State Strategies for Detecting Fiscal Distress in Local Governments:

Study shows how states monitor the fiscal health of localities

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Hutchins Center on Fiscal and Monetary Policy, The Brookings Institution
Municipal Finance Conference
2013 report on state interventions:

The State Role in Local Government Financial Distress

As cities confront financial challenges, states weigh whether to help them pull through.
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: WA, OR, NV, CO, NM, MN, IA, SD, WI, MI, OH, PA, NY, FL, TN, NC, KY, LA

No monitoring: all other states

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Early warning states

- Fiscal monitoring
- Fiscal monitoring with early warning
- No monitoring

States with Fiscal Monitoring:
- WA, OR, CO, NM, MN, IA, SD, MI, NY, PA, TN, FL

States with Fiscal Monitoring with Early Warning:
- NV, LA, NC, OH, PA, FL

States with No Monitoring:
- WA, OR, CO, NM, MN, IA, SD, MI, NY, PA, TN, FL, NV, LA, NC, OH, PA, FL

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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.

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.