

Mitchell's Musings 1-19-15: When Transparency is Opaque

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From time to time, these musings are devoted to the foibles of state and local government and their budgetary practices. The date of this musing falls on Martin Luther King Day. At the 1963 March on Washington, King famously said he had a dream about a future of racial equality. My dream is much more modest. Perhaps someday – in some far distant future – we will adopt consistent language about state and local fiscal practice so that better public policy can be made and that budget crises can be avoided.

It is common nowadays to propose “transparency” as a solution to many problems. But when it comes to state and local budgeting, merely putting official budget documents online for all to see doesn't seem to be a panacea. If there are no clear definitions of what is meant by such terms as “surplus,” “deficit,” and “balance,” having documents online leaves fiscal conditions opaque. And if the news media do not insist on consistent use of such terms, opaqueness will be the rule.

In my home state of California, for example, you can easily find online the official budget proposal of the governor along with a live stream and video archive of his budget news conference. Budget analyses by the nonpartisan Legislative Analyst's Office are available, too. And yet public understanding is limited.

Let's consider the current budget for California – not the one recently proposed for the next fiscal year starting July 1, 2015 – but the one we are living under right now. The current fiscal year – 2014-15 – was widely heralded as having finally allowed California confidently to leave behind the budget crisis that emerged as a consequence of the Great Recession. The governor in 2012 got voters to approve Proposition 30 which raised income and sales taxes on a temporary basis. Moreover, the general economy was improving, thus adding more tax revenue to the state treasury.

In November 2014, the governor put on the ballot Proposition 2 which by formula put money into a rainy day fund. Voters approved the measure so California now has two reserves: the regular reserve in the General Fund and the rainy day fund. The 2014-15 budget already added some funding to the rainy day reserve, even before voters endorsed the concept. So for this current year, is California in a “surplus” or a “deficit”? Or can we say the budget is “balanced”? Surely, given the public assurances that our fiscal problems are behind us (as long as we remain prudent – as the governor periodically reminds Californians), we must be in surplus or at least balance.

Of course, terms such as surplus, deficit, and balance must be defined. It's likely, however, that most folks think of those terms in the way they are used at the federal level. A surplus in federal usage means that more revenue is coming into the treasury than is going out. A deficit means the opposite. And balance means revenue = spending.

So what happens if we were to apply that usage to California's general fund budget for the current year? In his early January 2015 budget proposal for next fiscal year (2015-16), the governor included updated estimates for the current year, the one that is now more than half completed. What were those estimates?

According to the official figures which are readily and transparently available on the Internet, we began the fiscal year on July 1, 2014 with \$5.1 billion in the General Fund reserve. No money was yet put into the rainy day reserve. So the total starting reserve (combination of the two reserves) was also \$5.1 billion. Revenue for the full year (including a starting \$1.6 billion contribution or diversion into the rainy day reserve) was projected to be \$109.6 billion. Expenditures were forecast to be \$111.7 billion. Since expenditures are projected to exceed revenue (\$111.7 billion > \$109.6 billion) by \$2.1 billion, in federal terms the forecast for this year is a deficit of that amount. As a result, the combined regular plus rainy day reserve is projected to fall by \$2.1 billion from the starting \$5.1 billion to \$3.0 billion. [\$5.1 billion - \$2.1 billion = \$3.0 billion.]

Now one could argue that we should adjust the \$2.1 billion deficit downwards because the current-year budget includes some prepayment of past debt. But even if you were to make that adjustment, you would still come out with a small deficit. All of these figures are transparently on the web. Yet I have seen no mention of them in the news media which dutifully reported the official line that the corner has been turned on California's chronic fiscal difficulties.

It is true that the same documents project a small surplus (revenue > expenditures) for the coming year (2015-16). And since the sum of the two reserves (regular + rainy day) is positive for this year, there is no crisis. We certainly will not end up this year issuing IOUs instead of paying all bills as occurred in 2009. Still, numbers are numbers and we have a deficit as of now as that term is used in common parlance. It's an open secret we have a deficit – since the numbers are transparently on the web – but a secret nonetheless.

Why is it a secret? The fact is that even with documents on the web, most people are not policy wonks and don't go to those documents. (And if they did, although the numbers are there, the word "deficit"

doesn't appear in the documents; readers would have to work out the consequences.) To the extent that such information might trickle out, it would have to be through the news media. But the reports in the news media don't present the simple analysis made above.

In short, fiscal transparency as a concept is fine. But if the news media simply report official interpretations, the budget will remain opaque to the public. Why is there a lack of critical reporting? I suspect it is partly because some reporters don't actually look at the budget documents and simply report what officials say about the budget. If there is no immediate crisis, no IOUs, no dramatic conflicts, even a little digging isn't worth the effort. Other reporters focus on the details, e.g., on how much public schools will receive this year compared to last year, and thus miss the big picture.

Be that that as it may, I have a dream that one day things will be different.