

AGA Gulf Region  
2015 Inaugural Regional Professional Development Training  
May 6, 2015

**Exploring the Fiscal Condition  
of the Federal Government and  
Its Impact on the States**

Presented By  
Marlon Perry, Senior Manager  
Federal Government Services  
CliftonLarsonAllen LLP  
May 6, 2015

[www.cliftonlarsonallen.com](http://www.cliftonlarsonallen.com)



1

## Learning Objectives

To Gain an Understanding of:

- The Financial Condition of the U.S. Government
- Key Measures of Intergovernmental Financial Dependency (IFD) for the States
- The Implications of IFD for the States
- Options Open to State and Local Governments in Responding to IFD Risks

2

©2012 CliftonLarsonAllen LLP



## What is Intergovernmental Financial Dependency?

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

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

3

©2012 CliftonLarsonAllen LLP



## The Fiscal Condition of the U.S. Government



4

©2012 CliftonLarsonAllen LLP



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

<b>\$ Billions</b>		
	<u>2014</u>	<u>2013</u>
<b>Federal Liabilities:</b>		
<b>Publicly-held Debt</b>	\$12,834*	\$12,028**
<b>Federal Employee &amp; VA Benefits</b>	6,673	6,538
<b>Other</b>	1,260	1,311
<b><u>Intragovernmental Debt—Owed to Social Security, Medicare and other Trust Funds</u></b>	5,107	4,831
<b><u>Federal Social Insurance Obligations</u></b>		
<b>Social Security</b>	13,330	12,294
<b>Medicare—Parts A, B &amp; D</b>	28,483	28,483
<b>Other</b>	<u>103</u>	<u>102</u>
<b>Total Liabilities, Intragovernmental Debt &amp; SI Obligations</b>	<u>\$67,789***</u>	<u>\$64,407</u>
<b>Current-dollar GDP, Weighted Avg. FY (Source: OMB MSR)</b>	<u>\$17,252</u>	<u>\$16,396</u>
<b>Liabilities and Obligations as % GDP</b>	388%	400%

\*73.5% of 2014 GDP

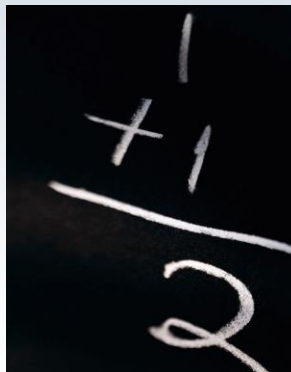
\*\*75% of 2013 GDP

\*\*\*83% of total household and nonprofit net worth of \$81.3 trillion  
Source: Federal Reserve

5

en

## Key Measures of State Government Intergovernmental Financial Dependency



6

©2012 CliftonLarsonAllen LLP

 CliftonLarsonAllen

## Key Dependency Measures— Louisiana, Alabama, Florida, and Total U.S. (\$ in Billions)

<u>Key Dependency Measurement</u>	<u>LA 2013</u>	<u>AL 2013</u>	<u>FL 2013</u>	<u>Total U.S. 2013</u>
Direct Federal Revenues to State	\$16	\$8.9	\$34.7	\$679.3
Percentage of Total State Revenues – All Sources	50.3%	30.2%	35.1%	32.6%*
Direct Federal Grants to Local Governments (2012)	\$1.0	\$1.1	\$4.4	\$66.9
Federal Purchases from State Businesses	\$3.4	\$9.7	\$14.1	\$390.6
Federal Payments to Individuals (2010 & 2013) – Wages, Pensions, Social Security, Medicare	\$30.8	\$59.1	174.6	\$2,531.8
Total Direct and Indirect Federal Flows	<u>\$51.2</u>	<u>\$78.8</u>	<u>\$227.8</u>	<u>\$3,668.6</u>

\* Average

7

## Key Dependency Measures— Louisiana, Alabama, Florida, and Total U.S. (\$ in Billions)

<u>Key Dependency Measurement</u>	<u>LA 2013</u>	<u>AL 2013</u>	<u>FL 2013</u>	<u>Total U.S. 2013</u>
Total Direct and Indirect Federal Flows	<u>\$51.2</u>	<u>\$78.8</u>	<u>\$227.8</u>	<u>\$3,668.6</u>
Real GDP by State Inflation Adjusted to 2005~	\$222	\$180.7	\$750.5	\$15,416.2
<u>Total Federal Flows</u> Gross State Product	23.1%	43.6%	30.4%	26.7%*
Military Facilities- Count	36	96	218	4,171
Military Facilities- Present Replacement Value	\$7.2	\$11.5	\$27.9	\$678.7
Military Facilities – Military and Civilian Personnel (thousands)	42.4	54.4	126.4	2,637
Federal Leased/Owned Buildings (millions sq/ft) (2012)	8.3	7.7	22.7	609.4

\* Average of individual state percentages ~ Source: BEA, obtained Jan. 2014

8

## Key Dependency Measures: States By Percentage of Revenue—2013 (\$ Billions)

State (Top 5)	Direct Federal Revenues to State	Percentage of Total State Revenues- All Sources
1- Rhode Island	\$4.5	52.9%
2- Tennessee	\$18.1	50.7%
3- South Dakota	\$2.4	50.6%
4- <b>Louisiana</b>	<b>\$16.0</b>	<b>50.3%</b>
5- Arkansas	\$8.2	43.2%
<b>State (Median)</b>		
25- Idaho	\$2.9	33.6%
26- Wisconsin	\$12.5	33.3%
<b>State (Lowest)</b>		
50- Wyoming	\$1.0	13.6%

Average 50 States = 35.0%

©2012 CliftonLarsonAllen LLP

 CliftonLarsonAllen <sup>9</sup>

## Key Dependency Measures: States By Percentage of GDP—2013 (\$ Billions)

State (Top 5)	Total Direct & Indirect Federal Revenues to State	Percentage of Total State GDP
1- South Carolina	\$114.2	66.4%
2- North Dakota	\$31.7	63.7%
3- Kentucky	\$87.6	51.3%
4- <b>Alabama</b>	<b>\$78.8</b>	<b>43.6%</b>
5- Indiana	\$112.3	38.2%
<b>State (Median)</b>		
25- Louisiana	\$51.2	23.1%
26- Alaska	\$11.8	22.8%
<b>State (Lowest)</b>		
50- Wyoming	\$4.8	12.0%

Average 50 States = 25.6%

©2012 CliftonLarsonAllen LLP

 CliftonLarsonAllen <sup>10</sup>

## Key Dependency Measures: Top 5 States Per Category—2013

State	Military Facilities	State	Military Personnel
1- California	362	1- Virginia	239,200
2- Montana	251	2- California	234,800
3- Texas	229	3- Texas	223,900
<b>4- Florida</b>	<b>218</b>	4- North Carolina	159,700
5- Virginia	196	5- Georgia	134,900

State	Federal Leased/Owned Buildings (Million Sq. ft)
1- Maryland	60.2
2- Virginia	53.6
3- California	53.9
4- Texas	45.1
5- Missouri	31.5

11

©2012 CliftonLarsonAllen LLP

 11  
CliftonLarsonAllen

## Risks to States and Local Governments From Intergovernmental Financial Dependency

Significant future fluctuations in :

- direct intergovernmental revenue flows,
- indirect flows which impact economic activity and tax revenues, and
- income and asset values associated with U.S. Treasury Securities

### Evidence:

- a. Budget Control Act, August 2011, which reduced federal expenditures by \$2.1 trillion over ten years
- b. October 2013, 16 day shutdown of portions of the Federal Government and its impact on individuals and the economy
- c. Impact of sequester reductions in FY 2013, 2014, and 2015

12

©2012 CliftonLarsonAllen LLP

 CliftonLarsonAllen

## Estimating IFD Impact on Local Governments

**Question for Attendees: What Would You Do Differently within Your State Agency or Local Government to Stay Ahead of Reductions in Federal Funding????**

**An Illustrative Example—  
Prince William County, Virginia**

13

©2012 CliftonLarsonAllen LLP



### Step One: Quantify the Key Dependency Measures

Prince William County, Virginia (\$ in Millions)

<u>Key Dependency Measurement</u>	<u>Total 2011</u>
Direct Federal Revenues to County	\$136.7
Direct Commonwealth Revenues to County	486.1
Total Federal and Commonwealth Revenues to County	\$622.8
Percentage of Total County Revenues – All Sources*	32.1%
Federal Purchases from County Businesses (2010)	\$2,373.5
Federal Payments to Individuals (2010) – Wages, Pensions, Social Security, Medicare	\$1,902.0
Total Direct Federal and Commonwealth Flows and Indirect Federal Flows	<u>\$4,898.3</u>

\* \$1,941.2 million

14

©2012 CliftonLarsonAllen LLP



## STEP TWO: Identify Additional Key Dependency Measures

<u>Additional Key Dependency Measures</u>	<u>Prince William County 2011</u>
Military Facilities- Count	2*
Military Facilities- Present Replacement Value (\$Billions)	\$6.8*
Military Facilities – Military and Civilian Personnel	321,668**
Federal Leased/Owned Buildings (millions sq/ft) (2012)	.2

\*Fort Belvoir and MCB Quantico based on proximity to County

\*\* Ft. Belvoir-35,330, Quantico-286,338 Note: Quantico may include deployed military. Ref. DOD Base Structure Report FY 2012

15

©2012 CliftonLarsonAllen LLP



## STEP THREE: Identify Leading Indicators of Changes in Federal and State Direct and Indirect Flows Impacting Prince William County

### FIRST: Direct Federal and State Flows Impacting County Revenues:

- **Revised federal agency budgets** impacting specific education, social services, and other grants to County -see [Federal Funds Information for States, www.ffis.org/](http://www.ffis.org/)
- **Revised Commonwealth financial support** for County education and other programs

### SECOND: Indirect Flows Impacting County Economy and Tax Revenues:

- **Changes in levels of federal leased property** in Northern Virginia
- **Revised federal transportation funds** flowing to Commonwealth and revised VDOT allocations of new construction and maintenance funds to County roads
- **Changes in headcount of military and civilian employees** at area military facilities

16

©2012 CliftonLarsonAllen LLP



## Identify Possible Leading Indicators of Changes in Federal and State Direct and Indirect Flows Impacting Prince William County (cont'd)

### Indirect Flows Impacting County Economy and Tax Revenues (cont'd):

- **Changes in federal purchase orders** received by County businesses identified as significant federal vendors
- **Changes in unemployment benefits** to County residents
- **Reductions in SBA guaranteed loans** provided County businesses
- **Changes in residential rental property vacancy rates**
- **Changes in commercial leased property vacancy rates**
- **Changes in K-12 enrollment levels**
- **Reductions in Pell Grants** received by County college students
- **Changes in nearby university and community college enrollment levels**
- **Revised federal administrative regulations**

17

©2012 CliftonLarsonAllen LLP



## STEP FOUR: Match Possible IFD Impact to Specific PW County Revenues

### General Fund Revenues

- Real Estate Taxes—long term
- Personal Property—medium term
- Local Sales Tax—short term
- Sales Tax On Daily Rental—short term
- Telecommunications Sales & Use Tax—medium term
- BPOL Taxes - Local Businesses—medium term
- Motor Vehicles – Regular—medium term
- Transient Occupancy Tax—short term
- State Revenue—short term
- Federal Revenue—short term

18

©2012 CliftonLarsonAllen LLP



## Match Possible IFD Impact on Specific PW County Revenues (cont'd)

### Agency Specific Revenues

- Community Services—short term
- Criminal Justice Services—short term
- Fire and Rescue—short term
- Police—short term
- Public Safety Communications—short term
- Social Services—short term

19

©2012 CliftonLarsonAllen LLP



## Responding to Current IFD Risks

States and Local Governments  
Can Make a Choice When  
Facing Federal Cuts and Program Changes

\* \* \* \* \*

Become Informed and Proactive

**OR**

Be Reactive?



20

©2012 CliftonLarsonAllen LLP



## Suggested Initiatives by S & L Elected Officials

1. **Assign responsibility to track changes in:**
  - a. Intergovernmental flows, and underlying causes,
  - b. Associated implementing administrative regulations
2. **Prepare for impact** of changes in intergovernmental flows
  - a. **Quantify impact** of changes and update revenue and budget forecasts
  - b. **Modify strategic plans**, including service capacity and performance goals
3. Identify and **initiate active communications with those responsible** for changes in intergovernmental flows (e.g. Members of the U.S. House and Senate)

21

©2012 CliftonLarsonAllen LLP



## Suggested Initiatives by S & L Elected Officials (cont'd)

4. **Report impact of changes in intergovernmental flows to government stakeholders**
  - a. Continuously **survey citizen reliance** on government services and, concurrently, provide facts on citizen usage and intersection with services
  - b. **Disclose intergovernmental dependency** in government financial reports
5. **Work for change in underlying causes**
  - a. **Recommend options for rebalancing** federal expenditures and revenues
  - b. **Restore severed lines of Congressional responsibility**, perhaps by seeking state endorsement of a constitutional convention adopting a balanced budget amendment for the U.S. Government

22

©2012 CliftonLarsonAllen LLP



## Communicating Actions to Manage IFD Risks

*A Key Assertion:*

**Difficult change, when managed well, is a positive!**

It signifies:

- a. **Effective leadership** by elected and appointed officials
- a. **Respect for stakeholders**, whether they be individual citizens or interest groups
- a. **Appreciation that individuals and groups** within a complex society **need advanced warning** to adequately prepare for change

23

©2012 CliftonLarsonAllen LLP



## CLA Published Guidance on IFD

### CLA Published Reports

*Intergovernmental Financial Dependency 2013: An Annual Study of Key Dependency Measures for the 50 States, March 2013*

<http://www.cliftonlarsonallen.com/IFD2013/>

### Related Articles Authored by Edward Mazur, CLA Senior Advisor for Public Services

*"Intergovernmental Financial Dependency: Why It Matters!", AICPA Journal of Accountancy, October 2011*

[www.journalofaccountancy.com/issues/2011/Oct/20114206](http://www.journalofaccountancy.com/issues/2011/Oct/20114206)

24

©2012 CliftonLarsonAllen LLP



## Contact Information

**Marlon D. Perry, CPA, Senior Manager**  
Federal Government, CliftonLarsonAllen LLP  
Direct 301-931-2050  
Mobile 301-807-9776  
11710 Beltsville Drive, Suite 300,  
Calverton, MD 20705  
[marlon.perry@CLAconnect.com](mailto:marlon.perry@CLAconnect.com)

**Edward J. Mazur, CPA**  
Senior Advisor--Public Sector Services  
CliftonLarsonAllen LLP  
4250 Fairfax Drive  
Arlington, VA 22203  
Office: 517-227-9500  
Mobile: 804-240-8672  
[Edward.Mazur@claconnect.com](mailto:Edward.Mazur@claconnect.com)

25

©2012 CliftonLarsonAllen LLP

