Distressed Localities: State Strategies to Detect the Warning Signs

December 15, 2016

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Today’s presenters

Adrienne Lu
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Rhode Island State Senator
Daniel Da Ponte

Terry Rubald
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Nevada Department of Taxation
Distressed localities: State strategies to detect the warning signs

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National Conference of State Legislatures Webinar
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.
The State Role in Local Government Financial Distress

As cities confront financial challenges, states weigh whether to help them pull through.
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

Sources: 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, and economic development, local government services
- Variety of different methods and indicators to identify distress, using information found in audits, financial reports and sometimes budgets
Key principle #1

- Detecting distress early can help local governments to address their fiscal problems before they become unmanageable.
Key principle #2

• Formal systems and processes help to promote transparency, predictability, and consistency.
Key principle #3

- Good working relationships between state and local governments are critical.
Key principle #4

- States should undertake fiscal monitoring with the goal of avoiding state intervention or taking over a local government’s decision-making authority.
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
Rhode Island State Senator Daniel Da Ponte

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Fiscal Monitoring in Nevada

Presented to:
National Conference of State Legislatures and The Pew Charitable Trusts

By: Terry E. Rubald,
Nevada Department of Taxation

December 15, 2016
A Little Nevada History

• Severe financial emergency (SFE) statutes in place since 1995.

• From 1995 to 2016:
  – 4 local governments in severe financial emergency, all resolved
  – 1 local government in “technical financial assistance,” resolved
  – 2 local governments currently under the new “Fiscal Watch”
  – 2 local governments only monitored
A Little Nevada History

• “Tweaking” of severe financial emergency statutes in 2015:
  – Concept of Fiscal Watch introduced
  – Once SFE declared, Department authority to renegotiate debt and union contracts was strengthened
Technical Financial Assistance

• Assistance provided by the Department to a local government, including, without limitation:
  • Assistance with developing budgets
  • Reviewing contracts
  • Analyzing cost allocations
  • Debt management
  • Feasibility analyses
  • Revenue forecasting
Technical Financial Assistance

- Analyze options to address the problem
- Design an action plan
- The local government implements the proposed action plan at its discretion
- The Department does not enforce the action plan
Fiscal Watch

NRS 354.655: The monitoring of a local government for any of the fiscal conditions listed in statute; determination of severity of condition(s)
Fiscal Watch

• Department of Taxation considers severity of specific conditions listed in statute
• Notice to local government, Tax Commission and Committee on Local Government Finance
• Local government remains under fiscal watch until Department determines fiscal conditions no longer exist
When to activate Fiscal Watch

• How severe is the financial condition?
  – Is it material?
  – Is it recurring?
  – Is the condition worsening or improving?
Benefits to State of an Early Warning System

- Provide system of oversight to enable local governments to recover
- Maintain basic services for affected residents
- Avoid stigma and cost of bankruptcy, including increasing cost of debt to other local governments
- Minimize burden on surrounding local governments to provide services
- Maintain components of state economy
Lessons Learned

• Let the local government officials try to work it out themselves, but heighten accountability through additional reporting, whether verbal or written.

• Make sure formal processes enhance and maintain communications between the state and local governments rather than become a source of frustration.

• Make sure the state staff and/or oversight body has sufficient expertise in local government financial processes.
Questions?
Questions?

- To ask a question, type your question into the box on the right-hand side of your screen.
  - You will not be identified and only the presenters will see your question.
Thank you for participating!

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Additional Materials

- Nevada Revised Statutes, 354.685 contain the list of early warning financial distress signs.

- [http://www.leg.state.nv.us/NRS/NRS-354.html#NRS354Sec685](http://www.leg.state.nv.us/NRS/NRS-354.html#NRS354Sec685)
Early Warning Signs in Statute

1. Required financial reports have not been filed or are consistently late
2. Audit shows unlawful expenditure of money in excess of amount appropriated
3. Audit shows funds with deficit fund balances
4. Local government has incurred debt beyond its ability to pay
Early Warning Signs in Statute

5. Local government has not corrected violations of statutes or regulations as noted in audit

6. Local government has serious internal control problems noted in audit that have not been corrected

7. Local government has a record of being late in its payments for services and supplies
Early Warning Signs in Statute

8. Local government has had insufficient cash to meet payroll in timely manner
9. Local government has borrowed money or entered into long-term lease arrangements without following compliance statutes
10. Local government has failed to correct problems after it has been notified by Department
Early Warning Signs in Statute

11. Local government has not separately accounted for its individual funds
12. Local government invested money in financial instruments in violation of statute
13. Local government is in violation of any covenant in connection with any debt issued by the local government
Early Warning Signs in Statute

14. Local government has not made bond and lease payments in accordance with the approved payment schedule.

15. Local government failed to control its assets such that large defalcations have occurred which have impaired the financial condition of the local government.
Early Warning Signs in Statute

16. Local government has recognized sizable losses as a result of imprudent investments.

17. Local government has allowed its accounting system and recording of transactions to deteriorate to such an extent that it is not possible to accurately measure results of operations.
Early Warning Signs in Statute

18. Local government has consistently issued checks not covered by adequate deposits.

19. Local government has loaned and borrowed money between funds without following the proper procedures.

20. Local government has expended money in violation of the provisions governing the expenditure of that money.
Early Warning Signs in Statute

21. Money restricted for a specific use has been expended in violation of the provisions governing its expenditure.

22. Sales tax distribution has been withheld by State Treasurer because local government has failed to make required reports.
Early Warning Signs in Statute

23. School district fails to make a timely payment on the debt service of bonds that are guaranteed and state makes payment

24. Employer in county that accounts for more than 15% of employment has closed
Early Warning Signs in Statute

25. Local government has experienced a cumulative decline of 10% in population or assessed value for past two years.

26. EFB of GF has declined for past 2 years or is less than 4% of actual expenditures from preceding year.

27. Local government has failed to pay contributions to retirement fund, workers’ comp, payroll taxes, or Fed Unemployment.