

Shaping The Decisions We Make

Intergovernmental Audit Forum
December 4, 2014

Stacey E. Pickering
Mississippi State Auditor



Fear the Boom and Bust

Watch here: <http://youtu.be/donERTFo-Sk>

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Mississippi State Auditor





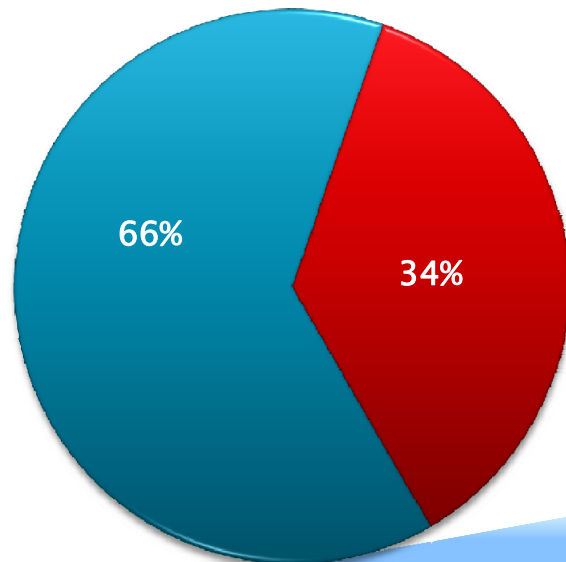
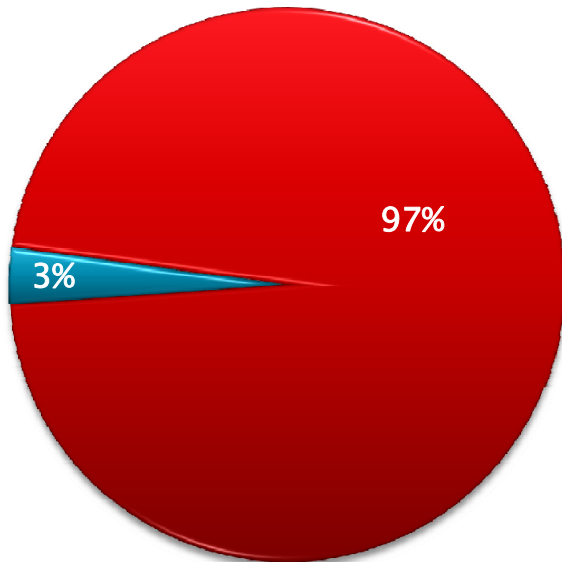
We've Lost Control of the U.S. Budget

■ Controlled Yearly

■ Auto Pilot

1912

2013



Source: Historical Statistics of the United States, Millennial Edition On Line, Table Ea636-643 Federal government expenditure, by major function: 1789-1970. Congressional Budget Office, The Budget and Economic Outlook: fiscal Years 2013 to 2023, Feb. 2014. Compiled by TCAII.

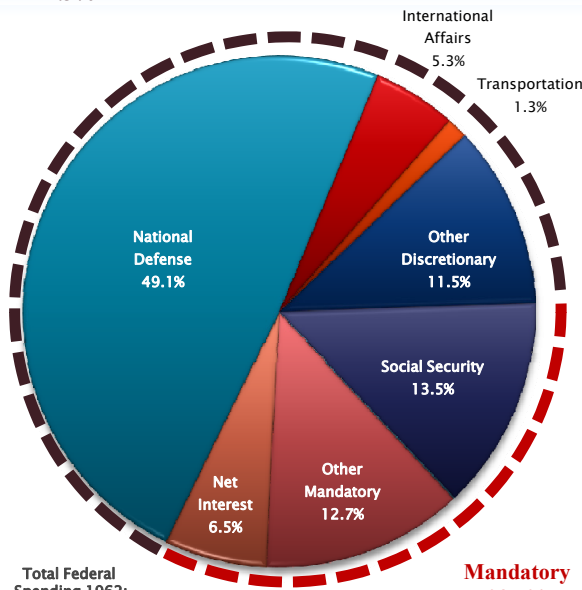
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Where the Federal Money Goes

Discretionary
71.3%

1962

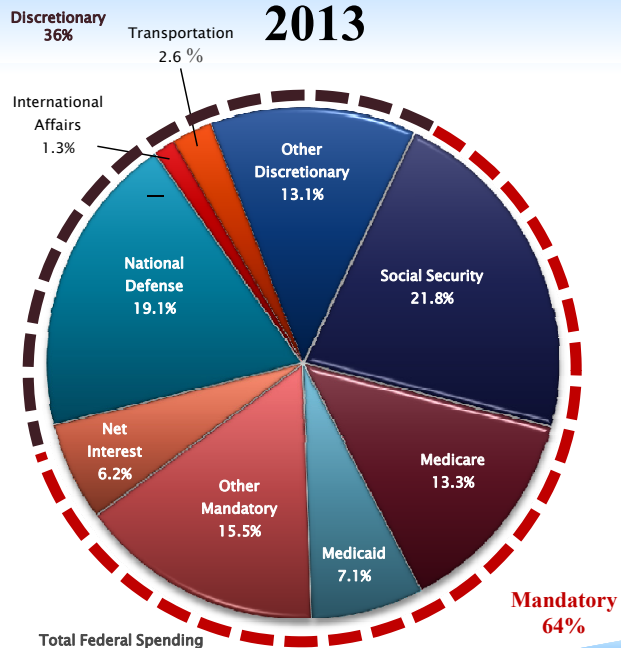


Total Federal Spending 1962: \$812 Billion In 2012 Dollars

Mandatory
28.7%

Discretionary
36%

2013



Total Federal Spending 2013: \$3.5 Trillion

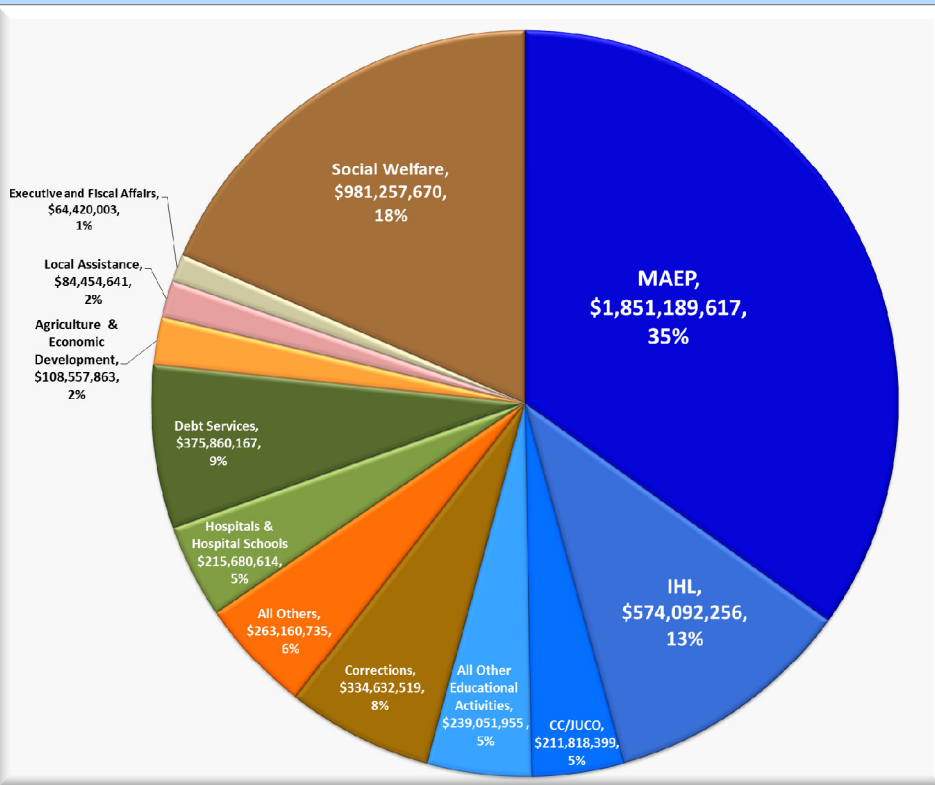
Mandatory
64%

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Source: OMB, Historical Tables, Table 8.5 & 8.7; BLS. Compiled by TCAII

Where the State Money Goes



**FY 2015
General Fund Budget:**

\$5,304,176,439

All Education funding is

**\$2,876,152,227,
or 54%.**

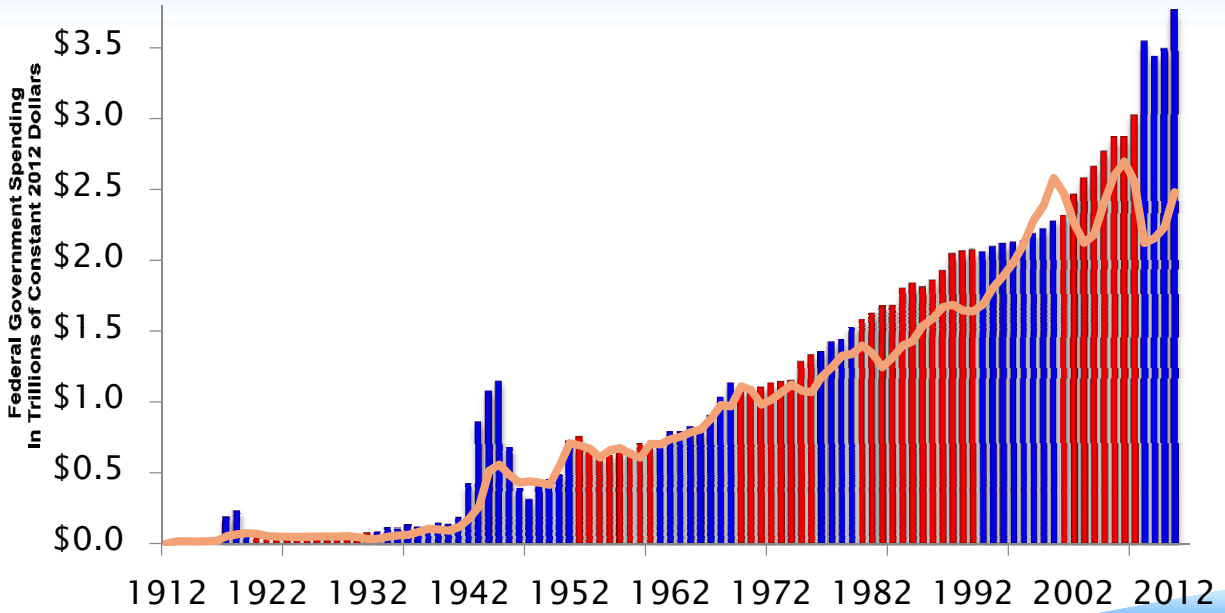
(totals vary due to rounding)

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Mississippi State Auditor**



Federal Spending & U.S. Revenue Trends

■ Republican President ■ Democrat President — Revenues

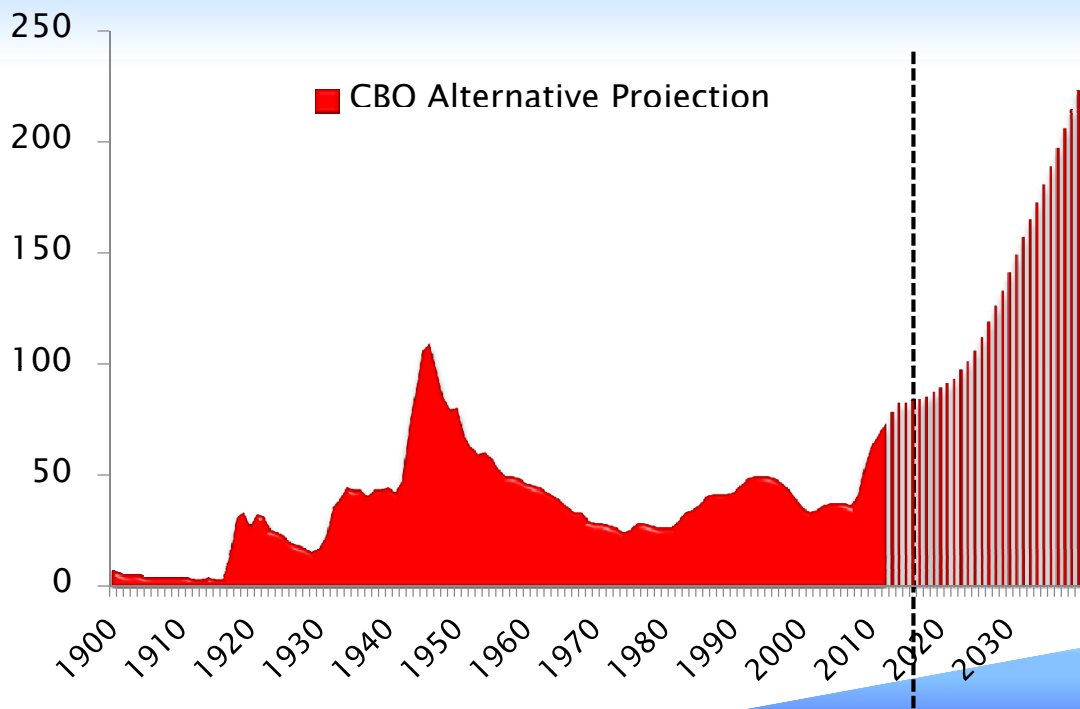


Sources: Office of Management & Budget, Historical Tables; Bureau of Labor Statistics; Congressional Budget Office, Long-Term Budget Outlook, June 2012. Compiled by TCAII

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Federal Public Debt

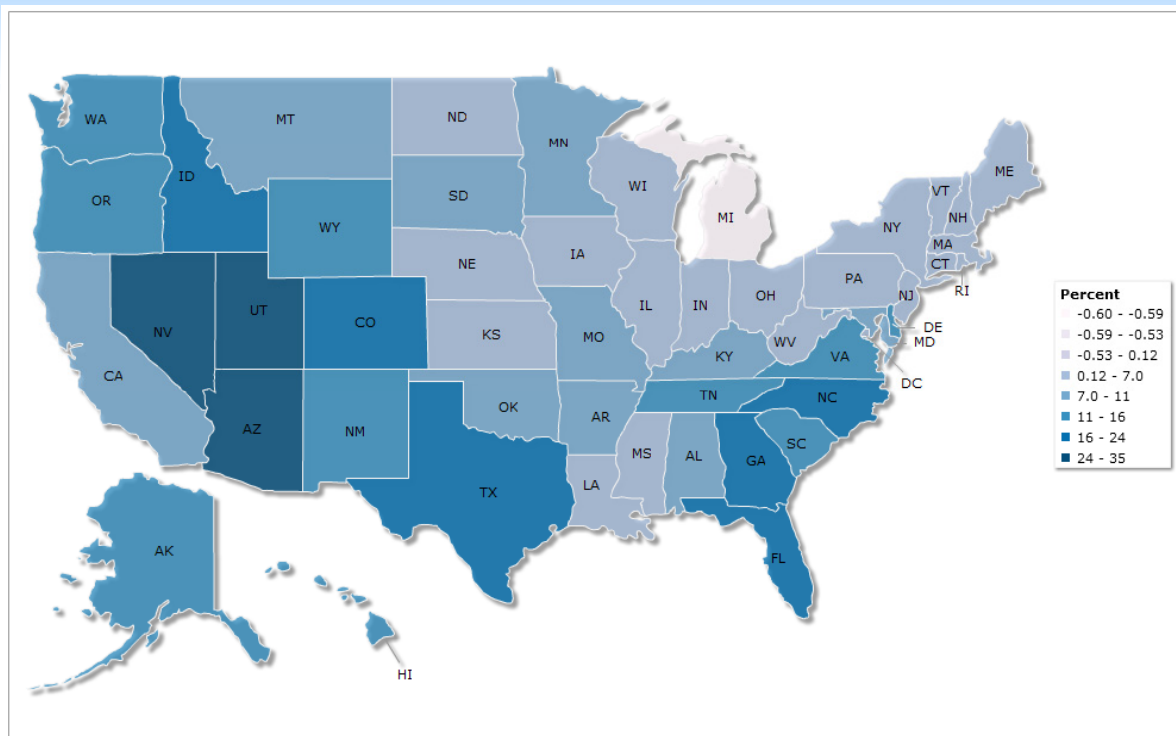


Source: CBO, Long Term Budget Outlook, 2009 and 2013

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Population Changes



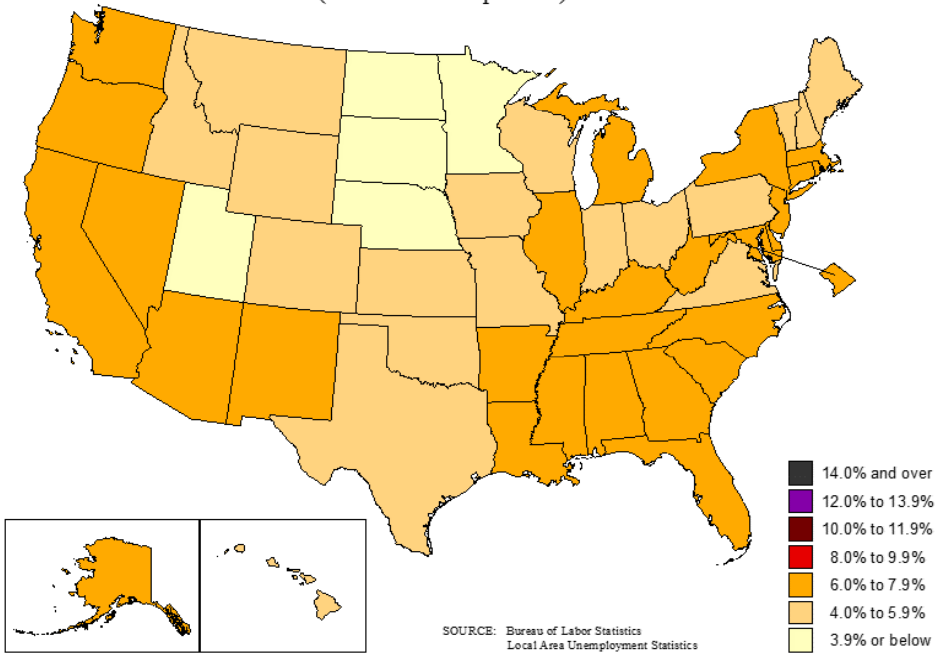
U.S. Census Bureau, 2000-2010

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Unemployment Rates

(U.S. rate = 5.8 percent)



Unemployment rate by state, October 2014

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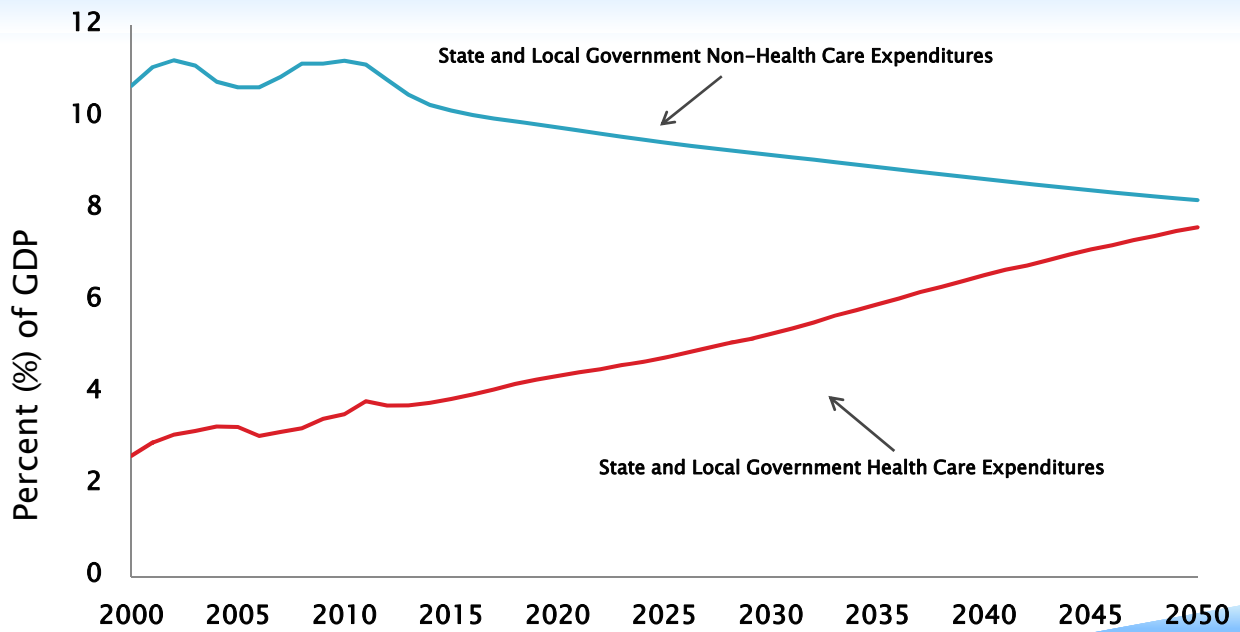
MAJOR CHALLENGES TO STATE BUDGETS: Fiscal Year 2014 and beyond

- ▶ Spending Demands and Some Revenue Growth
Not Enough To Go Around
- ▶ Health Care Costs
- ▶ Dealing with Long Term Liabilities
- ▶ Federal Cuts/Changes
- ▶ Workforce

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State & Local Fiscal Difficulties Rising Health Costs

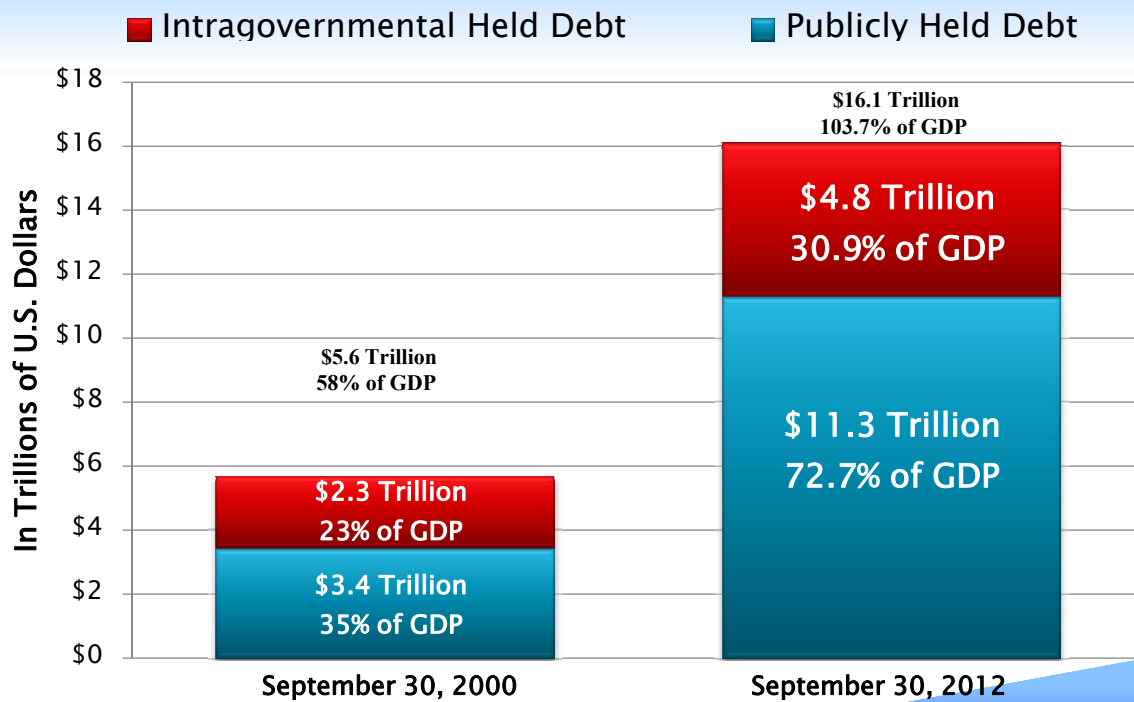


Source: GAO Simulations, updated March 2012

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Federal Debt Burdens

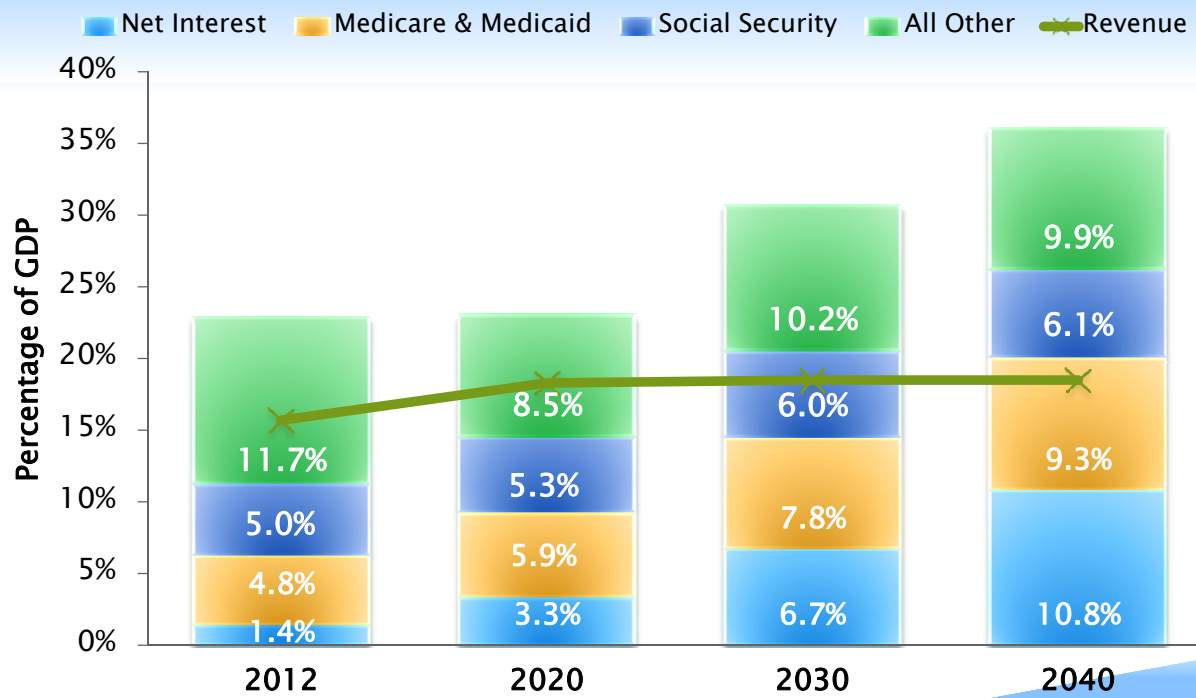


SOURCE: U.S. Department of Treasury, Bureau of the Public Debt, Debt to the Penny; CBO, Long-Term Budget Outlook (June 2012); OMB, Historical Tables, Table 1.2. Compiled by TCAII.

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Federal Programs and Revenues



Source: Congressional Budget Office, Long-Term Budget Outlook, June 2012. Compiled by TCAI.
 Note: Alternative Fiscal Scenario used for all figures. Medicaid number are estimated and illustrative. They are derived from CBO LTBO June 2012 Data.

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Sovereign Fiscal Responsibility Index (As of April 2012)

- | | |
|--------------------|--------------------------|
| 1. Australia | 18. Mexico |
| 2. Sweden | 19. Austria |
| 3. Estonia | 20. Norway |
| 4. New Zealand | 21. France |
| 5. China | 22. Finland |
| 6. Chile | 23. Slovenia |
| 7. Luxembourg | 24. Germany |
| 8. Denmark | 25. Belgium |
| 9. Brazil | 26. Spain |
| 10. India | 27. Italy |
| 11. United Kingdom | 28. United States |
| 12. Israel | 29. Hungary |
| 13. Canada | 30. Iceland |
| 14. Poland | 31. Ireland |
| 15. Netherlands | 32. Portugal |
| 16. Korea | 33. Japan |
| 17. Slovakia | 34. Greece |

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*Source: Comeback America and Stanford Graduate Students' Sovereign Fiscal Responsibility Index.
Compiled by TCAII. Note: Based upon IMF data that was reported in April 2012.*

OPEC vs American Shale

- ▶ 12 member group coordinates how much oil is produced to control prices and fund member countries' budgets
- ▶ Increased non-OPEC production has lowered prices
- ▶ OPEC nations are losing almost \$1 billion/day
- ▶ U.S. production has risen significantly, in spite of increasing federal regulations
- ▶ Potential Keystone Pipeline

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OPEC vs American Shale

- ▶ OPEC's Risky Move
 - Short-term pain for long-term gain?
 - Saudi Arabia and other Gulf states push prices down to negatively impact new American energy independence
 - Some American companies have hedged against lower prices for next year or two

- ▶ Poorer OPEC nations are already being hard hit
 - They need prices over \$100 barrel to maintain their planned national budgets
 - Particularly bad = Venezuela needs \$120/barrel to avoid national bankruptcy (IMF)
 - Angola, Nigeria, Ecuador, Iran, and others

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OPEC Decisions: China

- ▶ Chinese Economists say
“Weakening oil prices would hamper the competitiveness of new energy. The government has to subsidize the new energy industry to support its development.”
- ▶ For China to continue to develop alternative (solar and wind) energy, the national government must spend more

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Inflation Yesterday and Today

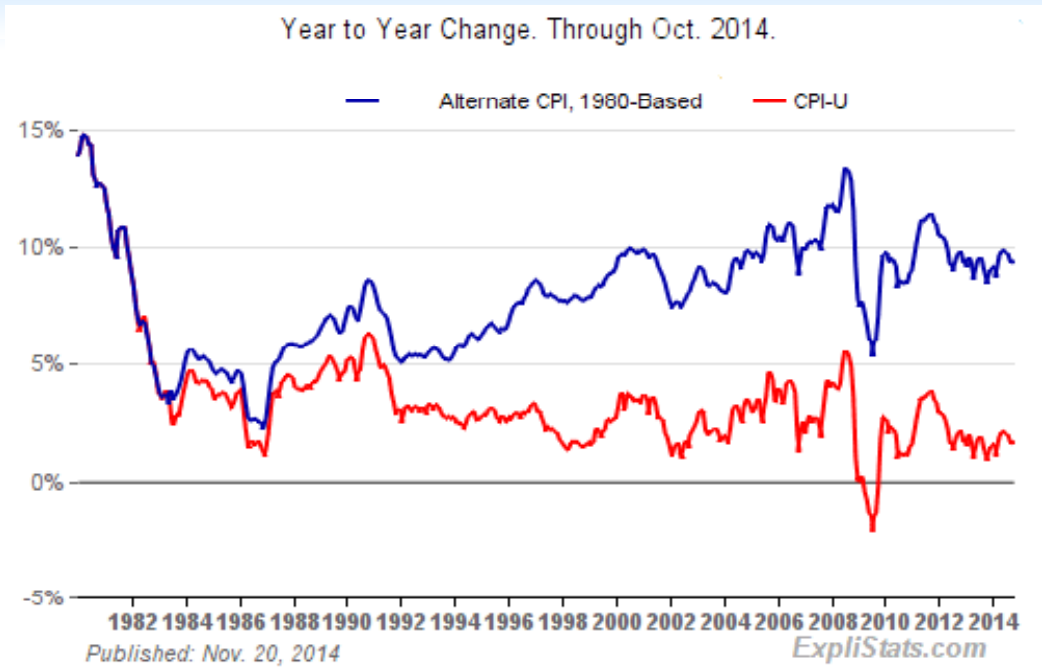
- ▶ Bureau of Labor Statistics (BLS) changes methodology
 - Before 1999, the BLS formula tended to overstate changes in the cost of living, so
 - BLS moved to a new model (geometric mean)/substitution

- ▶ Result=Inflation rate ***does*** look different
 - Old: Shift purchases to less expensive (less desirable) items
 - New: Shift purchases to items whose price is rising less or falling more
 - Perception of the individual

Stacey E. Pickering
Mississippi State Auditor



Inflation Yesterday and Today



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Jobs?

- ▶ Unemployment is measured 6 different ways by the BLS
- ▶ Greater percentage of underemployed and unemployed
- ▶ Greater percentage of those dropping out of the workforce
- ▶ Labor underutilization = negative to economy

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Mississippi State Auditor



FY 2014 Recommended Program Area Cuts

- ▶ Elementary and Secondary Education: 5 states
- ▶ Higher Education: 3 states
- ▶ Public Assistance: 12 states
- ▶ Medicaid: 7 states
- ▶ Corrections: 7 states
- ▶ Transportation: 10 states
- ▶ Other Cuts: 9 states

Source: NASBO Fall 2013 Fiscal Survey of States

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Mississippi State Auditor



Recommendations

- ▶ States must address their unsustainable fiscal outlook, and adopt a comprehensive solutions to put their finances in order
- ▶ States must focus on improving economic growth, reducing disparities, and enhancing their competitiveness
- ▶ States must create and institutionalize a culture of transparency, accountability and transformation at all levels of government

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Mississippi State Auditor



Role of Government & The Individual

Government has grown too big, promised too much, and waited too long to restructure

The implications of which:

- ▶ *The government will ask for more while doing less*
- ▶ *State and local government will be adversely impacted because bad news flows downhill*
- ▶ *Charitable organizations will be more important in the future*
- ▶ *Individuals will be more responsible for their own future*

Stacey E. Pickering
Mississippi State Auditor



Thank You

Stacey E. Pickering
Mississippi State Auditor

P.O. Box 956
Jackson, MS 39205

Ph: 601-576-2800
800-321-1275 (statewide)

Website: www.osa.ms.gov

Stacey E. Pickering
Mississippi State Auditor

