Governments in Peril: Dealing with Financial Distress

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NCSL Atlantic States Fiscal Leaders
Who we are

• The Pew Charitable Trusts is a nonprofit, nonpartisan research and advocacy organization based in Washington, D.C., working to improve public policy in a broad range of areas.

• The state and local fiscal health team works on topics including rainy day funds, tax incentives, debt management, and fiscal monitoring.
2013 report on state interventions
State Strategies to Detect Local Fiscal Distress

How states assess and monitor the financial health of local governments
Fiscal monitoring defined:

- States that actively and regularly review financial information from local governments in order to assess the fiscal condition of local governments and/or identify signs of distress

What we included:

- General purpose local governments
- Counties, cities, towns, and villages
Fiscal monitoring across the United States

Source: Pew analysis of state statutes and interviews with state officials
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Varying approaches

- Handled by departments of revenue, treasury, finance, comptroller, auditor, economic development, and local government services

- Variety of different methods and indicators to identify distress, using information found in audits, financial reports and sometimes budgets
Challenge #1

**Challenge:** Learning about fiscal distress too late.

**Solution:** States check in with local governments on a frequent and regular basis to try to detect distress earlier.

**Early warning states:** Louisiana, Nevada, New Jersey, North Carolina, Ohio, Pennsylvania, and Rhode Island, and Tennessee.
Tennessee

- Quarterly monitoring
- Budgets and financial statements
- Sufficient resources to pay their obligations

“A lot of what we’re doing is really proactive and upfront, rather than after things have gone wrong.”
- Ron Queen, manager of local finance, Office of State and Local Finance, Comptroller of the Treasury
Challenge #2

**Challenge:** Inconsistent monitoring when procedures are informal and not codified in statute

**Solution:** Formal systems and processes help to promote transparency, predictability, and consistency
Rhode Island

- Proposed tax rates and proposed budgets
- Local governments are required to submit quarterly reports
- 5-year forecasts including pensions and OPEB

“[Central Falls] was certainly a wake-up call... before no one really envisioned a municipality going bankrupt.”
- Susanne Greschner, Division of Municipal Finance, Department of Revenue
Challenge #3

**Challenge:** Tensions between state and local government officials

**Solution:** Establish good working relationships between state and local governments
New York

- “No surprise approach”
- Reach out ahead of time to inform local governments

“We want transparency. We’re not trying to ‘catch’ places.”
- Craig Kinns, Office of the State Comptroller’s Division of Local Government and School Accountability
Challenge #4

**Challenge:** Seeing intervention as the only response

**Solution:** Identify smaller steps to help local governments that stop short of intervention
Nevada

- “Fiscal watch”
- 27 indicators
- Committee on Local Government Finance

“Taking over entities is pretty serious... fiscal watch offers all kinds of opportunities to correct [problems] before the state actually takes over.”
- Terry Rubald, deputy executive director, Department of Taxation
Conclusion

- Broad variety among fiscal monitoring systems
- Research points to promising approaches to building an effective fiscal monitoring system
- States can play a critical role in local government fiscal health
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