Local Government Finances and the Role of State Monitoring and Intervention

August 20, 2014
Most Cities had not Recovered by 2012

2012 revenue as a percent of previous peak, by city
Property Tax Collections in Most Cities Did Not Begin to Decline Until After the Great Recession Ended

Property tax year-over-year percent change: average across 30 cities, 2008-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Cities with Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>8</td>
</tr>
<tr>
<td>2009</td>
<td>9</td>
</tr>
<tr>
<td>2010</td>
<td>18</td>
</tr>
<tr>
<td>2011</td>
<td>18</td>
</tr>
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<td>2012</td>
<td>24</td>
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Note: Shaded area represents the period of the Great Recession as defined by the National Bureau of Economic Research
State aid and property taxes, which together account for more than half of local revenues, shrank in the same year for the first time since 1980.

- Pew Charitable Trusts
Implications for States

- Protect public health and safety
- Prevent stigma, reputation damage, credit downgrades
- Promote and protect economic growth and stability
- Attract and retain businesses and residents
The Big Picture

19 states have laws allowing them to intervene in distressed localities.

States with local intervention laws in place
State by State Variations

**North Carolina** emphasizes state-level monitoring of local government finances.

**Rhode Island** recently strengthened its intervention program after the Central Falls bankruptcy.

**New Jersey** offers grants to distressed cities but because of budget cuts has had to be more strategic about aid.

**Michigan** and **Pennsylvania** have strong state intervention programs, with mixed results.

**Alabama** and **California** historically take a hands-off approach to assisting cities.
Detecting Distress: Goals

- Detecting vs. Tracking
- Empirical Rigor
- Comparability
- Simplicity
Detecting Distress: What are some things we measure?

1. Uncontrollable costs as a share of revenue
2. General fund balance
3. Dependence on state and federal aid
4. Annual revenue change
5. General fund surplus or deficit
6. Changes in socioeconomic variables
7. Dependence on state and federal aid
Detecting Distress:
What are the outcomes we want to know?

- No evidence of distress

- One or more of the following:
  - Reductions in pension and/or OPEB contributions
  - Deferred payments
  - Late budget enactment
  - Large inter-fund transfers
  - Across-the-board budget cuts
  - Formal declaration of fiscal emergency
  - State takeover of local finances

- Municipal bond default and/or bankruptcy declaration
Proposed Solutions

1. Detect local government fiscal distress and offer technical advice.

2. Budget for the long term.

3. Involve all stakeholders in the intervention solution.

4. Policymakers must use limited resources strategically.