

# Last Call for Common Sense —

*In Addressing the Fiscal Sustainability of the U.S. Government*



By: Edward J. Mazur, MBA, CPA

“If not us, who? If not now, when?” This was the frequent exhortation of Relmond Van Daniker, Ph.D., CPA, during the 11 years he served as executive director of AGA until his retirement in 2014. This phrase, whose origin is often questioned but is widely attributed to President John F. Kennedy, was intended to spur AGA’s members and all government financial management leaders to assertively address the major financial management challenges facing federal, state and local governments.

All government accountants who heard Van Daniker’s continuing exhortation clearly understood its meaning: the challenges of ensuring government accountability were ours to face. We understood we were well-equipped to comprehend the fiscal condition of our respective governments, in part because we were responsible for the preparation and issuance of annual financial reports that comprehend the totality of a government entity’s activities and operations.

The formal roles and professional standards that inform the conduct of the government financial management community are among the most demanding placed on anyone serving in government. Added to this level of responsibility are the extraordinary complexity and diversity of government

activities and the extent to which Americans rely on their governments. That is why the characteristics of such professionals most expected within the community include integrity, objectivity and independence, and that special and always difficult duty of “speaking truth to power.”

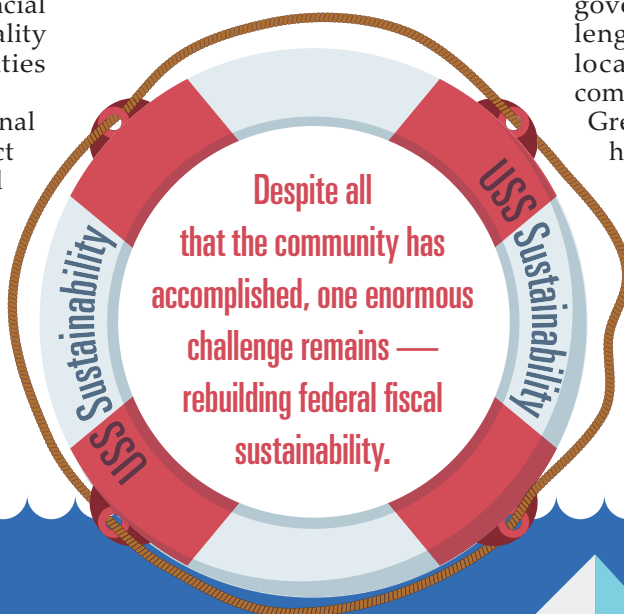
With hard work, diligence, an inquisitive attitude and personal courage, members of the community have, over the past 30 years, successfully established a reliable and uniform structure for financial reporting, as well as a companion structure for auditing and attesting to such reporting. This community has embraced modern technology; introduced operating efficiencies; reduced fraud, waste and abuse; exercised important intergovernmental cooperation; stressed the importance of governmental performance; and continues to build extraordinary

capabilities to ensure the transparency and accountability of government fiscal activities.

Despite all that the community has accomplished, one enormous challenge remains — rebuilding federal fiscal sustainability. Fiscal sustainability requires a government to ensure:

- ⚓ revenues and expenditures are, over time, kept in reasonable balance;
- ⚓ borrowings are held to a level where repayment can be anticipated and scheduled; and
- ⚓ obligations for the payment of pension, social insurance, and other long-term benefits are recognized as they are earned or qualified for, and funds required to meet these obligations are set aside for eventual use.

Although centered on the federal government, this particular challenge deeply affects all state and local governments, the business community and individual citizens. Greatly exacerbating the situation has been the absence of leadership sufficient to effectively address the challenge in a consistent and timely manner. That the federal government is no longer fiscally sustainable today is a problem for *today*, not some time in the distant future!





## REPORTS PROCLAIM THE FEDERAL GOVERNMENT IS FISCALLY UNSUSTAINABLE

The secretary of the U.S. Department of the Treasury (Treasury) and the comptroller general of the United States are charged with reporting on the fiscal condition of the U.S. government, which they do annually through the issuance of the *Financial Report of the United States Government* — arguably the world's most important annual report. It is important to read what these

most senior, knowledgeable and responsible financial management officials say as they identify in clear and unambiguous terms the enormous challenge that fiscal sustainability poses to our country.

In the transmittal message for the 2014 *Financial Report of the United States Government (Financial Report)*<sup>1</sup> Secretary Jacob Lew states:

“Now is the time to invest in America’s future in order to drive inclusive economic growth and opportunity, secure the nation’s safety, and put the nation’s finances on the road to a more sustainable fiscal outlook.”

The *Financial Report*, within “Management’s Discussion and Analysis” under the heading Fiscal Sustainability, on page 14, specifically addresses the issue of sustainability with the following:

“The projections in this *Financial Report* indicate that current policy is not sustainable. The debt-to-GDP ratio is projected to reach 321 percent in 2089 and to rise continuously thereafter. Preventing the debt-to-GDP ratio from

rising over the next 75 years is estimated to require some combination of spending reductions and revenue increases that amount to 2.1 percent of GDP over the period. While this estimate of the “75-year fiscal gap” is highly uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.”

On page 30 of the *Financial Report*, the “Statement of the Comptroller General of the United States” includes the following:

“While the near-term outlook improved, the comprehensive long-term fiscal projections presented in the unaudited Required Supplementary Information section of the 2014 *Financial Report* show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path.”

One would hope that these clear assessments and statements of concern were enough to galvanize Congress and every citizen to urgent discussions, debate, and action. Sadly, that has not yet occurred in anything close to an effective manner.

## ESTABLISHING THAT THE FEDERAL GOVERNMENT IS FISCALLY UNSUSTAINABLE

The federal government can justifiably be assessed as fiscally unsustainable for two principal reasons:

1. Total liabilities, which include publicly held debt, plus the currently unfunded portion of financial obligations, exceed the capacity of the federal government and the U.S. economy to meet those obligations when due. As shown in **Figure 1**, the total liabilities and obligations at the federal fiscal year ending September 30, 2014, equate to 398 percent of gross domestic product — a prodigious number. It means that the federal government would have to generate and collect the equivalent of the entire 2014 U.S. GDP of more than \$17 trillion for four straight years to meet these liabilities and obligations — an impossible attainment!

**Figure 1. Analysis of Federal Liabilities, Intragovernmental Debt and Social Insurance Obligations**

(\$, in billions, by fiscal year)	2015	2014	2013
<b>Federal Liabilities:</b>			
Publicly Held Debt	\$13,124	\$12,834 <sup>i</sup>	\$12,028 <sup>ii</sup>
Federal Employee & Veterans Benefits	N/A	6,673	6,538
Other	N/A	1,260	1,311
<b>Intragovernmental Debt:</b>			
Owed to Social Security, Medicare and Other Trust Funds	5,027	5,107	4,831
<b>Federal Social Insurance (SI) Obligations:</b>			
Social Security	N/A	13,330	12,294
Medicare – Parts A, B, & D	N/A	28,483	27,302
Other	N/A	103	102
<b>Total Liabilities, Intragovernmental Debt &amp; SI Obligations</b>	<b>N/A</b>	<b>67,790<sup>iii</sup></b>	<b>64,406</b>
Current-dollar GDP, Weighted Avg. FY (Source: OMB MSR)	N/A	\$17,038	\$16,101
Total Liabilities and Obligations as % of GDP	N/A	398%	400%

<sup>i</sup> 73.5% of 2014 GDP

<sup>ii</sup> 75% of 2013 GDP

<sup>iii</sup> 83% of total household and nonprofit net worth of \$81.3 trillion (Source: Federal Reserve)

Source of 2014 and 2013 Financial Statement Data: 2014 Financial Report of U.S. Government  
Source of 2015 Financial Data: Monthly Statement of the Public Debt of the United States, Sept. 30, 2015

2. Viewed in another way, the total liabilities and financial obligations exceed 83 percent of U.S. household and nonprofit net worth. As noted in **Figure 1**, total net worth equates to \$81.3 trillion and represents the value of all assets held by each American, less whatever is owed on those assets. Directly enlisting these amounts to cover the payment of financial liabilities and obligations amassed by the federal government would also seem an impossible action.

How to address this enormous challenge posed by a fiscally unsustainable federal government is perhaps the most critical question now before our nation. The “how” must start with an understanding of:

1. the implications of a fiscally unsustainable federal government;
2. how the federal government got itself into this situation; and
3. the importance of building an alliance with those who must assist and give support to the Congress in taking the difficult actions necessary to, as Lew said, “put the nation’s finances on the road to a more sustainable fiscal outlook.”

## NO ONE CAN BE SHIELDED FROM THE IMPACT OF A FISCALLY UNSUSTAINABLE FEDERAL GOVERNMENT

We are all lashed to the same mast, and the ship is slowly sinking. Individual citizens, business enterprises, nonprofit organizations, and state and local governments are all adversely impacted by the federal government’s fiscal unsustainability today. This will worsen if the root causes are not addressed and reversed. What are some of the current and future impacts, and who or what is at risk?

State and local government services and benefits are at considerable risk. As shown in **Figure 2**<sup>2</sup> state governments received, on average, 32.6 percent of their 2013 revenues in the form of grants and other direct payments from the federal government. These direct revenues for the 50 states totaled

**Figure 2. Key Dependency Measures — Rhode Island, Pennsylvania, New Mexico and Total U.S. (\$ in billions)**

Key Dependency Measurement	RI 2013	PA 2013	NM 2013	Total U.S. 2013
Direct Federal Revenues to State	\$4.5	\$26.9	\$0.7	\$679.3
Percentage of Total State Revenues – All Sources	52.9%	35.5%	3.9%	32.6% <sup>i</sup>
Direct Federal Grants to Local Governments (2012)	\$0.2	\$3.0	\$0.4	\$66.9
Federal Purchases from State Businesses	\$0.8	\$16.2	\$6.7	\$390.6
Federal Payments to Individuals (2010 & 2013) – Wages, Pensions, Social Security, Medicare	\$9.8	\$179.1	\$14.0	\$2,531.8
Total Direct and Indirect Federal Flows	\$15.3	\$225.2	\$21.8	\$3,668.6

<sup>i</sup> Average

Primary Source: 2015 edition, “Intergovernmental Financial Dependency: A Study of Key Measure of Dependency for the 50 States.” Sources of data used in that report consist of state CAFRs, state Single Audit Reports.

\$679.3 billion. The individual states presented in **Figure 2** represent the most dependent on direct revenues (col. 1), the median dependent (col. 2), and the least dependent (col. 3).

As shown in **Figure 3**, the total of direct federal flows to state governments when combined with indirect federal flows equated on average to 26.7 percent of state GDP. The combined flows totaled \$3.7 trillion, a more than material amount. As illustrated in **Figure 2**, indirect federal flows included:

- direct federal payments to local governments principally for education and social services totaling \$66.9 billion;
- payments to businesses operating within the states, totaling \$390.6 billion; and
- payments made to individuals, to include (a) active and retired civilian and military personnel

for wages and benefits, (b) Social Security beneficiaries and (c) Medicare beneficiaries, totaling \$2,531.8 billion.

The individual states presented in **Figure 3** represent the most dependent based on combined direct and indirect revenues as a percentage of state GDP (col. 1), the median dependent (col. 2), and the least dependent (col. 3). Also shown are other measures of dependency relating to military facilities, civilian and military personnel, and federally leased and owned building space.

Compounding this circumstance, federal social insurance programs promised to the American public “cannot sustain projected long-run program costs under currently scheduled financing,” as reported in the *2015 Summary of Annual Reports of the Social Security and Medicare Boards of Trustees*.<sup>3</sup>

**Figure 3. Key Dependency Measures — South Carolina, Missouri, Wyoming and Total U.S. (\$ in billions)**

Key Dependency Measurement	SC 2013	MO 2013	WY 2013	Total U.S. 2013
Total Direct and Indirect Federal Flows	\$114.2	\$67.7	\$4.7	\$3,668.6
Real GDP by State – Inflation Adjusted to 2005	\$172.1	\$258.1	\$39.5	\$15,416.2
Total Federal Flows as Percentage of Gross State Product	66.4%	26.2%	12.0%	26.7% <sup>i</sup>
Military Facilities – Count	58	58	92	4,171
Military and Civilian Personnel (thousands)	69.0	44.9	6.4	2,637
Federal Leased/Owned Buildings (millions sq/ft) (2012)	3.6	31.5	1.2	609.4

<sup>i</sup> Average of individual state percentages

Source: BEA, obtained Jan. 2014



## WHAT LED TO THE UNSUSTAINABLE FISCAL CONDITION OF THE FEDERAL GOVERNMENT?

Our country's founders generally abhorred debt, whether personal or governmental. While the government did borrow during its first 200 years to fund the costs of war, meet economic adversity and take advantage of unique opportunities, it did so with reluctance and always with the intent of eliminating acquired debt on a timely basis. In President George Washington's 1796 Farewell Address, he advised Americans to "cherish public credit" as "a very important source of strength and security," and to avoid "the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions in time of peace to discharge the debts." President Thomas Jefferson, in an 1816 letter, said "I sincerely believe... that the principle of spending money to be paid by posterity under the name of funding is but swindling futurity on a large scale."

Fifty years ago, that strong cultural underpinning opposing debt began to erode. Congress determined it could

require the Treasury to borrow excess balances from the Social Security Trust Fund to cover general operating costs without adverse political consequences, a device later expanded to include excess balances in the Medicare Trust Funds. Expanded consumer credit infused the practice of spending now and paying later among the post-Great Depression populace. Economists began to push the notion that the federal government could borrow ad infinitum if the relationship between annual deficit spending and national GDP could be held to no more than a suggested percentage.

Slowly at first, but in steadily increasing numbers, members of Congress realized they could promise the American public expanded services and new government benefit programs at acceptable levels of cost at the time of institution, with little concern for costs down the road. This probably happened because of the absence of three vital barriers to deficit spending and run-away levels of debt, as follows:

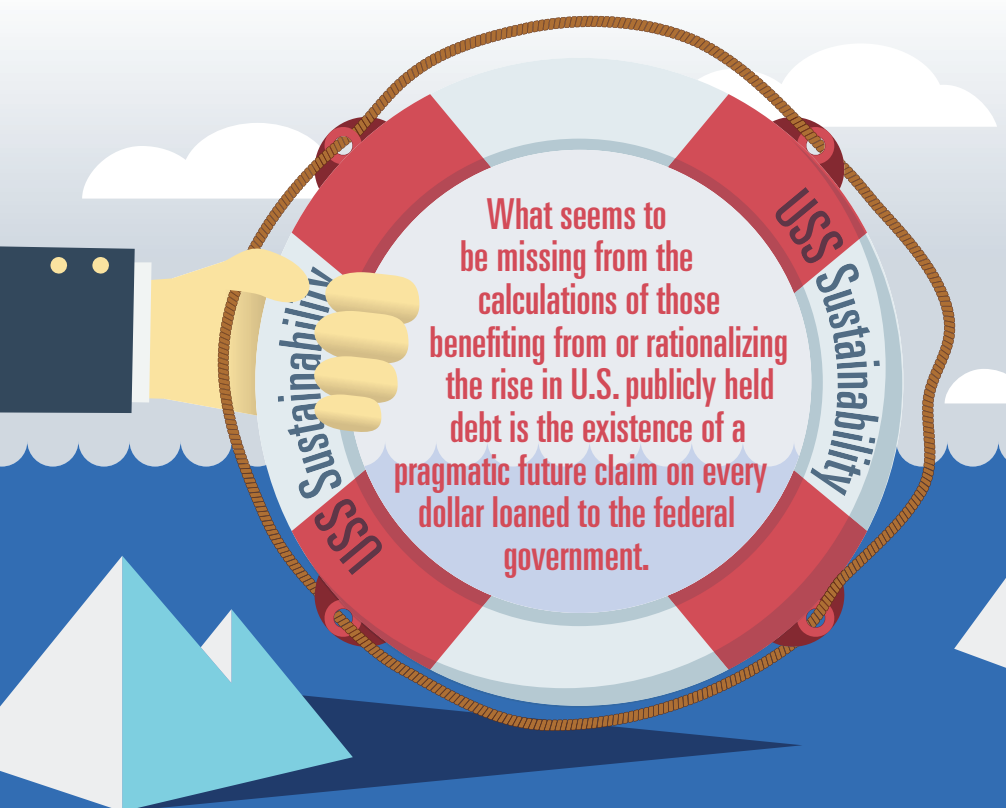
First, the Constitution offers no protections against ever increasing levels of debt. While virtually every state requires a balanced budget and forbids the accumulation of unauthorized debt,

Congress faced no such constitutionally imposed strictures.

Second, Congress did not adopt a policy calling for the federal budget to be segregated between operating and capital costs. This device, commonly employed by states (and businesses) would have permitted Congress to authorize debt for the procurement of long-lived national security and other fixed assets, while requiring the repayment of such borrowing over the estimated life span of the assets. Borrowing for operating costs could have then been limited to only addressing the timing of revenue collections or the extenuating circumstances of war or recession.

Third, until the passage of the Chief Financial Officers Act of 1990, the federal government had no requirement to maintain its books on an accrual basis, a requirement that has been in place several decades for businesses and for more than 30 years for state and local governments. Although the Financial Report is now compiled on that basis, it is unclear as to how its enhanced disclosures and warnings have been considered by Congress.

What seems to be missing from the calculations of those benefiting from or rationalizing the rise in U.S. publicly held debt is the existence of a pragmatic future claim on every dollar loaned to the federal government. Every dollar will ultimately be redeemed by the various domestic and foreign lenders to fund infrastructure, sovereign investments, college educations and retirement costs; meet the operating and pension needs of state and local governments; and address a host of other lender requirements.



## SENIOR LEADERSHIP OF THE GOVERNMENT FINANCIAL MANAGEMENT COMMUNITY

- U.S. Treasury Secretary, Comptroller General and OMB Director
- CFOs and Inspectors General for the 35 largest federal departments and agencies
- State Comptrollers, State Auditors, and State Treasurers for the 50 States
- Finance Directors for the 50 largest U.S. cities and 100 largest counties

## BUILDING A STRONG ALLIANCE SUFFICIENT TO RESTORE FEDERAL FISCAL SUSTAINABILITY

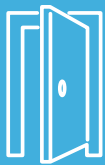
There is little current evidence to suggest that Congress is prepared to take the lead in restoring fiscal sustainability to the federal government. It has received and declined to accept recommendations housed in at least three thoughtful, nonpartisan studies that would restore fiscal balance within 10 years.<sup>4</sup> The Sarbanes-Oxley report

of December 2010 stated, with great candor, "There is no easy way out of our debt problem, so everything must be on the table. A sensible, realistic plan requires shared sacrifice..." The adoption of the Budget Control Act of 2011, with its goal of reducing federal budgets by \$2.1 trillion over 10 years through the imposition of across-the-board sequestration impacting only non-mandatory spending, together with efforts to dismantle portions of sequestration through the Bipartisan Budget Act of 2015, suggest that Congress is not yet ready to make difficult program-by-program choices.

It could be postulated that only one force, if organized and focused, could successfully compel Congress to restore federal fiscal sustainability: an alliance of state governors, large-city mayors, and large-county elected officials, supported by their respective legislative bodies and an informed citizenry. Even if driven by nothing more than self-interest, such an alliance could both encourage Congress and provide it with sufficient political justification to take sufficient action.

## SENIOR GOVERNMENT FINANCIAL MANAGEMENT LEADERS CAN ASSUME THE MANTLE OF LEADERSHIP

The government financial management community's senior leadership (see **sidebar**) is uniquely positioned to help build this alliance and to more directly assist Congress in addressing fiscal sustainability. Though this is a numerically small community of only



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**Figure 4. Suggested published information that can be part of briefings to elected state and local government executive and legislative officials on the unsustainable fiscal condition of the federal government**

Name of the Report	Reference Link
A Citizen's Guide to the 2014 Financial Report of the U.S. Government	<a href="http://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/14frusg/CitizenGuide_2014.pdf">www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/14frusg/CitizenGuide_2014.pdf</a>
CBO's The Budget and Economic Outlook: 2016 to 2026	<a href="http://www.cbo.gov/publication/51129">www.cbo.gov/publication/51129</a>
GAO's Fiscal Outlook & the Debt (2016)	<a href="http://www.gao.gov/fiscal_outlook/overview">www.gao.gov/fiscal_outlook/overview</a>
GAO U.S. Fiscal Outlook: State and Local Fiscal Model	<a href="http://www.gao.gov/fiscal_outlook/state_local_fiscal_model/overview">www.gao.gov/fiscal_outlook/state_local_fiscal_model/overview</a>
Monthly Statement of Public Debt of the United States	<a href="http://www.treasurydirect.gov/govt/reports/pd/mspd/2015/opds092015.pdf">www.treasurydirect.gov/govt/reports/pd/mspd/2015/opds092015.pdf</a>
Ownership of Federal Securities	<a href="http://www.fiscal.treasury.gov/fsreports/rpt/treasBulletin/b2015_3ofs.doc">www.fiscal.treasury.gov/fsreports/rpt/treasBulletin/b2015_3ofs.doc</a>
Major Foreign Holders of Treasury Securities	<a href="http://ticdata.treasury.gov/Publish/mfhhis01.txt">ticdata.treasury.gov/Publish/mfhhis01.txt</a>
Schedule of Federal Debt	<a href="http://www.treasurydirect.gov/govt/reports/pd/feddebt/feddebt_ann2015.pdf">www.treasurydirect.gov/govt/reports/pd/feddebt/feddebt_ann2015.pdf</a>
Summary Report of the Total of U.S. Household and Non-Profit Net Worth	<a href="http://www.federalreserve.gov/releases/z1/current/z1.pdf">www.federalreserve.gov/releases/z1/current/z1.pdf</a>
NASBO Spring 2015 Fiscal Survey of States	<a href="http://www.nasbo.org/sites/default/files/NASBO%20Spring%202015%20Fiscal%20Survey%20of%20States%20-%20S.pdf">www.nasbo.org/sites/default/files/NASBO%20Spring%202015%20Fiscal%20Survey%20of%20States%20-%20S.pdf</a>

373 members, it has well-established collegial relationships from its work on the American Recovery and Reinvestment Act of 2009 and the Digital Accountability and Transparency (DATA) Act of 2014.

It is recommended that these senior leaders, through individual initiative and concentrated intergovernmental actions, at a minimum:

- Meet on a regular basis with key committees of Congress and their staff to advise on restoring federal fiscal sustainability.

- Brief their state and local elected executive and legislative officials on the unsustainable fiscal condition of the federal government, using the *Financial Report* published by the Treasury and analyses published by the Congressional Budget Office (CBO) and the Government Accountability Office (GAO). **Figure 4** cites examples of published information that can be part of such briefings.

- Ensure that the annual financial reports for which they are personally responsible include reference to the Treasury's *Financial Report*

and, in the case of state and local governments, make disclosures of key measures of intergovernmental financial dependency.

- Communicate with government stakeholders, especially citizens, on a regularly scheduled basis to share information about federal sustainability, its implications, and why restoring sustainability is critical.

## WE CAN RESTORE FEDERAL FISCAL SUSTAINABILITY!

The federal government can be returned to a position of long-term fiscal sustainability. It will take an extraordinary partnership of all levels of government and all components of the American society. It will clearly take a new way of communicating difficult choices to the American public and in securing its understanding and support. By actively helping to address federal fiscal sustainability, in part through the actions noted above, the community and its senior leadership will:

- demonstrate knowledgeable concern for future generations;
- exhibit personal integrity, objectivity, and independence; and





☛ demonstrate respect for citizens dependent on their wisdom and leadership.

In accepting this call for common-sense leadership, the community will answer, in a clear and certain voice, the questions, “If not us, who?” and “If not now, when?” ☐

#### Endnotes

1. The 2014 *Financial Report of the United States Government* is prepared by the U.S. Treasury Department and can be accessed at: [https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/14frusg/FR\\_02252015\\_Final.pdf](https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/14frusg/FR_02252015_Final.pdf)

2. Data Source for Figures 2-3: *Intergovernmental Financial Dependency 2015: An Annual Study of Key Dependency Measures for the 50 States*, CliftonLarsonAllen LLP.

3. A Summary of the 2015 Annual Reports of the Social Security and Medicare Boards of Trustees can be accessed at <https://www.ssa.gov/oact/TRSUM/index.html>

4. In 2010 and 2011, three major nonpartisan studies were issued addressing the fiscal sustainability of the federal government, to include:

- a. President’s Commission on Fiscal Responsibility and Reform — “The

Moment of Truth” [http://www.fiscalcommission.gov/sites/fiscal-commission.gov/files/documents/TheMomentofTruth12\\_1\\_2010.pdf](http://www.fiscalcommission.gov/sites/fiscal-commission.gov/files/documents/TheMomentofTruth12_1_2010.pdf)

- b. Bipartisan Policy Center Debt Reduction Task Force — “Restoring America’s Future” <http://bipartisan-policy.org/wp-content/uploads/sites/default/files/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf>

- c. Peterson-Pew Commission on Budget Reform — “Getting Back into the Black” [http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic\\_mobility/petersonpewreport-federalbudgetprocessreformpdf.pdf](http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/petersonpewreport-federalbudgetprocessreformpdf.pdf)



**Edward J. Mazur, MBA, CPA, a member of AGA's Richmond Chapter, is senior advisor for Public Sector Services with CliftonLarsonAllen LLP. Mazur advised four governors while serving as state comptroller for the Commonwealth of Virginia between 1980**

*and 1991 and was the first controller appointed by the president under the Chief Financial Officers Act of 1990, through which he headed OMB's Office of Federal Financial Management. He served as a member of the Governmental Accounting Standards Board and the Federal Accounting Standards Advisory Board. Mazur served as President of the National Association of State Auditors, Comptrollers, and Treasurers, and as President of the National Association of State Comptrollers. He is a past recipient of the AGA's Author Award (2012), Private Sector Financial Excellence Award (2011), National President's Leadership Award (1994), and National Distinguished Leadership Award (1985). He is also past recipient of the AICPA's Outstanding CPA in Government Award (1999).*

Editor's note: Numbers for FY 2015, not available at the time of publication, should now be available at [www.treasury.gov](http://www.treasury.gov).

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Doreen Shute

[doreen.shute@CLAconnect.com](mailto:doreen.shute@CLAconnect.com) | 301-931-2050

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