

# Fiscal Distress in Local Governments: Opportunities for State/Local Partnership

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December 2, 2016

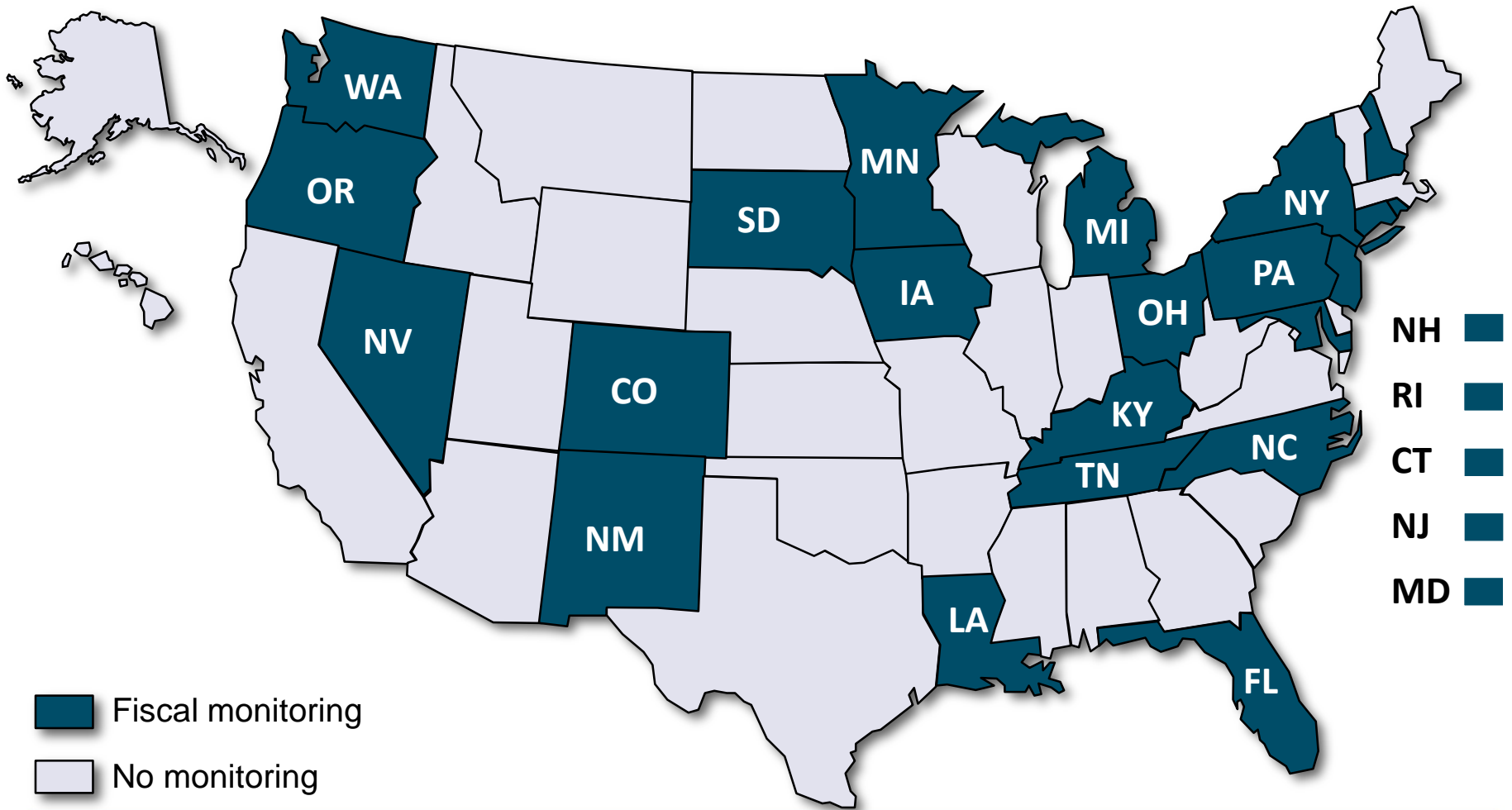
# Opportunities for state/local partnership

- Local governments are critical to state growth
- Local officials have limited flexibility to address both long-term structural challenges and short-term shocks
- Early detection creates opportunities to resolve challenges in advance of a fiscal crisis

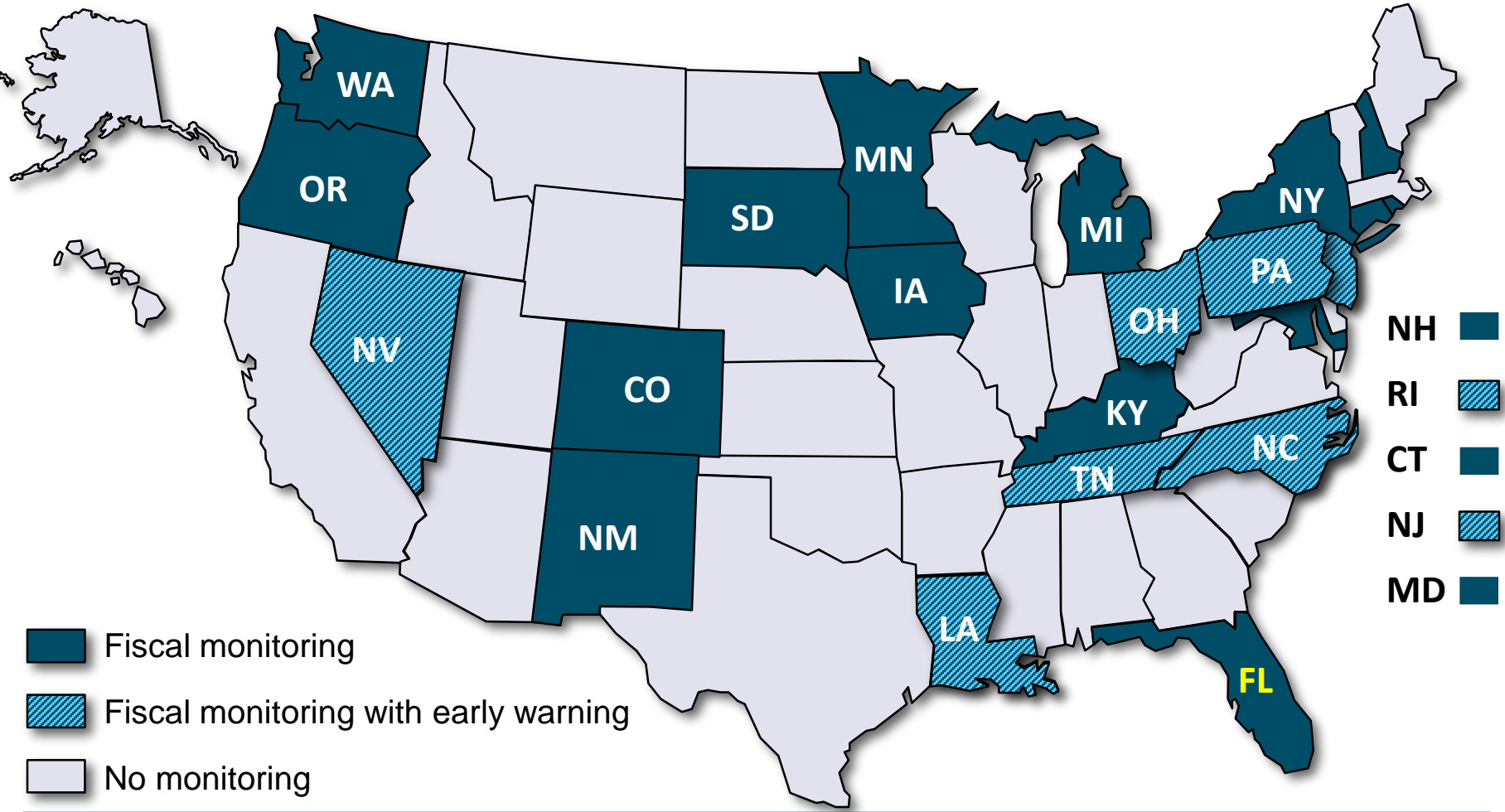
# Fiscal monitoring defined

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

# Fiscal monitoring states



# Early warning states

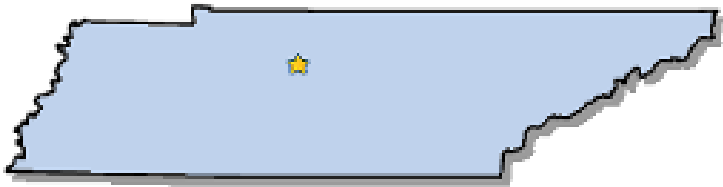


# Challenge 1

**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.

# Tennessee



- Quarterly monitoring
- Budgets and financial statements
- Sufficient resources to meet obligations

“A lot of what we’re doing is really proactive and upfront, rather than after things have gone wrong.”

*-Ron Queen, senior financial analyst, Office of State and Local Finance*

# Challenge 2

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

**Solution:** Formal systems and processes promote transparency, predictability, and consistency.



# Rhode Island



- Proposed tax rates and proposed budgets
- Local governments are required to submit quarterly reports
- Five 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, chief, Division of Municipal Finance*

# Challenge 3

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

**Solution:** States can establish good working relationships with local governments.

# New York



- “No surprise approach”
- Reach out to local governments in advance

“We want transparency. We’re not trying to ‘catch’ places.”

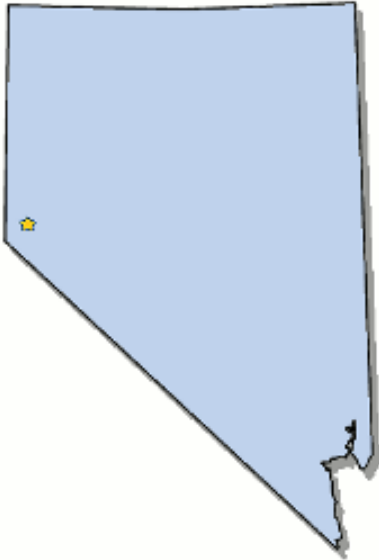
*-Craig Kinns, assistant director, operations, State Comptroller’s Division of Local Government and School Accountability*

# Challenge 4

**Challenge:** Treating intervention as the only response.

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

# Nevada



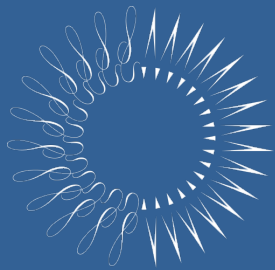
- “Fiscal watch”
- 27 indicators
- Committee on Local Government Finance

“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*

# Key considerations

- Establish a clear definition of “distress”
- Identify the department(s) or agency(ies) responsible
- Identify data sources that will meet the stated purpose
- Determine which indicators to monitor and with what frequency
- Ensure monitoring is consistent



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