



***From the Desk of
Joseph-Paul Timpano, CPA***

Commentary from the President of JPT Financial Solutions, Inc.



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Every State Should Adopt a Balanced Budget Amendment

March 18, 2011

As a financial professional I am in favor of every state in the United States adopting a balanced budget amendment. Such an amendment would force the states to keep spending in line with the revenue that it collects. In order to increase spending for a particular project, either an increase in revenues would need to be considered, or a decision would need to be made to shift spending by the state from one type of expenditure to another.

Adopting this amendment would keep a handle on spending and the automatic debt that appears to be prevalent at the state government level.

For those who say there is too much debt in a state to initially convert to the balanced budget philosophy, let's compromise. Partition the current state budget between the portion allocated to paying the old debt (including interest) and the budget used to run the ongoing government operations. The portion of the state budget which is used to run the ongoing government operations can immediately adopt the balanced budget philosophy to keep that portion of the budget solvent going forward. Regarding the portion of the budget reflecting the old debt and interest, a project plan would need to be developed and adopted to gradually pay down and eliminate this debt over time.

Such a plan would need to be candid, open and truthful, with milestones in place to measure success over time.

This is similar to the logic that financial institutions use when analyzing “non-performing” loans (i.e. “cash basis” loans where the client is not making current loan payments) verses “performing” loans (loans that are “current” where revenue is recognized as accrued). The current and non-current portions of the portfolio would be segmented, with a **different** focus for each:

- The current portfolio would require bankers to **manage and grow the “current” business** for increased future earnings.
- The non-current portfolio would require recovery managers who specialize in debt collections **to recover capital and minimize losses.**

In the same manner, the debt portion of the state government budget needs to be segmented from the ongoing government operations as each require a **different** focus for success:

- The ongoing government operations budget requires fiscal discipline and controls to **grow the economy, generate revenues, create cost efficiencies and eliminate waste.**
- The debt portion requires a team of recovery managers who primarily focus on **bringing down the debt in the best way possible.**

The character of the state budget is not like the budget of the federal government. The federal government has more “wild cards” to deal with than the states, as they need to be concerned with many national variables including but not limited to defense, monetary policy, global energy concerns, border protection, etc. These national variables are many times subject to foreign activities and situations which are not always in the control of the United States. As such, adopting a balance budget amendment at the federal level may initially be more of a challenge as opposed to the state government level where the revenues and expenditure levels are more controllable.

A handwritten signature in black ink, appearing to read 'Joseph-Paul Timpano', followed by a long horizontal line extending to the right.

Joseph-Paul Timpano, CPA

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