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Fiscal Stress in American Municipalities:

An analysis on the role of the State as it relates to municipal financial health

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To my parents, thank you for your support and love. I cannot be the independent, hard-driving, entrepreneurial, fierce, kind, loving, and filial daughter without you. Thank you for letting me live my American dream.

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ABSTRACT:

While municipal bankruptcy as a whole is rare in the United States, since the Great Recession, fiscal distress in municipalities is common. This is due to the compounding of decreased state aid, declining property values and increased need of services. In these fiscally and administratively challenging times, where the U.S. government is ripe and saddled with political discord, high debt/legacy costs, and decreased economic stability, can cities walk the stringent financial tightrope without falling head first? This research paper addresses the causations leading to municipal fiscal stress, role of the state as it relates to municipal financial health and best practices leading towards stabilization and recovery.

Keywords: municipal fiscal stress, role of state, local government management, municipal bankruptcy

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I. INTRODUCTION

In July 2013, the once glamorous and industrious Motown city, Detroit, filed for the largest municipal bankruptcy in the history of the United States (Foroohar, 2013). Detroit's bankruptcy did not come as a surprise, in part due to the scandal and corruption charges plaguing the former Detroit Mayor Kwame Kilpatrick. The mayor's unethical and corruptive practices on the taxpayer's dime further intensified the city's unstable finances resulting in bankruptcy shortly thereafter (Schaefer, 2013).

While as a whole, municipal bankruptcies in America are rare, many cities are entering similar financial predicaments, albeit with differing scale and variability. Detroit's perfect storm of high unemployment rates, population decline, high debt obligations, , inept/corrupt leadership, high legal cost, bad investments, lack of funding streams and the flight of industries compounded its misfortune and gradual descent (Schaefer, 2013).

Sadly, for Detroit, their predicament was preventable. The state of Michigan has a strong state government, and by law can intervene in local governance during times of financial distress by assigning an emergency manager to redirect the city back into stable financial territory (Pew Charitable Trust, 2013). Due to political jostling between state and local government, it was not until March 2013 (three months before Detroit filed for bankruptcy) that the city allowed the emergency manager to govern (The Detroit News, 2014). This begs the question—if the state of Michigan, considered a strong state government, can by law intervene in local governance during a time of fiscal crisis, how did they allow the largest municipal bankruptcy in the history of the United States to occur?

This research paper will address the following:

a. the trajectory of local financial distress leading up to bankruptcy;

b. whether strong state governments are conducive to stronger local finances; and

c. stakeholder viewpoints on municipal financial management, fiscal stress and the role of the state.

II. LITERATURE REVIEW

Municipal fiscal stress is complicated. Local governments in the United States have varying externalities that affects its financial health—not limited to environment, culture and economic considerations. The following literature review will address the common attributes that lead up to municipal fiscal stress found in academic journals, public policy papers, and technical guidance from state and federal publications.

A. Overview of Municipal Externalities

The key to long-term municipal planning is having a strong financial foundation, which includes many environmental factors that may or may not be controllable, and their effects on the financial position of the municipality. As identified by the 2008 Guide to Financial Condition Analysis, the Office of the New York State Comptroller's office, the following externalities to consider are:

i. ***Environmental***—Environmental circumstances consistently help detect future financial strain (page 2). These metrics include population trends, median household income levels, unemployment rates, property value trends, educational attainment, age and characteristics, poverty indicators, such as numbers of single heads of households as a percentage of your community's population (page 2).

ii. ***Organizational***– Management and legislative programming creates the financial infrastructures and conditioning in which the municipality operates (page 3). Naturally, poor management and unfavorable legislative practices destroys fiscal prudence (page 3). Once an unfavorable financial infrastructure is instituted, no matter how sound the budgeting and management practices are thereafter, crisis may not be forestalled (page 3). Manifestations of this fiscal stress will transpire in repetition in expenditures (i.e., salaries, fringe, contractual), recurring major expenditures by object (i.e., salaries, fringes, contractual), debt outstanding and debt service levels, and percentage of tax and debt limit (page 3).

iii. ***Financial conditioning***– Financial constraints comprising of intergovernmental duress such as tax and debt limits, mandated expenditures, unfavorable schedules for financial transactions confines the pathways for municipalities to control their fiscal outcomes (page 2).

B. Devolution Revolution

Illiquidity is the key causation of bankruptcy in small cities. For most illiquid towns, the story began with devolution. Devolution, as described by Bowman and Kearney (2011) in "*Second-Order Devolution: Data and Doubt*" is the process of localities gaining more autonomy and authority from state governance. In sum, decentralization. Devolution gained popularity in the 1990s and is often referred to as the "*the devolution revolution*" (Cole, 1999).

Bowman and Kearney (2011) illustrated that this trend has some real advantages. Of the major advantages, it includes service delivery efficiencies, cost savings for purchased services, creative policy making, citizen participation, greater accountability and transparency, and reducing the legislative workload by assuming more control in local policy. Overtime, devolution brought in new players in local service delivery including non-profits and public private partnerships (Cole, 1999).

Devolution's goal was to push forward creative local policies and control that bypasses state interception (Cole, 1999). While devolution worked efficiently in many towns, if devolution occurs in a struggling community, not yet up to the task of implementing these increased responsibilities, *failure will follow (*Bowman, 2011). More, not all, localities are good candidates for devolution. By far, this is the largest drawback of devolution: giving too much power and authority to a locality not equipped to handle it.

C. Type of Municipal Income and Debt

As more states devolve, state aid to municipalities decreases. As a result, cities rely on other funding streams to facilitate their operations, including sales tax (i.e., non-property tax), income tax, user charges and fees (i.e., special police detail, parking fees, parks and recreation usage), property tax, and creative financing (i.e., zero coupon bonds, compound interest bonds) (Campbell, 1983) . The largest percentage of incomes in towns is property tax. In most cities and towns, raising taxes on its citizens is never a popular platform to resolve fiscal distress. As such, many municipalities incur debt to finance municipal projects (Morrison, 2002).

When a municipality wants to finance a project such as a new school or a bridge, it will go into debt by issuing bonds (Morrison, 2002). In exchange for loan, the city will pay interest accrued for the life of the loan (Morrison, 2002). To ensure the fidelity of the borrower, municipal credibility is monitored extensively by credit rating agencies (Morrison, 2002). A strong credit rating is in the best interest of the municipality, as it will ensure future loans for capital improvements (Morrison, 2002). The following are types of municipal debts:

i. ***General obligation debt:*** General obligation bonds are long-term loans secured "full faith and credit," to finance large capital expenditures such as building of a new school (Morrison, 2002). As it is a "full faith and credit" loan, it is considered a safe investing vehicle and its lower interest rate reflects this (Morrison, 2002). If any improprieties occurred during the issuing of this debt without proper procedures or channels—it can be voided (Morrison, 2002).

ii. ***Special obligation debt:*** A special obligation loan which does not pledge "full faith and credit" and is used for borrowing on special projects such as a sports stadium to support economic development (Morrison, 2002). This debt is paid through a designated funding stream and only that funding stream (Morrison, 2002). It is also subjected to federal income tax (Morrison, 2002). Special obligation debt demands a higher interest rate as it is not secured (Morrison, 2002).

iii. ***Current accounts deficits:*** Perhaps the most controversial type of debt, current accounts deficits are deficits that occur in current year operations unbalanced due to unanticipated circumstances (i.e., fire, terrorism, natural disasters, personnel strikes) and are generally paid by short-term municipal borrowing from other municipal accounts. This is also referred to as "cash flow borrowing" (Morrison, 2002). Cash flow borrowing is one of the main reasons pensions are not fully funded. Often times, current pensions consumed by retirees are in part paid by current year deductions (Morrison, 2002). Unfunded current accounts deficits may be problematic if there are more retirees collecting pensions than the workers who fund the pension (Morrison, 2002).

D. The Unquiet Tempering: Unfunded Pensions

One of the most affrighting municipal debts is underfunding pensions. Affrighting because it does not immediately show up on municipal balance sheets (Mattoon, 2011). Furthermore, low pension funding is positively correlated to the financial stress (Kemp, 1988).

In general, there are two forms of municipal pension plans:

i. ***Defined contribution***—A defined contribution retirement benefit is based on the employee's contribution levels plus the performance of the stock market. As it is tied to market performance, there is a level of uncertainty on the amount the pensioner receivers during retirement (Kemp, 1988).

ii. ***Define benefits***—A defined benefit plan is a retirement plan where a municipality assures a explicate benefit based on a pre-negotiated formula based on pensioner earnings, years of service and age (Kemp, 1988). A defined benefit plan is fixed and not based on market performance (Kemp, 1988).

At times, a municipality may determine that it is in their financial interest to defer the funding of a pension plan, as there are no implications or disincentives (Kemp, 1988). Cities acting on this will assume a current deficits debt (Morrison, 2002). When a municipality declines to fund its pensions, it essentially is accepting a loan from its employees (Kemp, 1988). By accepting this loan, municipalities are delaying their commitment and burden of payment to future taxpayers at an increase contribution level (Kemp, 1988). This debt is real and therefore is capable of jeopardizing the prosperity of the municipality should they default on this debt (Kemp, 1988). Unfortunately, many cities fall into the trap of underfunding their pensions, especially since there is an absence of ordinances and regulations that oversee this phenomenon unlike private sector pensions (Kemp, 1988). To offset this potential crisis, municipal leadership must control debts to avoid future uncertainty (Kemps, 1988).

E. Municipal Financial Strain

Municipal financial strain occurs when the current operating revenues (i.e., taxes, fees, revenue sharing, other income) are less than the current operating expenses (i.e., general obligations debt, special obligations debt, current accounts deficits) (Kemp, 1988). When the operating revenue falls below the operating expenses, a financial strain occurs (Kemp, 1988). Municipalities can quickly cloak this deficit by borrowing against their debt (Kemp, 1988). In personal finance, there is a perception of good debt (i.e., student loan, mortgage) and bad debt (i.e., credit card). This is also true for municipal finance. Good debt is considered investments made to infrastructure, such as road or schools (Kemp, 1988). Bad debt is referenced as keeping the current operating deficits afloat (Kemp, 1988). Bad debt will eventually result in a tax hike or decreased municipal service (Kemp, 1988). When a municipality goes down the route of bad debt, it generally puts municipalities in a weaker economic position that jeopardizes its standing in the eyes of its citizens and lenders (Kemp, 1988).

F. Fiscal Relief in Challenging Times

Under state law, cities must balance their budget (Hansen, 1991). Highly resourceful financial officers will start the course of the year by budgeting conservatively by over-estimating spending and under-estimating revenue expectations (Hansen, 1991). Hence always producing a surplus. Moreover, it is considered wise for financial officers to cushion a 5% yearend balance in their general budget for unexpected expenditures (i.e., budget error, natural disaster) (Hansen, 1991). Ideally, this 5% yearend surplus will not be spent, and instead saved into a rainy day fund

(Hansen, 1991). Moreover, to maximize additional cost savings it is important that municipalities continually monitor, analyze and identify expenditures.

In times of budget scarcity, cities can achieve substantial savings by trimming travel or implementing hiring freezes (Hanson, 199). Beyond this, additional targeted reductions may include across the board reductions, furloughs, postponement in pension fund contributions, tax increases, spending investment deferrals, layoffs, and borrowing bonds (Hansen, 1991). Finance officers need to tread a fine line when it comes to presenting unpopular decisions, such as tax increases, as tax increases will not solve a financial crisis. In fact, tax rates can peak at their "revenue hill" and from there revenues may fall, which will only create further economic affliction and inefficiencies (Inman, 1995).

During a cyclical economic downturn, governments face revenue scarcity, unemployment escalation, increased demands for public assistance, and housing instability (Hansen, 1991). In the 1990's, Philadelphia encountered such a fiscal crisis. In September 1990, Philadelphia attempted to borrow $375 million from the municipal bond market, $187 million more than the previous year (Inman, 1995). The municipal bond market reacted with alarm and concern and rejected their request (Inman, 1995). This sent the city into a three-year fiscal crisis (Inman, 1995). In a bind, Philadelphia had to analyze their expenditures and restructure their obligations. This crisis resulted in an increase in their sales tax by 1 percent, two-year wage freezes for municipal employees, and a reduction of employee benefits. Residents had to cope with reduced public services (Inman, 1995). Moving forward, Philadelphia became more proactive in seeking aid from state and federal resources to combat illiquidity instead of using their general funds (Inman, 1995). Philadelphia also became very uncompromising with their labor contract negotiations (Inman, 1995). In sum, to achieve fiscal relief actualization, a change in the service delivery structure must involve the cooperation of corporations, states, and local interest groups (Campbell, 1983).

G. Bankruptcy Predicament

State statutes dictate terms for cities should they become insolvent, and they must adhere to these edicts (Morrison, 2002). Generally, municipalities are unique and have differing definitions of insolvency (Morrison, 2002). Cities are free to choose their path, as long as they follow the law, however irresponsible (Morrison, 2002). States do have significant interest in local financial health. If a town defaults on their loan, by the way of contagion, other municipalities and states by association will be affected by their actions (Campbell, 1983). Specifically, if a municipality defaults on their loan, the state's credit worthiness and their ability to borrow is also compromised (Campbell, 1983). Generally, states impose debt limits for cities and parallel governmental entities (i.e., economic developments, schools) (Morrison, 2002). States also establishes rules to impeded towns from exorbitant borrowing (Morrison, 2002). Some towns must seek a public referendum to debate and request an increase to public borrowing (Morrison, 2002).

A fiscal predicament occurs when the city fails to augment revenues or raise adequate funds to meet its legal debt obligations (Inman, 1995). In simple terms, avoiding bankruptcy is easy: earn more than you spend. However, cities are more intricate and weave a wider net. Four externalities unmanageable by the city that exasperate municipal finances include: (1) economic troughs that decrease tax revenues; (2) the flight of high income generators which results in a decrease in high-income generating tax base; (3) increase in disadvantageous demography that necessitate additional resources; (4) reduction of state and federal aids to municipalities (Inman, 1995). While devolution and decentralization of municipalities may yield more local control it results in less jurisdiction on expenditure controls from the state (Inman, 1995).

H. Causations Leading up to Fiscal Stress

There are many causes that lead up to municipal distress. The following are recent case studies that pushed municipalities to the brink of bankruptcy:

i. ***Underfunding/overpromising obligations***

Vallejo, CA– Vallejo promised labor unions significant obligations that could not be fulfilled (Mattoon, 2009). By fiscal year 08/09, labor commitments alone were $79.4 million (Matton, 2009). Unfortunately, in fiscal year 08/09 the town only had revenue totaling $77.9 million—for the whole town operation (Mattoon, 2009)!

ii. ***Lawsuits***

Westfall, PA– Westfall was sued by a real estate developer after reneging on a promise to allow for a hotel development (Pew Charitable Trust, 2013). After much legal contention, the federal judge motioned the town to pay a $20 million dollar settlement (Pew Charitable Trust, 2013). Sadly, the town only generated roughly $1 million in revenue per year (Pew Charitable Trust, 2013).

iii. ***Overextended/incorrect capital investments***

Harrisburg, PA- In 2003, Harrisburg committed to build a town incinerator (Matton, 2009). Due to delays in construction, poor management, restructuring of debt, the cost overruns skyrocketed to $282 million dollars, a staggering amount for a town populated by 47,000 residents (Matton, 2009).

iv. ***Poor business management/accounting practices***

New York City, NY— Inadequate financial practices, compounded with inept leadership led to New York City's inability to meet its short-term contractual obligations in 1975 (Morrison, 2002).

v. ***Poor investments***

Orange County, CA- Orange County, one of the wealthiest towns in America, invested and borrowed against high-risk funds including derivatives, inverse floaters, reverse purchase agreements and long-term high yield bonds, which eroded in value precipitously (Pew Charitable Trust, 2013).

I. State's Role in Municipal Oversight

In 2012, in an attempt to address the concerns of municipal bankruptcies The National Association for State Budget Officers produced an issue brief titled "Municipal Bankruptcy & the Role of the States," which outlined the following:

i. ***"State laws are shaped by local crisis"—*** States do not hold uniform views concerning its recognition and the legality of municipal bankruptcies (page 3). In fact, many states do not recognize bankruptcies or implement reactive statutes to manage municipal fiscal emergencies (page 3). As such, states may want to consider strategic legislation on policies regarding local financial duress instead of implementing reactive legislation that may result in unforeseen ramifications (page 3).

ii. ***"Localities often resist state intervention"***—During financial duress, states may intervene and oversee local operations to control further financial ailment (page 4). Since control of municipal finance affects retirees, employees and other stakeholders—a natural tension may occur as states are viewed acrimoniously as cost cutting strategist (page 4). This dynamic depends on the history of the relationship between the state and the municipality (page 4). Transparency by the state during this transition is the key to municipal cooperation (page 4).

iii. ***"The underlying cause of the crisis matters"***—When states enter into a difficult municipal predicament, they must act with prudence as it sets precedence in their state (page 5). States tend to assist municipalities that suffer financial distress due to external forces (i.e., economic stress, natural disaster) and exhibit common core governmental operations (page 5). Generally, states intervene during this time as a precaution to ward off adverse reverberations that affect credit and borrowing charges for the surrounding areas (page 5). States, however, resist intervening on internal causations of fiscal stress (i.e., inept management, corruption) that chiefly point to one particular event (page 5).

iv. ***"State role can have credit rating implications"—***Due to the economic downturns, states have a stake in creating a legal roadmap that helps municipalities navigate through a period of financial distress (page 5). Declining property tax and revenues may force municipalities to rely on borrowing to maintain some forms of liquidity (page 5). If "looming defaults" are in the horizon, investors are deterred from loaning the necessary funds, which will have credit implications and consequences on the municipality and state (page 5).

J. State's Role in Managing Municipal Finances

When municipalities are struggling financially, states have historically intervened (Anderson, 2012). As mentioned, no two cities are alike as it is relative to the economic and financial conditioning. In a 2013 study commissioned by Pew Charitable Trust, nineteen states can intervene on behalf of a city, town or county during a financial crisis (Matton, 2014). The degree of state interference varies (Matton, 2014). Michigan, North Carolina, Pennsylvania and Rhode Island have a more aggressive approach to intervention (Matton, 2014). Here are the varying degrees of state intervention:

i. ***Consultancy*:** North Carolina founded the Local Government Commission in 1931 during the Great Depression to address the upsurge in municipal financial delinquencies (Matton, 2014). Notably, when a town's reserves are under 8%, the state of North Carolina will provide consultancy to afflicted communities or provide receivership assistance (Matton, 2014). North Carolina has one of the most proactive approaches to governing municipalities in financial crisis (Matton, 2014)

ii. ***Oversight:*** Another scenario occurred in the 1970's in New York City. At the time, NYC was suffering a host of ailments including increased need population, inflation, high unemployment, housing rent controls, powerful and inflexible labor unions, and questionable accounting practices (Rabinowitz, 1976). More pressing, NYC was not able to pay its vendors on time. As a result, the New York state legislators created a state agency called the Municipal Acceptance Corporation (MAC) (Morrison, 2002). Essentially, MAC transgressed from the American municipal finance rules to save NYC. MAC pushed forth long-term bonds to pay for short-term debt in exchange for the right to claim NYC's future revenues (Morrison, 2001). Moving forward, MAC has the authority to offer final budget approval, agreement on contractors and other related expenses (Morrison, 2002). Additionally, the New York state legislatures passed the Financial Emergency Act, which created a seven-member board to oversee the control of the NYC's budget with the goal of achieving a yearly balanced budget (Rabinowitz, 1976). Upon accepting these terms, NYC had to reduced staff by 20.8%, including higher education (-28.6%), health and hospital (-22.4%), education (-20.2%), fire (-17.1%), police (-16.8%), environmental protection (-15.8%) and social services (-13.7%) (Glassberg, 1978).

iii. ***Receivership:*** Since the filing of bankruptcy in Central Falls, Rhode Island and Detroit, Michigan, both states have amended their laws to allow possible receivership and state takeovers of local governments (Anderson, 2012). The power of the laws vary. The most drastic state intervention includes replacing all elected officials with appointees (Anderson, 2012); abandoning all city's local ordinances and until stability is restored (Anderson, 2012); and democratic dissolution (Anderson, 2012). This is sometimes referred to as "financial martial law" even though the politically correct term is "democratic dissolution" (Anderson, 2012).

State receivership creates the most uncertainty for a city. It creates a legal limbo for the town (Anderson, 2012). Generally, there are three main components to state receivership and their main oversight to address fiscal instability: (1) judicial receivership to exert control to increase taxes for immediate payment to counter credit defaults; (2) if applicable, the ability to exercise the right to Chapter 9 bankruptcy reorganization; (3) if applicable, receivership can allow an overseer to sort out affairs (Anderson, 2012).

The most powerful administrator for a city under receivership is the "emergency manager" (Anderson, 2012). While municipal power and authority is facilitated by the state, the day-to-day operations including municipal services, taxes or land size to whom it serves continues to be operated by the city (Anderson, 2012). In this capacity, the emergency manager has the power to coordinate meetings, set agendas, dispose policies, and oversee activities (Anderson, 2012). Moreover, an emergency manager may have the capacity to fire elected officials (Anderson, 2012). The most controversial executive control of an emergency manager is their ability to renege, renegotiate, and delay collective bargaining agreements which are currently active (Anderson, 2012).

If a town is financially reckless, they may have to abandon their democracy for state centralization of power for the long haul (Anderson, 2012). Critics noted that emergency policies are reactive, as some emergency mangers may want to privatize city operations, auction off priceless public goods, and abort crucial projects or programming (Anderson, 2012). Critics noted these quick fires are reactionary decisions that put the town's uniqueness and cultural identity in jeopardy (Anderson, 2012). Tensions may arise between the state and the municipality. This muddies the clarity of mission and further corrupts effective governance (Anderson, 2012).

K. Chapter 9 Bankruptcy

Municipalities are not subject to forthright state supervision (Morrison, 2012). State legislatures generally allow municipalities to function as an independent entity as long as they follow the edict prescribed by law (Morrison, 2002). If a city disobeys the law, state legislators may create statutory solutions so they are not countering the law (Morrison, 2002). On rare occasions, if a municipality is acting against their legal obligations, a state can create an entity to become an overseer of the city (Morrison, 2002).

When a city believes they essentially are insolvent, there are several courses of action: leveraging debt, receiving a bailout from state, or filing for bankruptcy. Under state law, only the municipality can file for bankruptcy, as creditors cannot force debtors into it (Morrison, 2002). Chapter 9 protection under the Federal Bankruptcy Code deals with the insolvency pertaining to local government. Despite federal courts trumping municipal ordinances, states can step in as an intermediary (Morrison, 2002). A state cannot impose creditors to receive less than their declaration (Morrison, 2002). However, a federal court can declare a decision on all creditors (Morrison, 2002). Unlike commercial bankruptcy, creditors must accept this federal decision and cannot appeal (Morrison, 2002). Upon the final exchange in agreement, the municipality is cleared from its debt.

Municipal bankruptcies are complex as they are subject to the legalities of federal, state, and local laws, which occasionally dissent (Foroohar, 2013). The end goal is to restructure debt obligations in a manageable systematic manner conducive to the benefit of all parties involved. Naturally, it is in the interest of the bankrupt cities to repay their debt—otherwise, borrowers and other stakeholders will refuse to support or funds cities in desperate need of capital or services in the future. Herein lies the problem: bankrupt cities are in no condition to repay all creditors; therefore, all creditors will fight separately to legally ensure their share of obligations are safeguarded (McConnell, 1993). For general obligation bonds and current accounts deficit, a tax increase is generally instituted to pay for these debts (Morrison, 2002). Special obligations on the other hand, are treated "pro rata" which is divided among the creditors (Morrison, 2002).

III. RESEARCH METHODOLOGIES

The goal of this exploratory research is: (a) to confirm if strong state government leads to stronger local finances; and (b) to delve into the relationship dynamics between a strong state government and its municipalities as it relates to fiscal distress.

To respond to the first research inquiry, this paper will examine the data gathered from the United States Census Bureau, including the 2011 annual survey of state and local government finances, 2011 state government employment and payroll data, and the 2011 American community survey. The United States Census Bureau data offers reliable, comprehensive and consistent data, which is good for benchmarking. The notable downside of using the annual survey of state and local government finances, when compared to the comprehensive annual financial reports (CAFR), is it does not contain financial disclosures such as upcoming schedule of debt payments or pension obligations, which offers additional insights on the long-term financial health of the municipality (Rivernbark, 2009). Additionally, for this research, the designation of strong, limited, special, and no state government intervention is heavily influenced by the Pew Charitable Trusts' (2013) paper, "State Role in Local Government Financial Distress." A strong state government is not exclusive to allowing bankruptcy authorization, laws addressing fiscal distress, and instilling interventionary programs. Instead, a strong state government is holistic in its approach when addressing municipal fiscal distress, which includes its willingness and ability to step in and negotiate the restructuring of environmental, financial and organizational areas of concern. With this consideration, this research paper designated strength of state government as follows:

- ***Strong government***—Over seven affirmatives confirming support of local government in times of fiscal distress
- ***Limited state interference***—Between three to seven affirmatives addressing support of local government during times of fiscal distress
- ***Special state interference***—Between one to three affirmatives addressing support of local government, generally school districts or townships, in times of fiscal distress
- ***No state interference***—Little to no interference addressing support of local government during times of fiscal distress

Please visit Table 1 chart in the Appendix section to view the state characteristics and categories. Lastly, a weighted ratio was created and heavily influenced by the various metrics determining financial health as noted by Ken Brown's 10 point test of financial condition and the International City/County Management Association's (ICMA) financial trend monitoring system. This research, like many government entities, creates hybrid metrologies to measure their fiscal health, as there is no dominant adoption of commanding indexes system (Crosby, 2013). Generally, the indicator system adopted by the government entity is incorporated specifically to the uniqueness of "population, land area, service levels, citizen demands, and overall net worth" (Crosby, 2013). To ensure the usage of consistent metrics, this paper will focus on the following stressors of financial dimension as disclosed by Rivenbark (2009):

- ***Financial Performance***—signals if the municipality's fiscal footing is positive or negative as a result of asset circulation (page 6)
- ***Self Sufficiency***—signals if the service transactions covers expenditures (page 6)

- ***Liquidity***— signals if municipality can address short term debts (page 8)
- ***Solvency***— signals if municipality can address long term debts (page 8)
- ***Leverage***— informs if the amount of total assets funded by long term debt (page 8)

Please see Table 2 in the Appendix for the detailed breakdown of the quantitative metrics and ratios.

To respond to the second research inquiry, this research paper will focus on the strong state government of Massachusetts and the actors within the Commonwealth as it relates to municipal fiscal health. Through snowballing stakeholder interviews, this paper includes opinions from resident, financial analyst, state aid coordinator, city manager, municipal leaders and other public private partners dedicated to supporting strong municipal governance. All interview questions are constructed based on the stakeholder's field, area of expertise and position. Some recordings were permitted and transcribed by researcher. Sample interview questions are located in the Other section of the Appendix. Moreover, the researcher attended the "Technological Innovation in Government Symposium: toward open and smart government" at University of Massachusetts Boston on April 5, 2014 to supplement this research. Additionally, one area the researcher focused is school district, as it an integral part of the municipal operation, and as they make up about 36% of local expenditures (Census, 2011). Furthermore, school districts operate with relative autonomy, separate from City Hall and often overseen by the a school committee or elected officials. Adding to the intricacy, school districts are heavily monitored by accountability laws.

The following are lists the stakeholder associations and characteristics interviewed in this research:

A. ***School department*** supporting 56,000 students and a FY14 budget of $934 million.

B. ***State agency*** with FY2014 budget of $5.7 billion and distributes more than $4.3 billion in state aid to cities in towns.

C. ***Local government*** with 636,000 residents covering 48 square miles with a FY14 budget of $2.6 billion.

D. ***Local government*** with 35,080 residents covering 1.8 square miles with a FY14 budget of $131 million.

E. ***Higher education institution*** that has an extension that supports and offers municipal consultancy in performance management, organizational studies, research, charter reform and regionalization.

F. ***Not otherwise specified*** category is specific to the anecdotal testimonies noted in the Technological Innovation in Government Symposium.

The researcher inserted italicized direct quotes from stakeholders in the summary of findings and recommendation sections.

IV. SUMMARY OF FINDINGS

The recent economic decline has wrecked the Commonwealth of Massachusetts' budget and its ability to distribute expansive state aid to municipalities as it had in the past. Unfortunately, this economic trend is not reversing. As a result, Massachusetts has become more devolved, encouraging local government to become more independent from state funding and have promoted municipalities to raise their revenues locally. This is trend is aligned with Massachusetts' adherence to the philosophy of "*local control, local decisions*." As a progressive state, the only exceptions made to localities with regards to state aid funding are those with significant shifts in demography such as higher population or poverty rates. Furthermore, state aid funding aligns to a state aid driven formula relative to its local expenditures, property taxes, and general wealth. Wealthier towns are assigned the status of "*minimum aid*," while impoverished towns in the Commonwealth receive larger portions of their revenue from state aid.

In this research, through stakeholder interview the following are summaries of findings:

1. ***A stronger government does not lead to stronger municipal finances***

Based on the data analysis used in this research paper, there is no evidence that suggests a strong state government leads to stronger local government finance. In fact, six of the ten local governments with a high weighted ratio signifying strong liquidity, positive demographics, and financial standing have no state interference to local governance. Only two strong governments are in the top ten with Massachusetts ranking at #3 and Rhode Island ranking at #10. Both states have suffered shaky muncipal grounding in the past (Chelsea in 1991 and Central Falls in 2011 respectively). The bottom ten state governements have five states that have the designation of strong state governments. Please visit the Appendix for the methodology and designisation distinguishments.

2. ***Fiscally distressed entities have faint adherence to core municipal operations***

Core municipal operations are simple: public safety, public works, and education. In sum: keep the streets clean, the population safe, and educate the next generation. As simple as the mission is, some municipal leadership in fiscally distressed towns often forget the core mission, especially when corruption is involved. Naturally, loose fiscal oversight and management has significant consequences for the residents.

In 1991, a city in Massachusetts, due to corruption and bad fiscal management, became insolvent and unable to meet its obligations to its vendors and employees. As a result, the city was left in squalid conditions: crime spiked, and their school system, chronically labeled as one of the lowest performing in the state, was handed control to a local university. One of the only redeeming qualities during this crisis was the relative affordability of the city, which attracted a higher need population.

One resident who attended public school student at the time commented, *"Education wise, I was fine, as I was a quick learner. However, I cannot say the same for the students who had special needs or language barriers. Services provided [by the school district] were not sufficient [for this population]."* Not surprisingly, it is the neediest population in the city that suffers most from loose and poor local municipal governance.

3. ***The culture sets the foundation for organizational decisions***

Leadership lays the cultural foundation for a organization. Decisions, actions and policies set by the top, trickles downwards to the administrative players who implement the policies. If a mission is not clear or can be loosely translated it creates chaos. While strong leaders may help correct some organizational dysfunction, they cannot correct a broken system. Additionally, many departmental leaders are often hired due to their expertise but may have limited skills in budgetary or business management. This is especially true for school districts. For many novice principals and school leaders, they are in desperate need for operational and technical budgetary assistance. Unfortunately, due to limited resources, even budget professionals assigned to tasks are overwhelmed with their workload. As such, many leaders default to politicking to obtain adequate resources, *"for every rule you have 15 exceptions and if* *push hard enough… you can be the exception."* Hardly a strong foundation to make sweeping changes or creation of strong fiscal policies.

4. ***<u>The externalities effect the conditioning of organizations</u>***

To preface: the spending of municipal monies are often times complicated and not transparent. A common "*fire*" that occurs in the school district is, "*how do I access my money*?" typically asked during the end of the fiscal year. The reason is that to spend municipal funds there are a lot of cumbersome contract and legalities to consider. "*You have to go through a lot of regulations and rules, which a lot of people are not taught well or taught only once and then are expected to remember for 20 years*." In this world, municipal rules and regulations are "*seen as a hindrance*" which complicates the delivery of services. As a result, some department heads and school leaders delay the spending on monies, as it is too complicated to consider, until last minute. This often leads to waste or inefficiencies.

5. ***<u>If there is state or federal aid, competition may be fierce</u>***

For schools districts in Massachusetts, they are foreshadowing an increase in the cap on charter schools. This will result in more competition for monies and resources. *"The increase in charter schools takes a portion of state and federal funding from us."* Unfortunately, this is not the only grievance. Some charter schools attract or poach some of the best public schools students, and reject lower performing students. This leaves mostly special needs and English language learners in the public schools system, populations who are considered more expensive to support or an added burden to the already struggling school districts.

6. ***<u>Accountability laws drive state monitoring</u>***

High municipal salaries and benefits are a hot topic in Massachusetts. It was reported that the Massachusetts' state capital, Boston, 1 in 4 municipal employees earned over $100,000 whereas only 7% of its state employees earn over $100,000 (Ryan, 2014). In a state that heavily subscribes to the philosophy of "*local control, local decisions*" they cannot and will not dictate this an area of concern. As interviewee commented, "*As long as they meet net school spending and follow the law we don't dictate*" how they spend their funding. The only exception for state intervention is when "*accountability laws come into play to put pressure on the municipalities*." Specifically, when student performances are consistently poor and the student's legal rights to gain a proper education is possibility compromised, then that state would consider a "*more invasive approach*."

Not surprising for many urban school districts, the highest expenditure and fastest rising cost for school districts are special education and English language learners, two populations where service delivery is monitored, as they are attached to accountability laws. Due to the myriad legal ramifications, it is "*difficult to reign in the inefficiencies*" and "*sometimes… we just need to send another bus… on the road… unnecessarily… as we have a commitment.*"

7. ***Budget drives programming***

As a city manager poignantly stated, "*If you do not have budget balanced every year, and if you are not generating enough revenues than what you are planning to spend, then you can't really do much else.*" This statement is often resonated by many in municipal and state employees. The highest rising cost and area of concern is Human Capital and benefits. Many municipalities are facing declining revenues, and upcoming collective bargaining contract negotiations are foreseen to be contentious. The worst-case scenario for municipalities? All of the bargaining contracts may "*cumulatively*" receive their raises all at once. The results will be disastrous for their budget and future programming.

8. ***Local government must take initiative to seek financial relief***

The Commonwealth of Massachusetts is struggling financially; as such, local government must take initiative to seek financial relief. "*During the economic downturn, there was a decrease in state aid. There was not as generous annual increase in state aid. Districts cannot rely on state aid as a annual source of revenue with increase. If they wanted to increase their revenue, it had to be done locally."* Additionally, "*We certainty encourage regionalization at the state level*," but it is "*difficult to convince a high performing district to take on the problem district*" as "*a lot incentive must happen*."

While the Commonwealth has passed laws to help cities seeking financial relief, it was acknowledged, "*There is not a lot of money*." Instead, some cities seek technical assistance from the Commonwealth's Administration and Finance department, "*To discuss resources. To streamline services. To help regionalize services. And in some cases to privatize service*." One city leader noted that some transactions with long-term cost savings have a very substantial upfront cost, "*We can't go to the voters and ask for $300 million to restructure [debt] this one time. It doesn't work that way…the state does not have that kind of resources*." As such, the city must consider the entrepreneurial options for fiscal relief, "*buying and selling land is one avenue*."

9. ***Laws created to support municipalities in fiscal distress may not resolve underlying problem***

While rare, the commissioner of elementary and secondary education may use accountability laws to exert their authority over the school's budget. However, true change occurs "*through the appointment of a receiver*." It is then at the state has more authority and more say on how the funds are spent and "*in terms of personnel—hiring and firing*." Among the many concerns to receivership, one worry is that "*it is so new. It is hard to say whether state fiscal control has done anything to improve*" the status and the future of the school districts.

There was at least one expectation. Due to fiscal distress, the Commonwealth of Massachusetts stepped in to help the regional school system of Athol-Royalston, located in a former industrial town in western Massachusetts. While the school district was not assigned a receiver, it exhibited compromising characteristics: high percentage of special educational students, students consistently performing "*poorly*" on state standards exams and the population suffers from significant "*poverty*." Due to Athol-Royalston's fiscal stress, the Commonwealth of Massachusetts enacted legislation to provide financial relief. In Athol-Royaliston's response to the Massachusetts Department of Elementary and Secondary Education in the District Review Report (2013), they reported their "business office has worked with the Department of Revenue to manage the restrictions put on the district by Chapter 50 of the Acts of 2006, An Act regulating the financial conditions in the Athol-Royalston Regional School District, which allowed the district to borrow $1,000,000 from the state and which was necessitated by the financial condition of the district just before the present superintendent assumed his position." Moreover, the district "yielded substantial savings (2013)," piggybacking on the state's Massachusetts Group Insurance Commission insurance rates. Unfortunately, despite their new financial stability, "*the students still do not perform any better*."

10. ***Your elected officials and school committee are generally laymen and not technical experts***

There is tons of blame to go around when municipalities enter into a fiscally distressing predicament. This includes, but is not limited to: school committees, selectman, other elected officials, and the superintendent. The underlying problem there is a "*certain amount of due* *diligence that they did not do. You should not agree to everything the [director] tells you*"—as a stakeholders should be objective. Obviously, a certain amount of "*technical assistance*" is needed but not provided. In sum, "*finance committee, select boards are lay people and not technical experts. The state can only do so much because the state has limited resources and people*."

V. RECOMMENDATIONS

Due to the extended economic decline, the Commonwealth of Massachusetts is continuing to struggle financially. With state aid declining, local government must improve its efficiencies, generate cost savings and increase entrepreneurial spirits. Naturally, this is easily said than done. The following are recommendations based on the stakeholder interviews:

1. ***<u>Municipalities must expand beyond their core services</u>***

Core municipal operations seem simple: keep the streets clean, keep the population safe, and educate the next generation. Exceptional municipalities must expand upon this mission. Truly exceptional towns reach for great schools, economic growth, job opportunities, dining and shopping options, health and medical access, and an active nightlife. This formula attracts young professionals or high-income couples seeking respite and cash to spend. While '*gentrification*' has become an ugly word, it is necessary for municipalities who desire to take their cities to the next level. A delicate balance of demography, including high and middle to low income families, is the key to long-term municipal stabilization.

In Massachusetts, a city formerly in receivership, economic and demographic change is gradually occurring. Newer market rate housing is available, shopping opportunities are plentiful, and health and medical access is convenient. Moreover, developers and business owners eager to make this investment in the city. The leadership of this city is mindful of changing the dynamics. They are managing this integration, constantly conscious of the need for balance, as the city is still heavily populated by low income immigrants and minorities. "*We spend a lot of time thinking about gentrification and how we manage it. Not sure any community has managed it well. We have a chance because we are a smaller community.*"

2. ***Management must have its house of cards in order***

While strong leaders can navigate through organizational dysfunction, they cannot correct or lead effectively in a broken system. While human capital is the key to reform, human capital can also be its downfall. In a school system interviewed for this research, the school system's fiscal distress are well documented, as loose hiring practices in the past have come to haunt them financially. During the economic peeks, the school district kept "*hiring more and more people, which means higher salaries and benefits*." Human capital now makes up to "*75 to 80%*" of their budget. Layoffs are imminent. The interviewee noted, while "*stricter hiring policies*" in the past would have eased the current fiscal turmoil. Compounding to this school district's troubles is the perception of abuse among its workforce. "*The worst is long- term leaves.*" Unfortunately, the "*lack of capacity… lack of experience… not very process driven*" are among the reasons that potential abuses are not being investigated and among the many reasons that lead to the school district's questionable predicament. What would help is *"accountability… checking in on relationships, [accurate] reporting of information."* Right sizing an organization with an ideal workforce is difficult, especially when you have the intricacies of bargaining units and potential discrimination lawsuits. As a human resource person noted, *"[human resource in a government] is a glass filled with dirty water [dirty water represents the less than stellar employees], you must have a pitcher with clean water [the clean water represents the ideal* *employees] and you must pour into the glass until all the dirty water is gone*." All this takes a substantial amount of time and investment. As stated, human capital is the key to reform. Human capital can also be its downfall.

3. ***State must offer supportive legislative programming and technical support***

The Commonwealth of Massachusetts has 351 towns and cities (County of Dukes County, 2014). The smallest town in Massachusetts is Gosnold with a only 120 registered voters (County of Dukes County, 2014). As one municipal performance management specialist noted, "*There are significant challenges to scaling down.*" Moreover, "*there is an inward correlation between population and the number of elected officials*," meaning that, "*the smaller you get the more elected officials*" your municipalities. "*Therefore, less centralized authority that can make things happen.*" This is not an ideal pathway to municipalities who desire reform and change.

If the decline in state aid is a fixed reality, then localities must take the initiative to generate revenue— the state is obligated to assist and present to municipalities with best practice roadmap to help them navigate through this decline. Specifically, states must offer technical assistance to guide them through the navigation of budgeting, financing, contracting, charter reform, and regionalization. The Commonwealth of Massachusetts must take the initiative without impeding on local autonomy consultancy to assist them to help municipalities beef up their cash reserves to prevent and cushion future turmoil.

4. ***A change in town management could be effective***

A city leader noted that a change in town government was a game changer for a municipality previously in receivership. Formerly a mayoral form of government, the interviewee hinted that this created a toxic Machiavellian environment. "*When the mayor looks* *down at the end of the hallway, he sees 9 aldermen,*" i.e., the mayor effectively sees competition instead of those invested in the transformative success of the mayor, perhaps, due to the aldermen's own ambitions of securing the mayoral position in the future. Now, with the change in government, the interviewee noted the city manager now sees the city council as partners. More, it helps that the city councilors must take one-year reprieve should they desire and seek out the city manager position. This the new form of government: it frees the councilors from "*plotting and planning, constantly defining our actions, against political pressures. We can spend our time, thinking of the good things we can change such as economic development activities*." Moreover, the new charter "*requires us to do a 5 year financial planning"* which allows the city to focus on the years ahead.

5. ***Institute performance management measures***

Many local towns are not subscribing to the trend of the moment: big data. In fact, many small towns in America practice the no data trend. In fact, even in the 21st century, many municipalities continue to store the data via "*carbon paper, microfilm*" locked in their archaic filing cabinet system. "*There is no impetus to use a culture of data, management and decisions based on data*." Naturally, this lack of "*feedback loop*" goes nowhere and falls flat. Perhaps, it is municipalities own lack of ambition or resources, but "*a lot of cities and towns are stuck because of this*." In small cities and towns that do not subscribe to the work order system, they cannot have a "*system of accountability because you don't know what they are doing and you can't track what they are doing*." This also applies to area such as overtime and other expenditures. It seems very basic, but this is the inclusive to the spectrum of data usage in small towns. Through his consulting role, our interviewee has heard the gambit when it comes to excuses, "*there are cut backs or we don't have time*." For fully operating and functioning municipalities the best-case scenario is this, "*we have a good data set, we aggregate it and present to public and use we use data to fix stuff.*"

6. *Civic engagement is crucial to the future of the municipality*

In 1991, one of the cities in the Commonwealth of Massachusetts entered receivership. At the time, the city was heavily populated by low-income minorities from working class backgrounds. Perhaps cultural, many residents did not trust local politicians and did not engage in civic participation. Corrupt municipal officials took advantage of the lack of civic participation by profiting from their unconsciousness, pillaging the city and its resources. Post receivership, the demographics continue to be the same, and "c*ivic participation is a constant challenge*."

A city leader spoke a great deal about the concept of social capital and civic engagement, "*the strategy to get people to know each other. Connect so people can look after your kids; notify others if there is a job available, or if they saw your kid do something good or bad. The goal is to build social capital.*" This will ensure future civic engagement and benefits for the municipality.

VI. CONCLUSION

In the statement of research, the goals of this exploratory research are: (a) to confirm if strong state government leads to stronger local finances; and (b) to delve into the relationship dynamics between a strong state government and its municipalities. This research paper concludes that (a) a strong state government does not lead to stronger local finance; and (b) the Commonwealth of Massachusetts, considered a strong state government, adheres to the philosophy *"local decision, local control."* As such, as long as its municipality adheres to the law, the Commonwealth will rarely intervene in its municipal operations.

The Commonwealth of Massachusetts, like many other states suffering through an economic decline, has fewer resources and aid to distribute for local operations. Notably in this research, many stakeholders in Massachusetts have a strong desire for "*technical assistance*." While municipalities are not looking for intervention, they desire state's guidance to navigate them through the budgeting, financing, contracting, charter reform, and regionalization process. The increase in technical assistance observes with the belief that local government will continue to local control of their business affairs. In sum, the Commonwealth of Massachusetts must respect, recognize and embrace this municipal desire to ensure the financial health and wellness of their state.

APPENDIX: METHODOLOGY, DATA AND GRAPHS

Table 1. State Government Characteristics

State	Strong Government Assignment	Receiver/ Financial Manager/ Overseer/ Coordinator	State Agency	Financial Control Board/ State-Appointed Board or Commission	Restructure Finances: Renegotiate, Approve, or Issue Debt	Restructure Finances: Labor	Restructure Finances: Taxes, Fees, Credits	Emergency Financing (Enhanced Credit Backing, Loans, Grants)	Supervise Finances/ Technical Assistance (Including Budget approvals)	Disincorporation/ Dissolve/ Consolidate Local Government	Pew Comments: Law Designating Local Fiscal Distress	Pew Comments: Bankruptcy Authorization	Pew Comments: Intervention Program
Alabama	No State Interference										No	Yes (bonds only)	no
Alaska	No State Interference										no	no	no
Arizona	Special State Interference										yes iii	yes	no*
Arkansas	No State Interference										no	yes	no*
California	Special State Interference										yes iv	conditional (use of a neutral evaluator or declaration of fiscal emergency)	no*
Colorado	No State Interference										no	limited	no
Connecticut	Strong Government	yes		yes	yes	yes	yes		yes		no	conditional	yes
Delaware	No State Interference										no	no	no
Florida	Strong Government		yes	yes				yes	yes		yes	conditional	yes
Georgia	No State Interference										no	no (specifically prohibited)	no
Hawaii	No State Interference										no	no	no
Idaho	No State Interference										no	yes	no v
Illinois	Strong Government	yes	yes	yes	yes	yes	yes	yes	yes		n/a vi	limited	yes
Indiana	Strong Government	yes	yes			yes		yes	yes		yes vii	no	yes
Iowa	Special State Interference										yes viii	no (with exception)	no*
Kansas	No State Interference										no	no	no

Kentucky	No State Interference										no ix	conditional	no
Louisiana	No State Interference										no	conditional	no
Maine	Strong Government		yes	yes	yes		yes	yes	yes		yes	no	yes
Maryland	No State Interference										no	no	no
Massachusetts	Strong Government	yes	yes	yes	yes		yes	yes	yes		no	no	yes
Michigan	Strong Government	yes	yes	yes	yes	yes		yes	yes	yes	yes	conditional	yes
Minnesota	Special State Interference										yes x	yes	no
Mississippi	No State Interference										no	no	no
Missouri	No State Interference										no	yes	no*
Montana	No State Interference										no	yes (but not counties)	no
Nebraska	No State Interference										no	yes	no
Nevada	Strong Government	yes	yes		yes	yes	yes	yes	yes	yes	yes	no	yes
New Hampshire	Limited State Interference	yes						yes			no	no	yes
New Jersey	Strong Government	yes	yes	yes	yes		yes	yes	yes		yes	conditional	yes
New Mexico	Limited State Interference		yes					yes	yes		yes	no	yes
New York	Strong Government			yes	yes	yes		yes	yes		yes	conditional	yes
North Carolina	Strong Government		yes	yes	yes		yes		yes		yes	conditional	yes
North Dakota	No State Interference										no	no	no
Ohio	Limited State Interference	yes		yes	yes				yes		yes	conditional	yes
Oklahoma	No State Interference										no	yes	no
Oregon	Limited State Interference			yes	yes				yes		yes	limited	yes
Pennsylvania	Strong Government	yes	yes	yes	yes	yes	yes	yes	yes		yes	conditional	yes
Rhode Island	Strong Government	yes		yes	yes		yes		yes		yes	conditional	yes
South Carolina	No State Interference										no	yes	no
South Dakota	No State Interference										no	no	no
Tennessee	Strong Government	yes	yes		yes		yes	yes	yes	yes	yes	no	yes
Texas	Limited State Interference	yes							yes		no	yes	yes

Utah	No State Interference										no	no	no
Vermont	No State Interference										no	no	no
Virginia	No State Interference										no	no	no
Washington	No State Interference										no	yes	no*
West Virginia	No State Interference										no	no	no
Wisconsin	No State Interference										no	no	no
Wyoming	No State Interference										no	no	no

(Pew Charitable Trust, 2013)

<u>Strong Government Assignment:</u>

- *Strong government*—Over seven affirmatives confirming support of local government in times of fiscal distress
- *Limited state interference*—Between three to seven affirmatives addressing support of local government during times of fiscal distress
- *Special state interference*—Between one to three affirmatives addressing support of local government, generally school districts or townships, in times of fiscal distress
- *No state interference*—Little to no interference addressing support of local government during times of fiscal distress

Table 2. Financial Indicators Used to Measure Fiscal Condition

Indicator Type	Financial Indicator	Formula	Significance
Demographics	High need population	Percent under 18 plus over 65 years of age	A higher percentage of under 18 and over 65 years of age suggest a higher need population. Potentially attached to higher long term costs
Demographics	Poverty	Percent of poverty households or public assistance recipients	Higher ratios denotes higher need population as a whole
Expenditure	Core operating expense ratio	Operating expenditures/total expenditures	Higher ratio denotes there is more spending on core services for the municipality
Expenditure	Employee per thousand over population	Number of government employees/population	Higher percentage suggest more reliance on government support or low entrepreneurial industries
Expenditure	Operating deficits	Total revenues/Total expenditures	Operating ratios greater than 1.00 indicates a budget surplus – less than 1.00 a deficit
Revenue	Intergovernmental reliance	Intergovernmental operating revenue/General fund revenues	Higher the ratio means more reliance on state and federal resources
Revenue	Revenue per capita	Total revenues (excludes capital projects)/population	Higher revenue per capita suggest more solvency for services
Revenue	Property tax revenues	Property tax revenues/General fund revenues	Higher revenue per capita suggest more solvency for services
Solvency	Surplus (deficit per capita)	Total surpluses (deficits) / population	Deficits indicate a lack of funds, a needed increase in revenues, and room for service improvements
Solvency	Current ratio	Current assets / Current liabilities	Ratio is an indication of a government's ability to meet short-term financial obligations with current assets
Solvency	Long-term liability ratio	Long-term Liabilities / Total assets	Higher ratio indicates lower level of ability to pay off long-term debt or a strain on future resources

(Rivenbark, 2009), (Brown, 1993), (Maher, 2009), (Maher, 2013), (Wang, 2009)

Table 3: Designation of State Government and Weighted Ratio

Using the research methods explained in the research metholodies section, there is no data suggesting strong government leads to stronger muncipal finance. The ranking is as follows:

Ranking	State	Weighted Ratio	State Government
1	WY	3.58	No State Interference
2	MT	2.15	No State Interference
3	MA	1.76	Strong Government
4	ID	1.66	No State Interference
5	AK	1.65	No State Interference
6	NH	1.62	Limited State Interference
7	CT	1.47	Special State Interference
8	SD	1.46	No State Interference
9	MD	1.23	No State Interference
10	RI	1.02	Strong Government
11	OK	0.98	No State Interference
12	ND	0.89	No State Interference
13	NE	0.82	No State Interference
14	LA	0.72	No State Interference
15	WI	0.66	No State Interference
16	ME	0.49	Strong Government
17	DE	0.45	No State Interference
18	VA	0.41	No State Interference
19	IL	0.40	Strong Government
20	MO	0.35	No State Interference
21	KS	0.33	No State Interference
22	MS	0.30	No State Interference
23	IA	0.25	Special State Interference
24	MI	0.23	Strong Government
25	OH	0.20	Limited State Interference
26	WV	0.16	No State Interference
27	MN	0.11	Special State Interference
28	CO	0.09	No State Interference
29	TN	0.06	Strong Government
30	AZ	0.05	Special State Interference
31	GA	(0.02)	No State Interference
32	VT	(0.13)	No State Interference
33	PA	(0.17)	Strong Government
34	AR	(0.18)	No State Interference
35	HI	(0.26)	No State Interference
36	NM	(0.30)	Limited State Interference
37	OR	(0.31)	Limited State Interference
38	SC	(0.38)	No State Interference

39	FL	(0.39)	Strong State Government
40	UT	(0.44)	No State Interference
41	IN	(0.57)	Strong Government
42	NC	(0.67)	Strong Government
43	KY	(0.70)	No State Interference
44	AL	(0.77)	No State Interference
45	CA	(0.89)	Special State Interference
46	NJ	(0.97)	Strong Government
47	WA	(0.99)	No State Interference
48	NV	(1.10)	Strong Government
49	NY	(1.41)	Strong Government
50	TX	(2.35)	Limited State Interference

Table 4: Data and Graphs:

- Count of analysis

Statistics

Strong Gov

N	Valid	50
	Missing	0

Strong Government

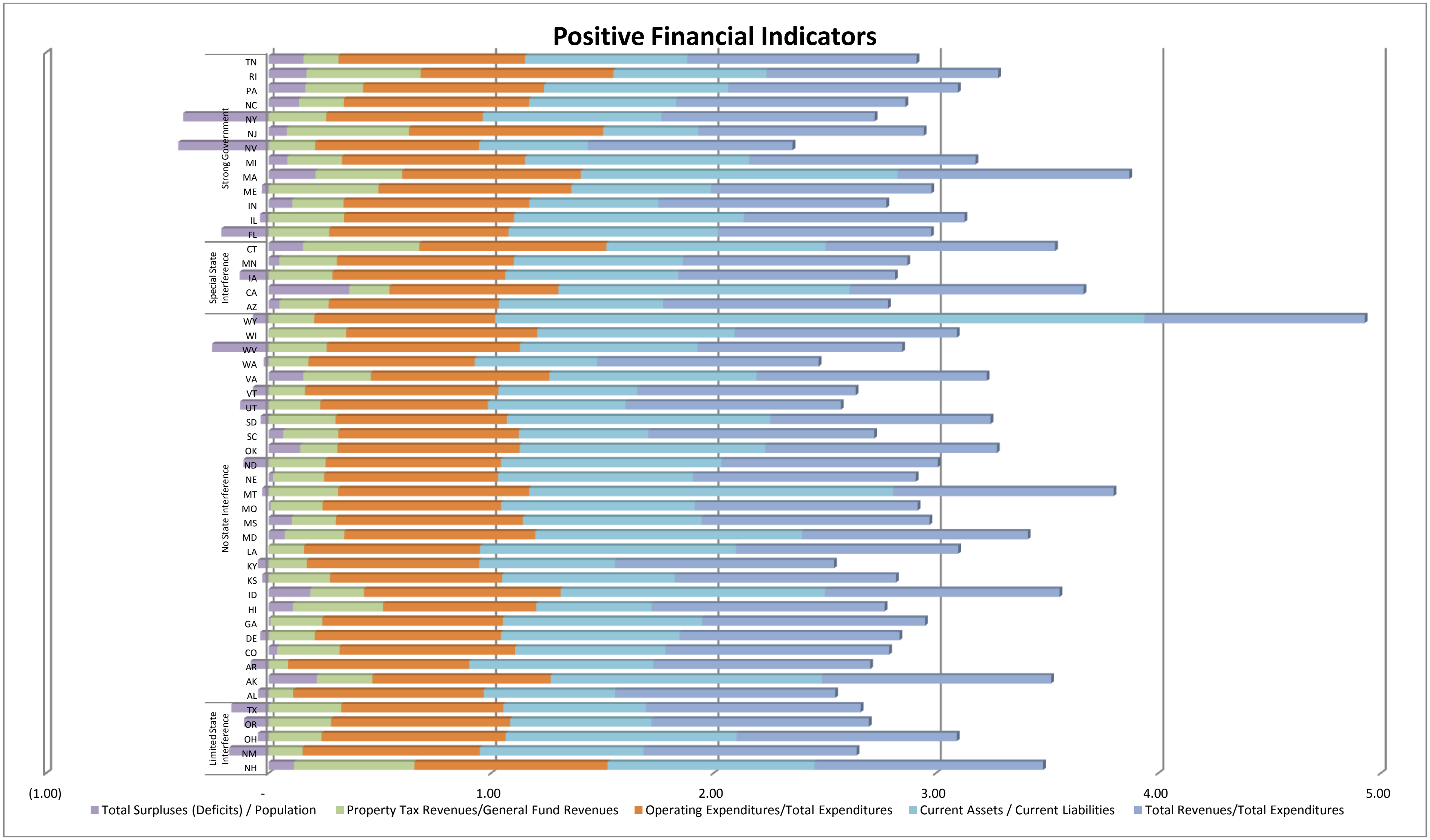
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strong State Government	14	28.0	28.0	28.0
	Limited State Control	5	10.0	10.0	38.0
	Special State Control	4	8.0	8.0	46.0
	Weak State Government	27	54.0	54.0	100.0
	Total	50	100.0	100.0	

❖ Descriptive statistics on indicators

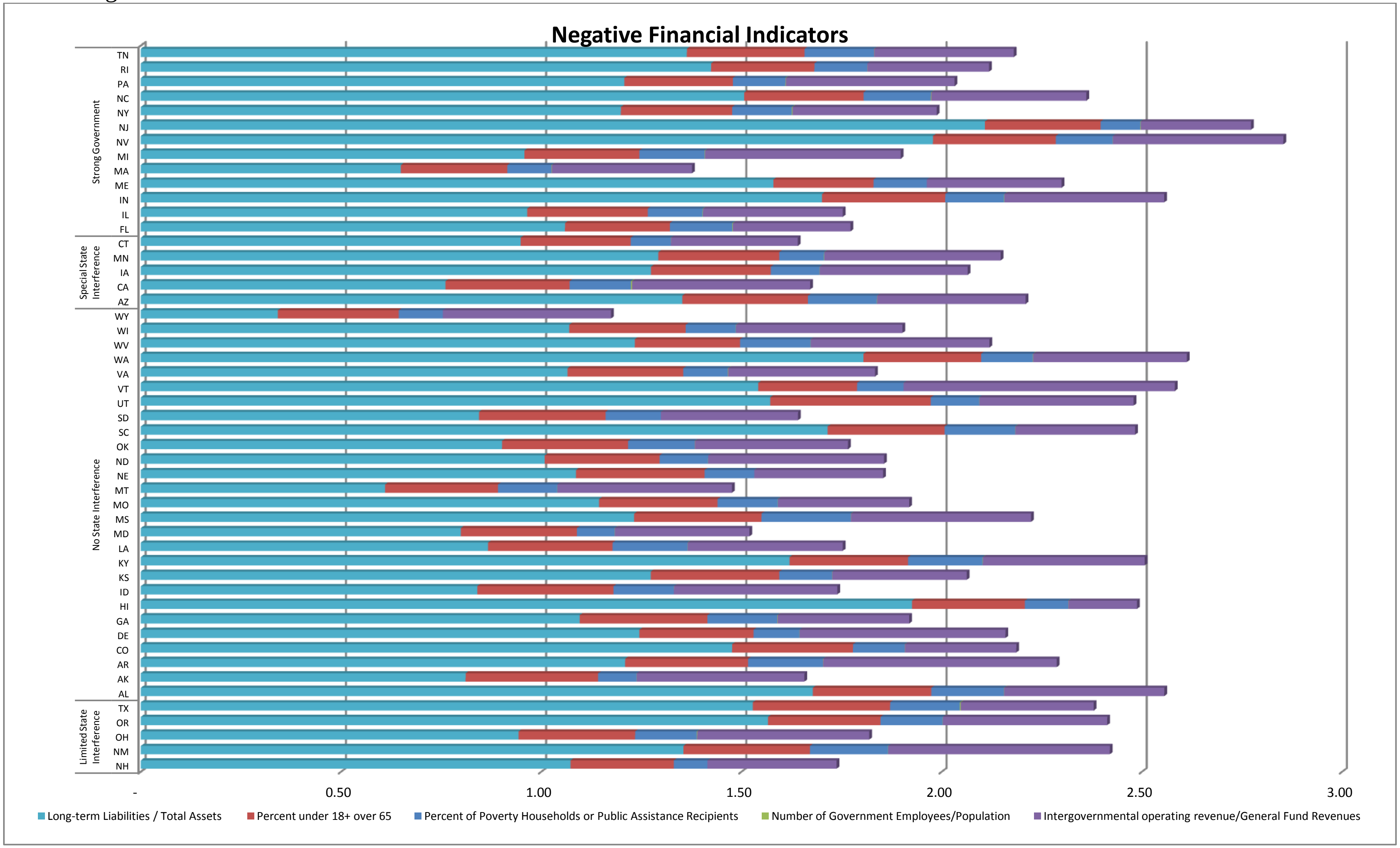
Descriptive Statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Population 2011	50	37101352	567329	37668681	6219258.80	980122.248	6930510.877
Number of Government Employees/Population	50	.0027829	.0001023	.0028852	.000662530	.0000794449	.0005617604
Personal Income Per Capita	50	17137	20670	37807	27551.78	559.425	3955.733
Percent under 18+ over 65	50	.15	.25	.40	.2970	.00373	.02638
Percent of Poverty Households or Public Assistance Recipients	50	.14	.08	.22	.1427	.00434	.03070
Operating Expenditures/Total Expenditures	50	.19	.69	.88	.8080	.00638	.04512
Number of Government Employees/Population	50	.00278291569	.00010229328	.00288520897	.0006625299023	.00007944491698	.00056176039531
Total Revenues/Total Expenditures	50	.13	.92	1.06	1.0019	.00435	.03074
Intergovernmental operating revenue/General Fund Revenues	50	.51	.17	.68	.3878	.01174	.08303
Total Revenues (Excludes Capital Projects)/Population	50	6.56	1.97	8.52	4.4447	.16964	1.19952
Property Tax Revenues/General Fund Revenues	50	.46	.09	.55	.2688	.01509	.10671
Total Surpluses (Deficits) / Population	50	.77	-.41	.36	.0058	.02088	.14763
Current Assets / Current Liabilities	50	2.49	.43	2.92	.8924	.05469	.38672
Long-term Liabilities / Total Assets	50	1.77	.34	2.11	1.2363	.05293	.37424
Valid N (listwise)	50						

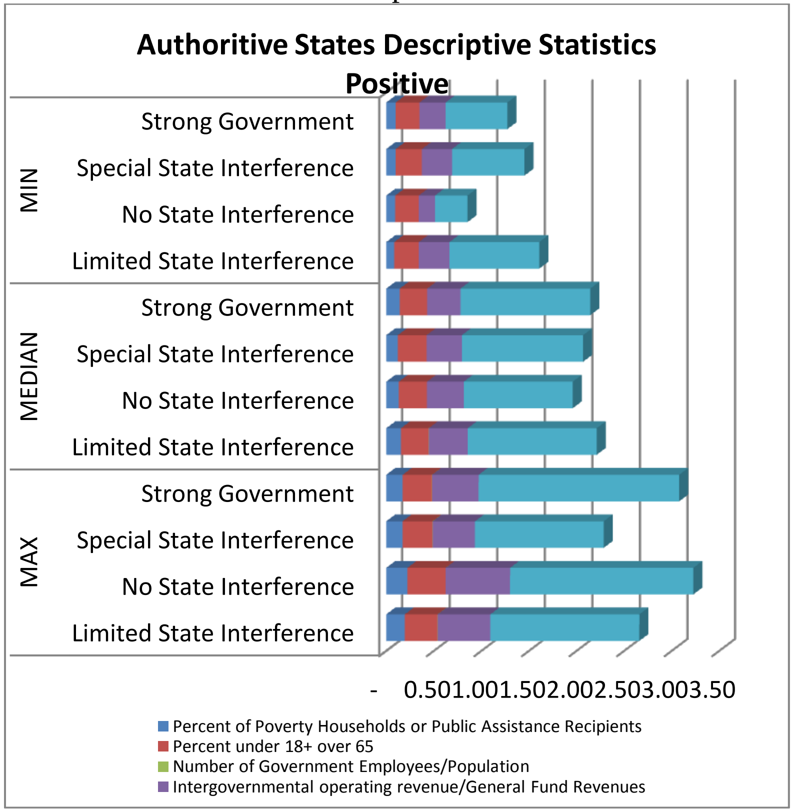
❖ Positive financial indicators

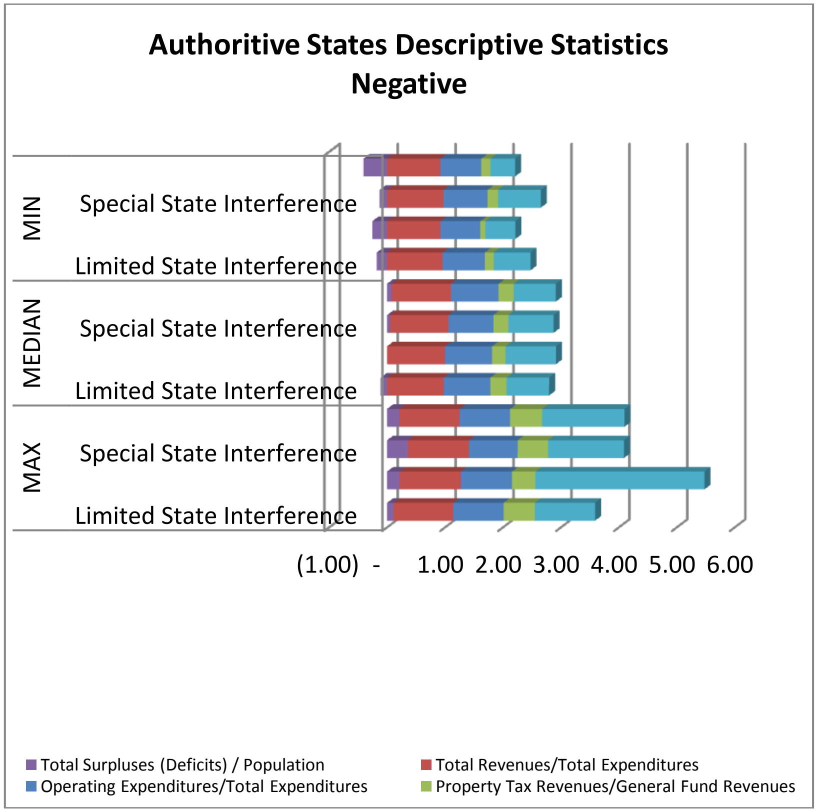


❖ Negative financial indicators



❖ Authorities state descriptive statistics





SAMPLE STAKEHOLDER QUESTIONS

Budget

1. What do you see as the role of city government?
2. What is your impression of the city's financial condition?
3. Describe a time when you had to prioritize services in order to meet budget parameters. How did you manage competing interests?
4. Describe a time when unforeseen budget expenditure affected your budget forecast? How did you reallocate resources?
5. Personnel expenses are the largest expense. How does your agency manage this rising expenditures?

Financing

1. Do you experience with debt financing? Please give an example. What are the biggest challenges to debt financing in your municipality?
2. In your budget planning process, do you earmark for a deteriorating infrastructure?
3. If applicable, describe the most successful capital improvement project you were responsible for? What made it successful?
4. What is your opinion of "pay as you go" financing of maintenance and capital projects? Special assessments? Special taxing districts?

Internal Administrative Relations

1. Please speak of a time when you had to deal with ay constituent that disagrees with you with regards to financing/funding of projects? How did you resolve?
2. Let's discuss personnel issues:
   a. Have you been at the bargaining table and been actively engaged in negotiating an agreement?
   b. Have you experienced mediation, fact finding or arbitration? Which ones?
   c. Do you consider the financial ramifications?
3. What is your perception of the local government's ability to provide adequate funding for long term liabilities?
4. What steps have you taken to improve sustainability?
5. Share an example of a time when you used financial information and/or other program relevant information to support or drive an organizational decision. What challenges did you face and how did you handle them?

External Administrative Relations

1. What is intergovernmental relationship at your agency? How do you leverage state resources and grant funding for projects?
2. What steps have you taken to create valuable partnerships to leverage relationships?
3. What external considerations do you find crucial to your planning process?
4. How do you deal with special interest or single interest groups?

Management

1. What in your opinion is the most serious issue today in local government management?

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