived by dividing Illinois' Financial Position divided by the Illinois population estimate as determined by the U.S. Census Bureau divided by national average size of a family as determined by the U.S. Census Bureau.

25 ILCS 155/4(a-10) [new]": The Commission shall publish the fiscal budget statements outlined in 25 ILCS 155/4(a-5) in concert with Government Wide-GAAP. The fiscal budget statements should display information about the State as a whole. The fiscal budget statements should include the Primary Government and its component units, expect for the fiduciary funds of the Primary Government and component units that are fiduciary in nature. The fiscal budget statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. The fiscal budget statements should not be presented using the current financial resources measurement focus and the modified accrual basis of accounting, which are used to prepare the State's governmental funds financial statements. The Commission shall work with each of the State's pension and OPEB plans' actuaries to determine the pension and OPEB amounts needed to prepare the fiscal budget statements.
25 ILCS 155/4 (d) [new]: For each fiscal year, the General Assembly shall adopt a joint resolution accepting the amounts reported on the fiscal budget documents.

Effective date. Immediate effect date.

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