

# The Financial State of Arkansas

As of June 30, 2010



## The State's Bills Exceed Its Assets

Assets	\$23,107,270,000
Less: Capital Assets	\$12,705,357,000
Restricted Assets	\$2,186,796,000
<b>Assets Available to Pay Bills</b>	<b>\$8,215,117,000</b>
Less: Bills	\$9,510,286,000
<b>Money Needed to Pay Bills</b>	<b>\$1,295,169,000</b>
<b>Each Taxpayer's Burden*</b>	<b>\$1,700</b>

The state of Arkansas has \$23.1 billion in assets but most of these assets are not available to meet the State's bills.

The \$12.7 billion of capital assets, such as roads, buildings and land, should not be sold to pay bills. The use of \$2.2 billion of the assets is restricted by law or contract.

That leaves \$8.2 billion of State assets available to pay a total of \$9.5 billion of bills as they come due.

The \$1.3 billion shortfall represents compensation and other costs incurred in prior years that should have been paid in those prior years. Instead these costs have been shifted to future taxpayers.

**Each Taxpayer's\* Share of the Financial Burden is \$1,700**

## All Liabilities Not Clearly Disclosed

Reported Retirement Liabilities	\$416,225,000
Total Retirement Obligations	\$3,483,791,000
<b>Retirement Liabilities Not Clearly Disclosed</b>	<b>\$3,067,566,000</b>

The state of Arkansas reported retirement liabilities of \$416.2 million. The Institute for Truth in Accounting's detailed analysis discovered that \$3.5 billion of additional retirement benefits have been promised but not reported on the State's balance sheet. This means retirement liabilities of \$3.1 billion are not clearly disclosed.

To knowledgeably interact with—and cast informed votes for—their leaders, citizens need transparency and accurate financial information. The antiquated ways the State budget and financial report are calculated do not provide citizens with the financial information needed to determine government accountability.

This is especially true in relation to employee compensation costs which include retirement benefits. Because pension and other retirement benefits are not immediately payable in cash most of these compensation costs were ignored when calculating balanced budgets. Furthermore, the State has set aside only 62 cents to pay for each dollar of retirement benefits promised.

**Truthful budgetary accounting** would include the portion of retirement benefits employees earn in current compensation costs every year they work.

**Accurate accounting** requires all real and certain expenses be reported in the State's budget and financial statements when incurred not when paid.

## The Bills the State Has Accumulated

State Bonds	\$4,096,928,000
Other Liabilities	\$3,996,310,000
Less: Debt Related to Capital Assets	\$2,066,743,000
Unfunded Pension Benefits	\$1,617,712,000
Unfunded Retirees' Health Care Benefits	\$1,866,079,000
<b>Bills</b>	<b>\$9,510,286,000</b>

Despite its balanced budget requirement the State has accumulated bonds of \$4.1 billion and other liabilities of \$4.0 billion. The calculation of assets available to pay bills does not include capital assets so \$2.1 billion of related debt is removed from the calculation of the State's bills.

Unfunded employees' retirement benefits represent 37% of the State's bills. This unfunded liability has accumulated because State employees have been promised \$1.6 billion of pension benefits and \$1.9 billion of retirees' health care benefits but the State has not adequately funded them.

Unless these pension and retirees' health care benefits are renegotiated future taxpayers will be burdened with paying them without receiving any corresponding government services or benefits.

*Data is derived from the state of Arkansas's June 30, 2010 audited Comprehensive Annual Financial Report and retirement plans' actuarial reports.*

*\*Based on the number of Arkansas federal tax filers with a tax liability. This approximates the number of households in the state.*