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# State Strategies for Detecting Fiscal Distress in Local Governments:

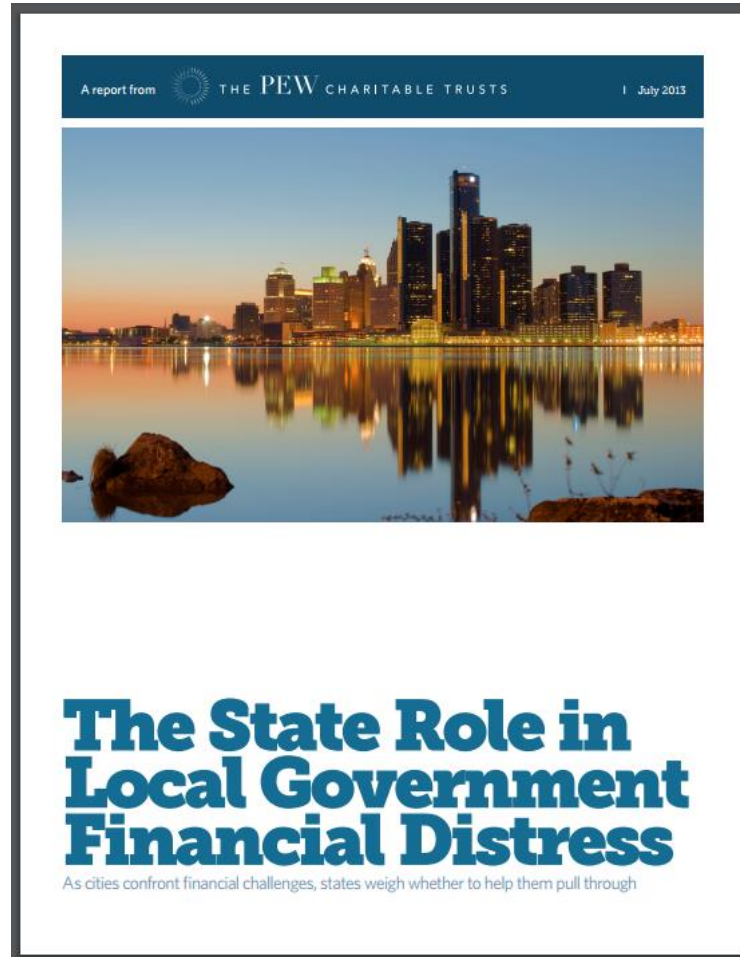
Study shows how states monitor the fiscal health of localities

July 12, 2016

Hutchins Center on Fiscal and Monetary Policy, The Brookings Institution

Municipal Finance Conference

# 2013 report on state interventions:



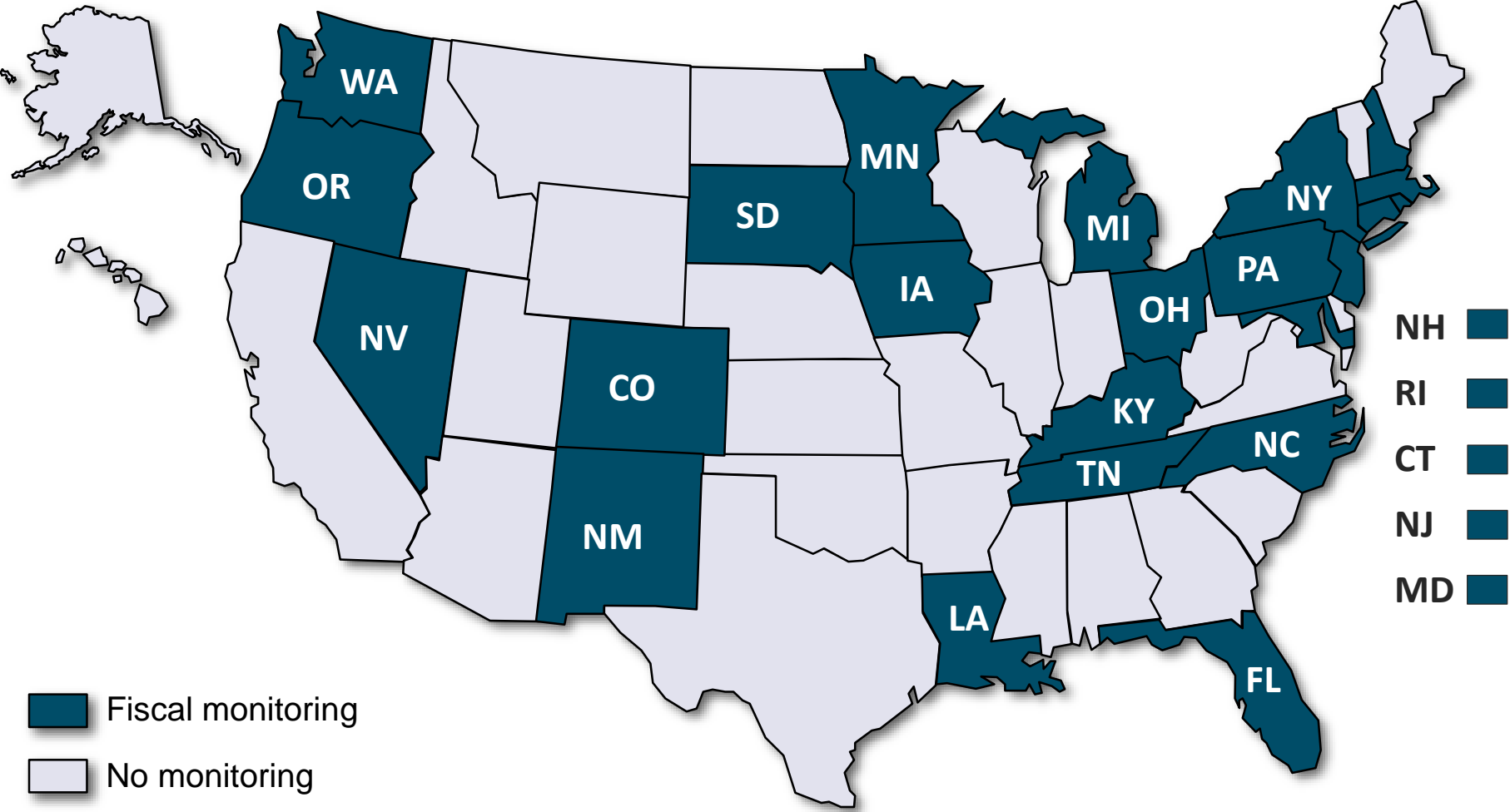
## Fiscal monitoring defined:

We looked for states that *actively* and *regularly* review financial information from local governments with the aim of trying to detect fiscal distress or, more generally, assessing the fiscal condition of local governments.

## What we included in our study:

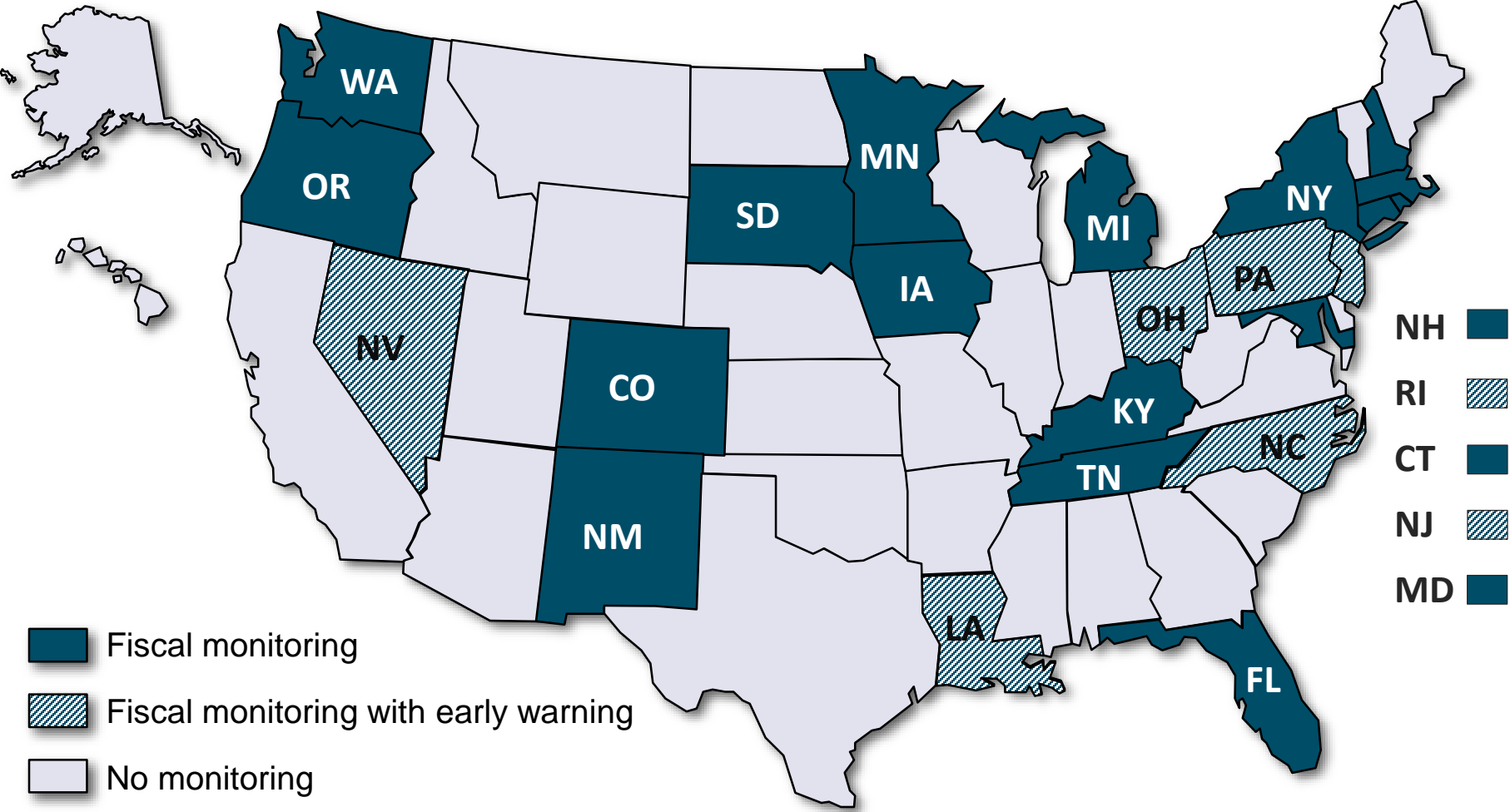
- General purpose local governments
- Counties, cities, towns, and villages

# Fiscal monitoring states



■ Fiscal monitoring  
■ No monitoring

# Early warning states



# Varying approaches



- Handled by departments of revenue, treasury, finance, economic development, auditor, and comptroller.
- Variety of methods, indicators used to detect distress.
- Attitudes about monitoring also vary.

# Key principle #1



**Formal systems and processes** help to promote transparency, predictability, and consistency.



# Key principle #2



**Detecting distress early** can help local governments to address their fiscal problems before they become unmanageable.

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

# Key principle #3



**Good working relationships** between state and local governments are critical.

# Key principle #4

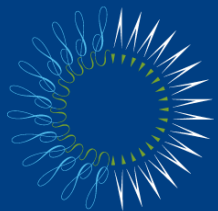


States should undertake fiscal monitoring with the goal of **avoiding state intervention**, or taking over a local government's decision-making authority.

# Conclusion



- Broad variety of 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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