RESPONSES TO LOCAL GOVERNMENTAL FISCAL DISTRESS:
AN ANALYSIS OF MUNICIPAL UTILIZATION OF BANKRUPTCY,
ASSET MONETIZATION AND DEBT FINANCING

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ABSTRACT

The overarching goal of this exploratory research is to better understand fiscal distress and three particular responses utilized by local governments to improve fiscal health. This dissertation utilizes a convergent mixed method design to analyze qualitative and quantitative data in order to investigate the primary research question concerning the impact of local government responses to fiscal distress on fiscal condition.

The specific research question guiding this exploratory study is: how do the methods utilized by particular municipalities to address fiscal distress, including bankruptcy, asset monetization and the issuance of debt, impact fiscal health. To answer the principal research question, six municipalities are selected for case study research in order to review and consider the circumstances surrounding such responses and the results thereof, and the relevant fiscal indicators and conditions that contribute to fiscal distress in each instance.

To carry out the case studies, first, public documents are collected to provide substance in regards to each local government’s fiscal context. Second, municipal officials are surveyed to offer insight into the qualitative conditions that influence fiscal distress. In addition, quantitative data is collected from the audited financial statements of each case in order to operationalize fiscal distress and provide meaningful indicators for the measurement thereof.

By examining the context, circumstances and criteria of each case, this study offers an understanding of the variables and indicators that are present during times of local government fiscal distress, which has resulted in the adoption of one of the three strategies undertaken by the local governments studied in their attempts to eliminate such fiscal distress. This study acknowledges that one-size-fits-all measures of local government financial condition do not exist
due to the contextual diversity between local governments; however, quantitative models can offer the identification of more similarities than differences.

Despite the lack of normative standards and empirical evidence, and perceived ambiguities regarding the efficacy of various approaches in existing literature, context-specific models can be developed to routinely monitor, assess, and identify potential issues early enough to avoid and mitigate fiscal vulnerabilities. Maintaining a healthier fiscal position prior to utilizing any response, showing initiative to improve fiscal condition and developing and following fiscal policies allow for fewer missteps or oversights with finances.

The findings indicate that many municipal administrators may not feel that they have immediate control of their finances, but also do not necessarily feel constrained by other levels of government, external officials or the public. The contextual factors discovered are more internal and managerial in nature rather than economic. However, political and economic variable category factors may seem more prevalent to administrators in more dire fiscal situations.

There is less variation in significant indicators before and after a successful response is utilized as opposed to an unsuccessful one. Successful cases may have experienced more specific problems that affected their fiscal position, which their response addressed. Alternatively, it is unclear whether the responses had any impact on significant indicators in unsuccessful cases. Unsuccessful cases may have had wider systemic financial issues that the response did not address.

Among and between bankruptcy, asset monetization and debt financing cases, the significant indicators appear to be consistent as to respective indicators and indicator categories, but do not appear to behave similarly across local governments before or after each respective case response is utilized. Accordingly, by response utilized, each case experienced both similar
and unique fiscal distress indicators, but the differences in the unique indicators do not appear to be remarkable.

Finally, this research finds that many types of responses or lack thereof can be compared, contrasted and studied through similar indicators. This study recognizes that developing such a framework requires intimate contextual and domain knowledge, as well as awareness of the multi-causal relationships that exist between a jurisdiction’s external environment, its internal finances, and its management practices.
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CHAPTER 1: INTRODUCTION

Background

Addressing the fiscal health of local governments has been a salient issue and fervent topic of discussion among academics, government officials, finance professionals, the media and the public in recent years. Such attention to the matter is due in large part to increasing failures of local governments to meet their financial and public service obligations and responsibilities. Understanding the causes of these failures is necessary to uncover potential remedies in order to alleviate fiscal distress for local governments.

There are a number of cited causes of governmental fiscal problems. Since the 1970s, transfer of responsibilities from higher levels of government to local governments has occurred in an effort of the former to ease their financial burdens by decentralizing and shifting public functions to local governments. The lower levels of governments have borne the brunt of this devolution and the potentially adverse impact of these changes on local governments has been largely ignored (Honadle et al., 2004).

The implications resulting from this devolution have been further exacerbated by revenue shortfalls for many states and local governments across the nation. Most recently, during the Great Recession from December 2007 through June 2009 (NBER, 2015), as local government revenues decreased coupled with increased unemployment, demand for public services surged (Gordon, 2012; Beckett-Camarata and Grizzle, 2014). The shortfalls triggered cuts in public services after other cost-saving measures were exhausted. For some, such cost-saving measures included borrowing from, and consciously underfunding, public employee pension funds in order to meet state constitutional requirements to balance budgets (Honadle et al., 2004).
Long-term fiscal conditions of municipalities have been further distressed due to widening gaps between promised pension and other employee benefits and the availability of revenues to fulfill those promises (Jonas, 2012). When local governments fail to fund the pension contributions that are necessary to meet future retiree payment obligations and otherwise direct revenues to other programs, municipalities are in essence borrowing from future taxpayers who will later have to subsidize the missed annual contributions sometime in the future. In many cases, annual contributions have been so consistently foregone that local government obligations due to future retirees exceed the outstanding long-term debt obligations due to other municipal creditors for debt incurred for other governmental purposes (Moody’s, 2011; Rauh, 2011; Raman and Wilson, 1990).

While pensions are in large part the scapegoat in the media and literature and are cited as causing the dire fiscal condition of many local governments, poor pension fund investment performance and consistent underfunding uncover the deeper and structural causes of such financial problems. For example, local government officials and managers are charged with monitoring and funding pensions and in many cases decidedly choose to underfund plans or forgo considerate evaluation of fund investments. Accordingly, the role of pensions in causing fiscal distress is second to fiscal mismanagement and economic problems (Munnell, 2014).

Public officials misappropriating resources, other types of mismanagement, and unsustainable public pensions are but a few sources attributing to local government fiscal distress. Moreover, fiscal distress is exacerbated for local governments that have already increased their dependence on tax revenues to fund operating budgets through poor economies and declining housing markets and property values (Beckett-Camarata and Grizzle, 2014).
Despite the list of causes identified for local governments in failing to meet their financial and public service obligations and responsibilities, systematic examination of the causes and local government responses to such failures are overlooked in existing literature. To better understand the influence of local government responses to fiscal distress on fiscal condition, this dissertation first reviews the literature concerning particular solutions that municipalities have undertaken to reduce the impact of fiscal distress, as well as three such responses for addressing fiscal distress: filing for bankruptcy, monetizing assets and issuing debt.

Next, in order to analyze the efficacy of the three responses, fiscal condition literature is presented for the purpose of revealing and operationalizing the appropriate qualitative and quantitative variables and indicators necessary to contextualize and measure fiscal distress, in order to study those variables and indicators in municipalities that have utilized bankruptcy, monetized assets or issued debt to deal with fiscal distress. The research questions of this study are designed to appreciate and uncover the relationships between each of the methods and to distinguish between their respective effects on the fiscal condition of municipalities. Finally, research methods and procedures are described, including data collection and analysis, as well as considerations of potential design challenges and limitations.

This dissertation seeks to provide insight on assessing municipal fiscal distress through the measurement and consideration of indicators and conditions, and any variations thereof, when local governments undertake steps to address such distress. By studying prior methods of municipal attempts to resolve such fiscal distress, which include bankruptcy, asset monetization and the issuance of debt and the outcomes of each, we can better comprehend the effects of such methods on improving fiscal health. The objective of this exploratory research is not to compare the methods in order to recommend one solution or another to address fiscal distress, but rather
to understand the results of each method on fiscal condition variables and fiscal distress indicators and to determine whether or not such methods are viable for financially distressed local governments or alternatively aggravate these fiscal crises.

There are many factors and variables that affect whether one method or another addresses the perceived problem of fiscal distress. The overall economic health of each local government is an important consideration in light of this inquiry, therefore the appropriate definition and measurement of such fiscal distress characteristics is imperative. The goal of this exploratory research is to provide insight for local government officials who have access to such methods and are faced with fiscal distress, so as to offer an opportunity for them to effectively weigh potential options for dealing with these complex dilemmas.

**Problem Significance**

Recent media coverage of local government finances and specifically the broadening of budget gaps due to the Great Recession, local government bankruptcy filings and growing pension deficits have brought significant public attention to the problem (Gordon, Rose and Fischer, 2012; Pew, 2010). Even though current fiscal distress is attributed to pension underfunding because unfunded liabilities tend to increase during fiscal downturns, properly funded pensions have been a major policy concern since the 1970s, while the focus on local government fiscal distress has intensified in recent years. Despite the substantial challenges related to adequately funding pensions, most governments have the capacity to meet these obligations and address pension underfunding with pension reform measures and other strategies (Martell et al., 2013). Pension burden is evidently one cited cause of the problem. Another possible source of the problem of fiscal distress is fiscal mismanagement. However, determining the source of the problem has been overlooked in an effort to define the problem.
When reducing funding for other programs or raising taxes is not legally or politically expedient, local governments are forced to consider other options to address fiscal distress. Drastic options for some municipalities facing fiscal distress have recently included bankruptcy, asset monetization in the form of sales and leases of public infrastructure, and issuing debt, or a combination thereof, as well as other responses. Providing insight with regard to the feasibility of each response and the circumstances in which one or more particular response is suitable or advantageous in any given situation is overlooked in the literature. In addition, most research is comprised of attention limited to one specific response or another. For example, law reviews have been dedicated to uncovering the novel legal framework surrounding municipal bankruptcy, because, until recently, few cases previously existed (McConnell and Picker, 1993; Morigiello, 2014).

Existing literature fails to provide insight into the what, why and how local governments experiencing fiscal distress select strategies for addressing this problem. The question of whether certain strategies including (1) bankruptcy, (2) asset monetization, or (3) debt issuances, adequately address local government fiscal distress and similar considerations has largely been ignored. Given the current literature, it is clear that these options have been available to many local governments, but not much guidance can be gleaned to assist decision makers in weighing those options in circumstances in which such a strategy appears to be legally, statutorily or structurally applicable and useful to a municipality. If local government officials have a better understanding of how municipalities fare after undertaking one of the three particular responses, decision making with regard to solving fiscal distress may be better informed.
Purpose of the Study

The overarching goal of this exploratory research is to better understand fiscal distress and the methods utilized by local governments for addressing such problems. In order to fulfill this goal, this study consists of three main objectives: First, identifying and defining what fiscal distress is and looks like in municipalities is paramount. Existing literature is overabundant with the consideration of numerous quantitative variables and combinations thereof that seemingly indicate fiscal distress. Such literature, however, focuses on small or random samplings of local governments without regard to whether fiscal distress is readily apparent therein. By including the fiscal distress indicators identified by the literature in research, and through the application of such indicators to municipalities that have experienced varying degrees of fiscal health, including distress, meaningful observations can be made about the relevance of the indicators identified in the literature. The differences in indicators may signify varying levels of fiscal distress between local governments on one end of the spectrum that have filed for bankruptcy meeting the guidelines for insolvency, and among others on the opposite end that have maintained such a standard of credit to enable them to issue debt.

The second objective of this research is to better understand the causes and conditions that enable fiscal distress by expanding on the literature review through recognizing and characterizing the qualitative variables that affect fiscal distress. Unlike the first objective, this does not seek to define, measure or identify fiscal distress in a local government, but rather to understand the qualitative variables that may contribute to or cause such unfortunate fiscal conditions. Existing literature broadly cites conditions that generally enable fiscal distress such as financial mismanagement or political corruption; however, few comparisons have been made between the nature of the variables in different cases. Variable connections with, and their effects
on, distress is unclear or unarticulated in literature, multiple factors are ignored or excluded in
spite of the premature acknowledgement of one, and the definition and operationalization of the
factors as variables are overlooked and otherwise dependent on each researchers’ determination
thereof.

The third objective of this study is to explore the value of methods employed by local
governments to address fiscal distress, through the consideration of quantitative indicators and
qualitative factors, and any variations therein, before and after municipalities attempt to address
such distress, with methods that include bankruptcy, asset monetization and the issuance of debt.
Few current studies examine the results of any potential solution on fiscal distress indicators and
Accordingly, this objective is important to realize if the methods utilized to address such distress
alleviate the indicators and factors identified as representing or contributing to the local
government’s poor fiscal condition.

Organisation of Data Analysis and Results

John Kingdon’s multiple streams model provides a useful context for organizing this
study for a comprehensive understanding of the problem of municipal distress and the
approaches to solve it (Kingdon, 1995). The garbage can model of decision-making is the basis
for Kingdon’s (1995) multiple-streams framework comprised of three streams of actors and
processes, consisting of policy, problem and politics streams, which operate independently until
a “window of opportunity” presents itself and ultimately permits policy decisions to be made.
The problem stream is concerned with the identification and articulation of a policy or issue as a
problem, in which problems are generated, defined and characterized and socially constructed
(Kingdon, 1995). The policy stream focuses on the formulation and feasibility of potential policy
solutions and alternatives to the problem recognized in the first stream, in which solutions are deliberated, analyzed, reconsidered and reformed (Kingdon, 1995). The politics stream emphasizes the environment and political climate, variables, such as national mood and public opinion, and people, including policy participants, specialists, researchers, experts, advocates and even the public (Kingdon, 1995).

In the policy process, Kingdon is concerned with: (1) setting the agenda, and (2) specifying alternatives from which a decision is to be made. The agenda is comprised of the governmental agenda, that is, the list of issues that are of significant importance to the public and government officials and the decision agenda, or the list of subjects within the governmental agenda that are up for an active decision. Decision agendas are the result of a complete linkage combining all three streams into a single package; therefore, the probability of changing a policy is dramatically increased if the policy issue is placed on the decision agenda. Conversely, incomplete links excluding a stream or a part thereof are less likely to result in the policy being added to the decision agenda.

**Overview of Methodology**

Using Kingdon’s streams to organize this research permits insight into a number of relevant factors or variables. First, factors with regard to a policy’s technical feasibility and alternatives can be anticipated to evaluate policy options. Second, the problem variable considers the level of attention given to a policy area through indicators, focusing events and feedback. To determine the viability of policy choices, researchers could monitor the significance of indicators, or data that shows that a problem exists, which a policy attempts to address, and whether or not a focusing event has occurred that warrants policy action. Third, consideration of the political environment offers additional variables to study with regard to whether or not the
national mood or ideological compositions of the public and government influence policy decisions. Definition and statistical analysis of these variables, and correlations between the variables within each of the streams, might be fruitful for considering policy choices in the future.

The conceptual framework draws on the problem stream to identify and define the problem of fiscal distress, the policy stream, to consider policy solutions, and the politics stream, that consists of people and milieu. Accordingly, the multiple streams model provides a useful context for organizing this research for a comprehensive understanding of the problem of municipal fiscal distress and the approaches to solve it. The quantitative fiscal distress indicators and resultant data evidence, characterize and operationalize the problem stream, the three responses for addressing fiscal distress comprise the policy stream of solutions and alternatives, and the politics stream is depicted by the qualitative fiscal health variables that consider the environment and political climate, public perception, ideology, and the influence of participants, managers, leaders, administrators and politicians as well as their actions.

Chapter 1 sets forth the background and causes of municipal fiscal distress and identifies three responses that local governments have utilized to address such distress. The specific solutions that municipalities have undertaken to reduce the impact of fiscal distress are reviewed, as well as the methods for addressing such fiscal distress, including filing for bankruptcy, monetizing assets and issuing debt.

Chapter 2 presents the fiscal distress literature for the purpose of reviewing the accepted qualitative factors and quantitative indicators that relate to fiscal condition. The qualitative factors are couched generally, but also categorized by internal and long-term characteristics. The quantitative indictors include various iterations of local government revenues to expenditures,
assets to liabilities, pension funded ratios and other socio-economic data that are suggested to operationalize, and sometimes predict, fiscal distress. Finally, credit quality as an additional consideration for fiscal distress measurement and the deficiencies in existing research are also examined.

This dissertation utilizes a mixed method design, with case studies, document analysis and surveys to carry out the research agenda, as further detailed in Chapter 3. The qualitative data is gathered from surveys, various public documents, websites and news sources and the quantitative data is collected from local government audited financial statements and other governmental websites. Focusing on the design, Chapter 3 contains the study’s rationale and research setting, exploratory research questions, exploratory propositions and hypotheses, units of analysis, data collection and analysis procedures, as well as the limitations of the research.

Chapter 4 outlines the findings in a similar fashion as the research questions are presented in Chapter 3. Chapter 4 is divided into a review of specific documentation from each case study, followed by the qualitative review and the quantitative review, respectively. Further, the interpretation of the data is discussed. Chapter 5 summarizes the research and concludes with suggestions for future study.

This exploratory study analyzes the three particular responses utilized to address fiscal distress in the context of the qualitative and quantitative fiscal condition variables encompassing political, environmental, economic, social and financial contexts. The problem and politics streams are exemplified through the quantitative financial indicators concerning the balance of various revenue and expenditure indicators and the qualitative variables evident in local governments that affect fiscal condition and influence decision-making. In that context, the policy stream component is shaped by the three responses utilized by local governments for
addressing fiscal distress. Each of the streams receives due consideration individually, however, this study recognizes that the streams are interrelated and should collectively be examined within their shared context, bearing in mind the effect of each stream on the others.

**The Policy Stream: Responses to Fiscal Distress**

Several instances of fiscal distress have caused local governments to seek bankruptcy protection, monetize assets or issue debt to alleviate looming fiscal distress. For example, in 2008 and 2011, Vallejo, California and Central Falls, Rhode Island, respectively, filed for bankruptcy after the cities became insolvent (Ives and Calabrese, 2013). In 2009, Chicago, Illinois leased its parking meter systems to generate revenue and in 2013, Allentown, Pennsylvania leased its water and sewer system for an upfront sum to cover its pension payments (Varghese, 2014). In 2010, Boulder, Colorado issued pension obligation bonds in order to ease the burden on the City’s budget (Mendel, 2014), and in 2011, Scranton, Pennsylvania issued tax anticipation notes to pay bills on time.

While structural pension reform has been on the agenda of many municipalities over the last decade, this study is not concerned with the various structural reform initiatives introduced to alleviate fiscal distress. There is little debate that restructuring pension plans is necessary for the continued and increased vitality of pension funds and ultimately fiscal health. There is also a fairly coherent consensus that government officials should consider reforms that include defined-contribution, cash-balance and hybrid plans (Barkin, 2012). Accordingly, since it is clear that municipal pension structure reform must occur for the long-term sustainability of future pension funds and fiscal health, it is important to provide an understanding of other responses and strategies have been undertaken by local governments to directly address pressing and significant fiscal distress.
To better understand methods for improving fiscal condition, the literature regarding particular responses that municipalities have undertaken to reduce the impact of fiscal distress is reviewed. There are various strategies that municipalities utilize to address fiscal distress including the three responses noted above which include filing for bankruptcy, monetizing assets and issuing debt. There are a number of municipalities that undertake each of these responses to address financial problems and for some municipalities the three responses have been mentioned as being moderately effective in alleviating local government fiscal distress (Farmer, 2013; Schulzke, 2013; Varghese, 2013). It is important to note that these responses have not and will not work for all local governments. Each such response is outlined below.

**Bankruptcy**

Considering bankruptcy to address severe fiscal problems has become an option for some local governments that are authorized to file for bankruptcy protection and meet the filing requirements and criteria. While municipal bankruptcy is still considered to be rare relative to corporate reorganization filings, the increasing willingness of government officials to file for bankruptcy has recently raised concerns nationwide (Ives and Calabrese, 2013). In general, U.S. Bankruptcy Code chapter 9 municipal bankruptcy proceedings provide fiscally distressed local governments protection from creditors, during which time municipalities continue to operate and, through the development and negotiation of a plan for adjusting, but not discharging, debts, seek favorable financing and renegotiation of contractual obligations (Beckett-Camarata and Grizzle, 2014).

Chapter 9 allows filings by insolvent municipalities authorized by state law to initiate bankruptcy proceedings (Ives and Calabrese, 2013). A municipality is “insolvent” under section 101(32)(C) of the U.S. Bankruptcy Code if it is either (1) generally not paying debts as they
become due, or (2) unable to pay its debts as they come due. Commonly, these two standards are referred to as cash flow or equitable tests of insolvency, with the former focusing on the present nonpayment of undisputed debts at the time of filing by the local government, and the latter centering on a municipalities’ prospective inability to pay its debts post-bankruptcy.

In 1934, the Federal Municipal Bankruptcy Act was enacted in response to increasing municipal bond defaults due to the Great Depression. In 1932, there were 678 municipal bond defaults (Deal, Kamnikar and Kamnikar, 2009). By the end of the decade, upwards of 4,770 municipalities had defaulted on their bond obligations (Hempel, 1973). In 1940, the federal bankruptcy law was amended to enable counties to file for bankruptcy in addition to municipalities. Although federal law provides local governments with the mechanism to utilize bankruptcy proceedings, only about half of the states allow municipalities to file. Currently, there are 26 states that forbid municipal bankruptcy and of the 24 that explicitly permit it, 13 simply require formal notification to the state prior to filing, while the remaining require additional prerequisites and procedures. According to the 2012 Census of Governments, out of the 38,917 general-purpose governments across the nation, 21,683, or approximately 56%, are located in states that permit chapter 9 filings (U.S. Census Bureau, 2014).

It is important to note that the local governments that are authorized to participate in bankruptcy proceedings may have different state procedures and requirements for filing. For example, Illinois, Colorado and Oregon have substantial restrictions that only grant certain types of municipalities permission to file for bankruptcy. For example, in Colorado, only insolvent taxing districts have direct access to file for chapter 9 protection (Colo. Rev. Stat. §§ 32-1-1403, 37-32-102). In Rhode Island, local governments are not expressly authorized by statute to file for bankruptcy and a municipality cannot independently file a petition, but rather a receiver must be
appointed to make such a filing. Conversely, in Pennsylvania, any municipality or municipal authority may file for bankruptcy under state law if it satisfies one of several criteria meeting the statutory designation as financially distressed (53 Pa. Cons. Stat. § 11701.261). In addition, California law allows state political subdivisions, authorities and agencies to file for bankruptcy on their own behalf (Cal. Gov’t Code § 53760). Likewise, Arizona and Washington expressly authorize municipalities to file for bankruptcy *sua sponte*.

Before 2008, the majority of bankruptcy filings occurred between 1938 and 1949 during the period of the Great Depression and World War II (Deal et al., 2009) as shown below, and such local government filings have again recently increased over the past two decades.

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Filings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938 – 1939</td>
<td>106</td>
</tr>
<tr>
<td>1940 – 1949</td>
<td>215</td>
</tr>
<tr>
<td>1950 – 1959</td>
<td>31</td>
</tr>
<tr>
<td>1960 – 1969</td>
<td>8</td>
</tr>
<tr>
<td>1970 – 1979</td>
<td>7</td>
</tr>
<tr>
<td>1980 – 1989</td>
<td>43</td>
</tr>
<tr>
<td>1990 – 1999</td>
<td>109</td>
</tr>
<tr>
<td>2000 – 2008</td>
<td>64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>583</strong></td>
</tr>
</tbody>
</table>


Since 2007, 15 municipalities filed for bankruptcy (Maciag, 2013; Governing, 2015). Of those 15 municipalities that have filed, five local governments have had their filings subsequently dismissed. These municipalities include:

| Town of Gould, Arkansas (Dismissed) | City of Vallejo, California |
| Westfall Township, Pennsylvania     | Town of Mammoth Lakes, California (Dismissed) |
| City of Stockton, California        | Village of Washington Park, Illinois (Dismissed) |
| Town of Moffett, Oklahoma           | City of San Bernardino, California |
| City of Central Falls, Rhode Island | City of Harrisburg, Pennsylvania (Dismissed) |
| Boise County, Idaho (Dismissed)     | City of Detroit, Michigan |
| City of Hillview, Kentucky          | Jefferson County, Alabama |
As an insolvent municipality files for bankruptcy in federal district court, it concurrently submits a Plan of Adjustment of its debts. The court reviews the plan and ultimately determines which debts are subject to adjustment. Creditors with unsecured debt have the lowest priority of being repaid in the full or partial outstanding amounts (Ives and Calabrese, 2013). The question of whether debt backed by pension obligation bonds or other debt is considered secured or unsecured varies in many cases, complicating the analysis of priority between two related creditors, debt holders and retirees, and what fairness dictates that each should receive in bankruptcy.

Despite the uncertainty regarding priority, there are a number of examples of municipalities filing for bankruptcy in the wake of severe fiscal distress. The City of Central Falls, Rhode Island, filed bankruptcy in August of 2011. In 2007 and 2010, the City failed to contribute $1.7 million and $2.8 million, respectively, of the actuarially required amounts to its largest pension fund (Ives and Calabrese, 2013). Accordingly, as of 2010, the City’s police and firefighter pension plans reported combined assets of only $7.8 million to cover pension obligations of $54.3 million (Ives and Calabrese, 2013). At the time of filing, the City of Central Falls projected a $5 million general fund deficit (Hynes, 2014).

The City emerged from bankruptcy with a plan that reduced the pension benefits of most retirees by 55 percent (Hynes, 2014). A subsequent appropriations bill passed by the State of Rhode Island General Assembly, however, restored pension payments to approximately 75 percent of previously received benefits. In addition, in 2011, the Rhode Island legislature enacted a statute providing that “all general obligation bonds…shall constitute a first lien…on taxes…and revenues” to ensure that bondholders have priority over retirees in municipal bankruptcy (Hynes, 2014).
Conversely, a judge may grant retirees priority over bondholders consistent with existing bankruptcy law if other claimants involved do not object. In other words, if all classes of creditors disadvantaged by the plan approve it, retirees can receive a greater recovery than other general creditors. Otherwise, when a class of creditors objects to a plan, a judge can only approve the plan if he or she finds that it does not “discriminate unfairly” against the classes of creditors who had theretofore rejected the plan (Hynes, 2014).

In contrast, whether bondholders have priority in bankruptcy proceedings is commonly dependent upon whether a particular state statute, like Rhode Island’s, grants bondholders a lien on municipal revenues. While both unfunded pension obligations and general obligation debt of local governments are paid from general revenues, some states offer constitutional and statutory provisions that protect pension beneficiaries, resulting in the implicit subordination of other long-term debt payments (Brown and Wilcox, 2009; Coggburn and Kearney, 2010; Rauh, 2011).

The decision to fund pension obligations often has no constitutional or statutory limitations, while pension bond issuances may require voter approval for some local governments (Bifulco, Bunch, Duncombe, Robbins and Simonsen, 2012). In addition, once promised, governments have little means to modify pension contracts (Pew, 2010). Nine states have constitutional prohibitions against impairment of contracts in general. Given this, despite the provisions protecting pensions for retirees, it is no surprise that in 2013, federal bankruptcy Judge Steven Rhodes ruled that the City of Detroit, Michigan, could reduce pension obligations in bankruptcy, regardless of Michigan state constitutional guarantees (Burton, 2013). Similarly, Alaska, Hawaii, Illinois, New Hampshire and New York have constitutions containing specific prohibition against the impairment of public employee pensions. Thirty-six other states have statutes or case law prohibiting the impairment of public employee pensions.
While the legal results of filing for municipal bankruptcy remain undeveloped in case law, its effects on local governments have been given some consideration. The magnitude of unfunded obligations and liabilities results in a substantial reallocation of future revenues, and is likely to negatively impact the local government’s credit quality. In many instances after bankruptcy, the credit rating for a local government may be downgraded or suspended, making any further incurrence of debt a challenge (Williams and Fadairo, 2013). However, municipalities could also emerge from bankruptcy with a credible debt-restructuring plan in better fiscal health than before the filing, while restoring its credit standing (Williams and Fadairo, 2013). This possibility is evident as shown by the outcome of the Orange County, California, bankruptcy filing in 1994.

Apart from being a probable method for addressing severe fiscal distress, bankruptcy, in general, is an extreme and desperate decision, resulting in negative effects and public disapproval. After the City of Vallejo, California, bankruptcy filing, the City’s credit rating dropped, public services were cut, crime and prostitution increased, and labor contract disputes persisted, diminishing reserves (Farmer, 2013). However, the bankruptcy landscape is changing and municipalities may begin to view bankruptcy as a valuable tool to contend with budget-killing pension contracts.

After unsuccessful attempts to renegotiate its pension contracts for months, the City of Central Falls is the first to use bankruptcy to follow through on its promise to cut pension benefits (Farmer, 2013). Prior to the Central Falls bankruptcy, municipalities lacked leverage to force labor unions and creditors to make concessions, but in hindsight after the above decision, labor unions may have learned their lesson and will opt to negotiate for a better position pre-
bankruptcy. As mentioned, the harsh outcome the bankruptcy court imposed in the Central Falls case by slashing pensions has been heralded as a major loss and lesson for labor unions.

Finally, filing for bankruptcy is a complex option that warrants careful consideration. Bankruptcy results, procedures and eligibility differ based on the municipality, the location where the filing occurs, and the purpose for filing. However, other options, such as issuing debt, may not exist in a municipal bond market that is becoming increasingly wary of the long-term stability of debt issued by municipalities with insufficient revenues, higher service costs and expenditures, and worsening fiscal condition. Ultimately, when local governments cannot access the debt market and do not have substantial assets to monetize, bankruptcy remains a viable option in light of dismal circumstances surrounding fiscal distress.

**Asset Monetization**

Another method available for local governments to address financial problems is through equity financing and monetizing capital assets, or in other words, selling or leasing major physical assets to generate revenue. In recent years, municipalities have expanded the use of public-private partnerships (P3s) to the sale and lease of existing infrastructure in return for immediate and sizeable amounts of up-front cash payments (Snyder and Luby, 2013). While P3s generate significant revenues, these relationships also create concern with regard to the loss of permanent government control over the infrastructure for extended periods of time.

The notion of public-private partnerships is not a new concept. Governments have been entering into arrangements with the private sector in order to outsource traditional public goods and services for decades. These relationships are premised on the idea that the private sector could provide goods and services more efficiently, of greater quality, and in a more productive and effective manner than the government. While some of these services included offers from
private sector companies to manage publicly owned revenue-producing infrastructure, such as public utilities or parking garages, it is less often the case that such infrastructure is sold or leased to the private entity in connection with an offer to provide management services.

During the last decade, however, more local governments with immediate needs to generate large cash inflows leased their infrastructure assets in light of fiscal distress and budget deficits. In 2005, the City of Chicago, Illinois, leased the Chicago Skyway, a seven-mile toll road, to a Spanish-Australian consortium for 99 years in exchange for $1.83 billion. Four years later, Chicago leased its parking meter system to a Morgan Stanley-backed partnership for 75 years and a payment of $1.15 billion (Snyder and Luby, 2013). Thereafter, however, Chicago’s parking meter lease received noteworthy criticism due to the city’s lump-sum lease payment amounting to about one-tenth of the projected future profits from the meters (Varghese, 2013).

More recently, the City of Allentown, Pennsylvania, and the Borough of Middletown, Pennsylvania, each entered into a 50-year lease of their water and sewer systems. Middletown Borough received approximately $43 million from United Water from its lease to reduce debt and help fund its current pension obligations. Similarly, Allentown City leased their system to the Lehigh County Authority public works agency. Out of the $211 million received in proceeds, Allentown applied $160 million to reduce its unfunded pension liabilities that were slated to consume one-third of the City’s budget by fiscal year 2015 (Burton, 2013). In addition, beginning in 2016, Allentown will receive annual payments in the amount of $500,000 from the Authority under the lease agreement. Following the lease, the City is able to address its looming pension obligations and eventually received a better credit rating from Standard & Poor’s, which provided a positive outlook on Allentown’s general obligation debt.
In 2013, the City of Harrisburg, Pennsylvania, leased its parking operations to the Pennsylvania Economic Development Financing Authority and sold its trash incinerator to the Lancaster County Solid Waste Management Authority. Under the lease, Harrisburg expected to receive millions in annual revenue from the parking system each year. However, enforcement, meter and state contract revenues fell short of expectations. Still, the City received most of the money it expected from the parking system. The Mayor stated after the fact that revenue projections were inflated to encourage the lease deal.

The City of Harrisburg used the majority of the proceeds from the incinerator sale to pay off existing debt incurred to finance the trash burning facility. Likewise, with the apparent success of asset monetization, other local governments are contemplating similar plans. The City of Philadelphia, Pennsylvania, considered the sale of Philadelphia’s Gas Works, the nation’s largest municipally owned gas utility, for almost $2 billion (Varghese, 2014).

The foregoing examples illustrate that monetizing assets is a quick method for local governments to employ as a strategy to raise significant funds in a short period of time. Nonetheless, local government officials must consider whether selling and leasing assets and equity financing is a viable and appropriate policy choice; that is, whether the political and institutional circumstances of the local government allow for this less traditional method, resulting in the reduction of governmental control and potential economic risks and consequences.

While research analyzing the feasibility of these types of public-private partnership transactions is limited, Snyder and Luby (2013) study five aspects of asset monetization financings including: (1) the pricing and use of the asset; (2) the cost of borrowing for capital; (3) operation and construction efficiencies and transaction costs; (4) risk and uncertainty; and (5)
intergenerational equity, or foregoing an assets’ future revenues for a large, one-time payment benefiting the current generation, but depriving future generations of a revenue source.

Of these aspects, Snyder and Luby (2013) initially discuss feasibility in terms of the differences in pricing and use between public and private goods, based on exclusive and non-rival consumption. If exclusion is possible, both the public and private sector can charge for use. The choice to charge user fees and further setting the amounts of fees, concerns efficiency and equity principles, as well as the need to cover the costs of the goods and services (Snyder and Luby, 2013). Since user fees for P3 arrangements can be agreed upon at the outset of the agreement or set by the private operator subject to ongoing regulation throughout the term of the agreement, the estimation by local government officials of equity (a fair fee) and efficiency (fees sufficient to control use) is a major challenge considering the terms of such agreements can extend 50 or even 100 years into the future.

In addition, the authors found that the costs saved from production efficiencies attributable to private sector management of public assets are unlikely to offset the lower cost of borrowing available to local governments, as municipalities can more cheaply borrow at tax-exempt interest rates to finance or refinance debt (Snyder and Luby, 2013). In other words, if monetizing assets provides funds to finance or refinance infrastructure, the local government is doing so at a higher cost than utilizing the tax-exempt market to borrow or refinance. This argument is premised on the idea that the purchase or lease price of the asset is based on the present value of future asset revenues discounted at a return rate comparable to the interest rate which would be paid by the local government as if it would raise funds in the private market. Since local governments can issue debt on a tax-exempt basis, the conclusion follows that
leasing assets, at or based upon private market rates, is more costly to and generates less revenue for the local government.

However, the argument assumes that local governments (1) are using asset monetization proceeds to finance capital projects, (2) have the capacity to issue comparable, large amounts of debt like they would receive from a sale or lease, subject to any legal debt limitations, and (3) are able to obtain acceptable financing terms which would permit debt service to be repaid over the same time period as the term of the lease or sale agreement. Correspondingly, even if local governments could borrow and repay debt over a 50- plus year period, the interest rates at which they would borrow, albeit tax-exempt, would be much higher than the typical tax exempt interest rates for traditional maturity periods of 20 to 40 years.

Further, issuing debt with maturities that extend beyond the useful life of a capital project, which in some states is limited to certain terms like 40 years, or that exceeds the term of the outstanding obligation to be refinanced, is legally prohibited for many local governments. Notwithstanding the legal limitations, practically, most local governments are not able to obtain financing, regardless of the rate, to borrow multiple-millions of dollars over a period in excess of 40 years. Such theoretical debt financings do not occur in the municipal bond market at any interest rate, nonetheless at the tax-exempt interest rate suggested by the authors’ example.

In addition to the foregoing, the authors’ conclusion that municipalities could borrow at tax-exempt rates more cheaply assumes that a municipality would receive tax-exempt revenue bond interest rates for 30 years given a particular bond rating, which more realistically is contingent upon a number of specific factors depending on the exact structure of a debt financing, and would indeed vary for each transaction. It is also unclear whether the costs of issuance of municipal bonds, i.e. fees for legal services, financial advisors, credit ratings,
printing, paying agents, underwriting discounts, bond insurance, if applicable, etcetera, are included in the authors’ evaluation of comparable borrowings.

In any event, to leverage the full revenue streams of these revenue-producing assets, multiple debt financings may be considered to divide issuances into amounts that are more palatable to the tax-exempt debt market. If a projected lease term is limited to 40 years, a common useful life for public capital infrastructure, a comparable analysis between monetizing assets and municipal bond financings is possible (Enright, 2006a, 2006b; Gray, Cusatis and Foote, 2008). Still, the benefit of receiving a large up-front sum is immaterial for local governments that cannot, or choose not to, access the municipal tax-exempt debt market for one reason or another.

While bond issues and asset monetization can be compared on a cost-benefit basis, some analyses assume that when local governments monetize capital, they completely forego receiving any revenues from the asset. As some of the more recent deals suggest, securing periodic payments from the lessee can allow additional revenues to be generated, and these revenues should be offset against projected debt service payments on bond debt to provide an accurate evaluation and comparison between monetizing assets and issuing debt.

Such comparisons should also consider estimated debt service payments in relation to projected revenue streams. In either situation, revenues are either dedicated to the lessee or to debt service payments to the bondholders. If municipalities choose to issue revenue-secured debt, they must illustrate that the asset will produce enough revenue to pay debt service and maintain and operate the asset, and such projections in many instances necessarily include future fee increases to constituents to cover costs. Many local governments may be unwilling to consider such fee increases and seek to shift the burden to an outside entity.
Further, when assets are leased and the private sector takes over management, local governments are receiving this additional benefit without having to pay for it. As a result, lump sum lease payments should generate less proceeds than municipal bond issues when taking into account the cost of managing and operating an asset, because the lease payment should be reduced by the cost to the lessee operating an asset for the duration of the lease term. It is clear that Snyder and Luby (2013) weighed the cost-benefit of private operation efficiencies as compared to government operation, but it is not shown whether this expense reduction to the government is taken into account in the analysis.

Finally, Snyder and Luby (2013) ultimately concluded that (i) asset monetization presents major policy risks in the loss of control, (ii) local governments often pay more for the private sector assuming the financial risk than for the cost of the risk that they incur because governments have more permanent opportunities to reduce revenue risk by raising rates, and (iii) adverse intergenerational inequalities are almost certain in the asset monetization context.

Moreover, the authors maintain that if the proceeds derived from monetizing assets are used to finance current operating or other fund needs, like pensions, then the intergenerational consequences are similar to financing current expenditures with the issuance of debt (Snyder and Luby, 2013). These intergenerational impacts are adverse because future taxpayers over the lease term or bond term or are subsidizing current expenditures. Otherwise, when asset monetization proceeds are used to refinance existing debt, no intergenerational inequities exist where lease terms are comparable to the periods over which debt is refinanced; usually the useful life of the underlying infrastructure that the debt originally financed (Snyder and Luby, 2013).

Accordingly, the question of whether fiscal distress should be addressed by issuing long-term debt that should be borne by future taxpayers, by utilizing revenues from monetizing assets
or short-term debt, or by making budget appropriations funded by current taxpayers, is a policy decision that local government officials need to consider. Accordingly, the next section of this study describes examples of local governments issuing long-term and short-term debt, as well as the stated rationale behind funding current obligations and liabilities with long-term debt, such as pension or general obligation bonds, or short-term debt such as tax or revenue anticipation notes, to deal with revenue shortfalls and ultimately fiscal distress.

**Financing Debt Issues**

The issuance of short-term debt or long-term obligations such as pension obligation bonds (POBs) are methods some local governments utilize to finance budget shortfalls or pensions. Many local governments issue some form of short-term debt to alleviate revenue deficits. For example, municipalities issue tax or revenue anticipation notes, secured by specific expected taxes or revenues to be received by the local government at a future date. A municipality may use the proceeds of such anticipation notes to finance a variety of activities, including the payment of bills and operating costs and to provide public services in the interim before the expected taxes or revenues are received, when adequate cash flows for such purposes is not readily available. Regardless of financial condition, local governments need to engage in such borrowings because obligations need to be paid year-round, whereas property taxes and other governmental revenues are not due or received by the local government well after the start of the municipalities’ fiscal year (Fabozzi, 1985).

Anticipation notes are usually issued for a period of one year or less, but terms can range from as short as three months to as long as three years. Such notes can be issued in anticipation of receiving taxes, grants, other revenues or even future borrowings. These revenues are often specifically pledged to the noteholder, even though some notes are secured by a general
obligation pledge of the local government. Depending on the type of revenue pledged, note purchasers will investigate past collection rates and ratios for the prior fiscal years to establish if the municipality is budgeting for uncollectable revenues and to determine the reliability of the expected revenues (Fabozzi, 1985).

Some jurisdictions limit the amount of notes that can be issued in anticipation of taxes or other revenues to a percentage of such receipts actually collected in prior years. New Jersey is one of the most conservative states, limiting local government anticipation borrowing to no more than 30 percent of the taxes or revenues to be received in the most current fiscal year. Other states are more permissive, allowing local governments to borrow in amounts of up to 75 or 100 percent of the taxes or revenues previously collected or even expected to be received in the current fiscal year (Fabozzi, 1985).

While issuing anticipation notes is not indicative of fiscal distress or even declining fiscal condition, rolling over anticipation notes by local governments, or paying off prior anticipation notes with proceeds of new anticipation notes could be evidence of financial problems, and may be utilized by municipalities to conceal consistent budget shortfalls. Even though many jurisdictions require local governments to retire tax anticipation notes before the end of the same fiscal year in which they are issued, other revenue anticipation notes may not be subject to the same restrictions (Fabozzi, 1985). Accordingly, municipalities need to determine realistic time frames for retiring these obligations, including consideration of their ability to provide amounts for interest payments thereon.

Over the past few years, it has become increasingly difficult for some municipalities to issue anticipation notes because banks are unwilling to bid or purchase them due to concerns regarding budget deficits and repayment. The Great Recession not only caused revenue shortages
but also tightened the nation’s regulated banking system as heightened scrutiny was placed on financial institutions. Both Scranton and Hazleton, Pennsylvania, are experiencing this unwillingness to lend. In 2013, the Mayor of Hazleton attributed the wariness of banks to lend to the recent practice of the City in obtaining increasingly larger tax anticipation notes over the past few years just to pay off bills and obligations from the prior fiscal year (Krawczeniuk, 2013).

In 2013 and 2014, with the City of Scranton facing a $20 million deficit, only one bank submitted a proposal to purchase the City’s tax anticipation note. Even still, that bank insisted that Scranton provide a realistic budget in which revenues matched expenditures, despite the City Mayor insisting that an increase in real estate taxes by 57 percent and garbage collection fees by 69 percent is necessary to provide a balanced budget. In 2012, when the budget fell short in the middle of the year, heated discussions between the Mayor and City Council led the Mayor to temporarily cut City worker’s pay to the federal minimum wage (Krawczeniuk, 2013).

Most municipalities make every effort to prevent themselves from being denied access to financial institutions because local governments need banks to help provide for essential cash flow needs. In 2011, Scranton went as far as to borrow $5 million from a workers’ compensation trust fund to make a payment on a tax anticipation note. The City borrowed the money from the workers’ compensation fund to pay off the note at the bank’s request because the City needed to issue a second tax anticipation note to ensure that bills and employees would be paid in 2012 (Krawczeniuk, 2013).

While the Pennsylvania Department of Community and Economic Development approved the City’s borrowing from its workers’ compensation fund, they required Scranton to adopt a revised recovery plan and arrange biweekly meetings between city officials and its recovery act coordinator to address the City’s $12 million structural deficit. For Scranton, debt
financing did not help the City tackle its fiscal distress but otherwise exacerbated the problem because the City failed to take steps to increase revenues or decrease expenditures, repeating the oversight year after year and widening the deficit over time, through temporarily dealing with budget shortfalls with short-term borrowings.

Local governments may opt to issue tax and revenue anticipation notes because the borrowing costs associated with issuing short-term debt is relatively low due to the temporary period such debt remains outstanding. In contrast, local governments also finance projects through long-term general obligation or revenue bonds, secured by all of a local government’s resources or a portion thereof. Such long-term debt is more costly in terms of higher interest rates to the municipality and is usually subject to legal and statutory debt approval requirements and limitations. However, municipalities need to issue long-term debt to finance projects with large costs and to spread out the burden of repaying the debt service over a longer period of time.

Theoretically, local governments utilize long-term debt or POBs as a money-saving mechanism to fund pensions, as the interest cost of the debt is expected to be less than the returns received on the invested bond proceeds. POBs should then reduce the burden of annual pension obligation payments, preventing resources from being diverted from other programs and services (Calabrese and Ely, 2013). Practically however, expenditures are more likely being shifted from directly financing pension funds to paying debt service on the POBs. Nonetheless, because there are costs associated with issuing the bonds and paying interest on the principal amount borrowed to fund pensions, the financial benefits of POBs and other long-term obligations issued to fund debt are decidedly dependent upon the market.

The debt financing of public employee retirement benefits has received considerable attention because increasing pension expenditures strain already burdened budgets (Calabrese
and Ely, 2013). Since 2012 however, when local governments issued approximately $1 trillion in pension obligation bonds, issuances have decreased dramatically, amid warnings that such instruments that bear risk or delay cash funding should be avoided (Jagoda, 2014). This caution assumes that pension plans are not funded in a broad budgetary sense when debt is issued as a means to finance the plan.

There are multiple characteristics and types of long-term debt and POBs. Most bonds are payable from the general fund of the issuing entity (Doty, 2013). Some bonds are voluntarily issued by a local government and backed by the full faith, credit and taxing power of the issuer, and others are similarly payable from moneys available in the general fund, but no obligation exists to increase taxes should amounts therein be insufficient to pay debt service thereon (Feldstein and Fabozzi, 2008).

Certain POBs are involuntarily issued obligations of municipalities because law imposes them, by constitution, statute or court judgment (Doty, 2013). POBs imposed by law may be excepted from the otherwise statutorily imposed debt limitations on municipalities and are often considered to have the same legal characteristics as pension obligations themselves. These types of POBs however generally exclude the use of bond proceeds for capitalized interest or reserve funds, which may add budget pressure and mitigate immediate fiscal relief when local governments must provide for these costs upfront (Lucas and Fabozzi, 2006). All of the POBs issued in California over the past ten years reflect such obligations imposed by law.

In circumstances in which absolute budgetary relief is essential immediately following the issuance of the bonds, another type of bond structure, known as capital appreciation bonds (CABs), might more instantly gratify municipalities with crippling budget hardships. With CABs, a lower initial principal amount of each bond is reinvested by the municipality at a stated
compounded rate until maturity, at which time the investor receives the accreted maturity value or total par value of the bond, that is a single payment which represents the return of the principal amount and the total investment return (Feldstein and Fabozzi, 2008).

CABs are different from traditional zero coupon bonds in that the investment return on CABs is considered to be compounded interest rather than accreted original issue discount. For this reason only, the initial principal amount of a CAB is counted against a municipal issuer’s statutory debt limit, rather than the total par value as with a traditional zero coupon bond. CABs or zero coupon bonds may offer immediate relief for local government budgets; however, it is more likely that CABs could perpetuate fiscal distress if used in a manner to exceed statutory debt limitations. Still, in some cases, CABs and zero coupon bonds have been successfully used in the past to fund long-term projects and offer initial cash flow relief.

In addition to obligations imposed by law, California local governments have also issued many bonds not backed by the full faith, credit and taxing power of the local government, but rather by lease revenues or certificates of participation (COPs) from other political subdivisions or non-profit corporations. In these cases, a municipality leases existing public capital infrastructure of value equal to or greater than the principal amount of the bonds or COPs to governmental or non-profit entities that in turn leaseback the facilities to the issuer (Doty, 2013). Accordingly, the payments from the issuer’s general fund to the other governmental or not profit entity secure the repayment of the debt. Likewise, POBs can also take the less common form of annual appropriation bonds, which are also not subject to the applicable statutory debt limitations because their repayment depends on the periodic appropriation of funds for that purpose at the discretion of the governing body of the municipal issuer (Doty, 2013).
The issuance of POBs emerged in the early to mid-1980s before the enactment of major federal tax code reform legislation in 1986. Up until that time, tax-exempt POBs or other long-term debt obligations were appealing because issuers could earn significant arbitrage, that is, a governmental issuer could, in theory, borrow money at lower tax-exempt interest rates and reinvest bond proceeds in taxable securities offering higher rates of return, yielding substantial interest earnings in excess of the POB’s issuance and interest costs. In other words, “actuarial arbitrage” assumes that equity returns are greater on average than the interest cost of the POBs that local governments pay on the outstanding debt, thereby generating additional revenue for pension funds or other public spending (Calabrese and Ely, 2013). However, the low current interest rate environment no longer permits reinvestment to earn arbitrage.

In addition, current federal tax regulations do not permit arbitrage earnings in excess of de minimis amounts, so POBs are now issued as taxable debt. Still, between 1993 and 2011, over 775 local governments issued pension obligation bonds (Calabrese and Ely, 2013). Despite the taxable status of POBs, arbitrage opportunities still exist when local governments can issue taxable debt at lower interest rates and reinvest the bond proceeds in higher yielding investments. However, the spread between paying taxable interest, rather than tax-exempt interest, and the expected rate of return on the investment of proceeds, results in decreased arbitrage earnings in the current low interest rate environment.

In the mid-1990s, the City of Oakland, California, issued taxable POBs in order to finance pension fund contributions and ease the burden on the City budget. After contributing the bond proceeds to the pension fund, the City made no further pension payments for 15 years (Mendel, 2014). The City expected to receive a higher rate of return on their pension fund investments that should have resulted in the pension contributions being supplemented by the
increased returns. However, the pension obligation bond investment returns were lower than anticipated. Following the Great Recession in 2008, lower than expected returns became the norm (Munnell et al., 2012). In addition to California local governments, cities, counties and school districts in Oregon, Connecticut, Illinois and New Jersey are major issuers of POBs (Schulzke, 2013).

Given this, some literature is critical of the idea of potential arbitrage opportunities presented by the issuance of POBs and maintains that arbitrage does not exist when risk is appropriately discounted. Such authors suggest that trading risk-free investments like U.S. Treasury obligations for chancier investments has an economic value of zero because the asset values of each are equal prior to the trade. In other words, the riskier investments are equivalent to the risk-free investments on a risk-adjusted basis (Gold, 2000; Bader and Gold, 2003).

But, as fiscal distress will likely continue to burden local government budgets for the foreseeable future, local government officials will continue to consider issuing debt. The issuance of POBs may appear to be a practical strategy to officials interested in protecting their local government’s fiscal sustainability, because alternatives like increasing employee contributions or retirement age can have negative effects on employee motivation, performance and recruitment (Chapman, 2008; Coggburn and Kearney, 2010), and also cause political backlash.

Despite the salience of the topic, POBs have not been the focus of extensive research. Munnell et al. (2012) are the major contributors in this area and have found that governments are more likely to issue POBs when their debt levels are high, their cash reserves are low, and pension plans account for a substantial portion of the government’s obligations. These circumstances that are present inherently demonstrate municipal fiscal distress, however, these
circumstances have also been cited as reasons that pension obligation bond issues fail to address pension underfunding (Schulzke, 2013). Too often, POB issuers are fiscally stressed and in a poor position to assume the investment risk (Munnell, 2010).

With regard to their fiscal benefits and soundness, some authors have suggested that the overall effectiveness of POBs cannot be evaluated until after the bonds finally mature, usually decades after their issuance (Burnham, 2003; Miller, 2009). Conversely, Calabrese and Ely (2013) contend that local government officials can manage the immediate financial effects of POBs by understanding the manner in which these bonds may alter annual budget processes each year. On that note in 2010, the City of Boulder, Colorado, issued $9 million in POBs in a favorable market at a low interest rate after deciding to close its pensions to newly hired employees. Before floating the debt, the City of Boulder reviewed worst case scenarios and determined it could absorb potential losses (Schulzke, 2013). This case is one of the few examples that highlight the successful utilization of POBs by a local government. Here, the City understood POBs, the importance of debt management, and was in a position to tolerate the risk.

Issuing long-term debt is an important consideration for local governments as a response to massive underfunded pensions and fiscal distress in general. POBs provide budget relief by reducing annual pension fund payments, and any non-payment penalties, or by minimizing the impact of large one-time required contributions (Calabrese and Ely, 2013). Failing to make adequate pension contributions from current revenues is, in effect, borrowing from future taxpayers, which is comparable to issuing POBs. This illustrates the similarities between these unfunded obligations to employees and other bonded obligations; however, unfunded pension liabilities are beginning to exceed other types of local government obligations (Moody’s, 2011;
Martell et al., 2013). Further, issuing POBs results in shifting payment obligations from plan beneficiaries to external creditors and bondholders.

On the other hand, opponents of long-term debt suggest that the issuance of these types of obligations will not address the underfunding problem if governments continue to underfund pensions each year. Receiving one-time, sizeable bond proceeds can result in an immediate budget surplus that encourages the moral hazard problem of decreased pension contributions in the future (Peng, 2004). For example, the auditor of the City of Oakland, California, recently reported that the City’s pension funds remain underfunded not only despite the issuance of POBs, but due to the issuance of the bonds. The City owes approximately $250 million more in outstanding debt than the amount it would owe if no POBs had been issued in 1997 and the same debt service payments were made to fund the pension instead (Mendel, 2014).

Finally, long-term bonds can negatively impact credit ratings for local governments due to an increased balance sheet, default, budgetary and management risks, and loss of flexibility (Moody’s, 2012b). As a result, if local governments plan to issue bonds to fund unfunded pension liabilities, borrowing may occur at a substantially higher cost (Rauh, 2010). Further, the issuers of such bonds are often fiscally distressed and in a poor position to handle investment risk (Mendel, 2014). However, POBs and other forms of are potentially useful for local governments at the right time (Munnell et al., 2012). Fiscally healthy municipalities may have the capacity to gamble on the spread between interest rates and asset returns and avoid raising taxes during poor economic times (Munnell et al., 2012). When local governments are in such a financial position that issuing pension obligation bonds or other long-term debt is not politically or fiscally feasible, municipalities may turn to short-term debt issues to pay bills before tax or other revenues are received.
Given the foregoing examples of local governments utilizing debt issuances, asset monetization and bankruptcy proceedings to address fiscal distress, it is evident that many municipalities are constrained in their ability to address fiscal distress on an annual basis for one reason or another. This ability is inextricably linked to the local governments’ fiscal health and capacity, which needs to be examined in order to better appreciate the circumstances surrounding each municipality before, during and after the decision is made to address fiscal distress with bankruptcy, asset monetization or debt financing. Such an inquiry will not only provide insight into each local government’s fiscal environment, but will also assist in discerning what effect any method may have on addressing fiscal distress or whether one method is more appropriate than another in certain fiscal settings.

Chapter Summary

This chapter introduced the background for this exploratory study by identifying the circumstances of local government finances and citing examples of local government fiscal distress. The literature review uncovered specific responses that local governments have utilized in order to address fiscal distress, which include bankruptcy, asset monetization and debt financing.

The chapter further outlines the organization of this study using the Kingdon (1995) model as its conceptual framework and characterizes the multiple streams in the context of qualitative data as the politics stream, quantitative data as the problem stream and the methods described for addressing municipal fiscal distress as the policy stream. In addition, the local government responses attempted to resolve fiscal distress, which include filing for bankruptcy, monetizing assets and issuing debt, and the histories thereof, were reviewed.
Lastly, the significance of the problem of fiscal distress and the purpose of the study were also set forth in this chapter. The salience of the problem cited in the media and literature demonstrate the widespread reach of, and the attention that has been given to, local government fiscal condition. Next, the causes and problems of fiscal distress are acknowledged and reviewed, as well as the conditions and variables that affect the same and contribute thereto. The three major responses of municipalities to fiscal problems including bankruptcy, asset monetization and debt issues are further explored. Finally, the organization of methodology, constituting an exploratory mixed methods approach, and an overview of the study outlining the chapters herein and setting forth the outline of the research is provided.
CHAPTER 2: LITERATURE REVIEW

Defining, Measuring and Monitoring Fiscal Health

To measure fiscal condition and determine whether or not a local government emerges from utilizing a method for addressing fiscal distress and achieves adequate fiscal health, we must first understand what local government fiscal health looks like and establish the appropriate indicators to analyze fiscal condition. The most fundamental comprehension of fiscal health or condition is the extent to which a local government generates more revenue than it spends or needs to meet its ongoing obligations and provide services (Honadle et al., 2004). As the gap between revenues and expenditures expands, so does the degree of fiscal condition in the direction of good fiscal health or poor fiscal distress. The continuum of fiscal condition in Figure 1 below demonstrates this concept and illustrates the divergence between fiscal distress and fiscal health.

Figure 1: Continuum of Fiscal Condition

When a municipality falls on the far left end of the fiscal condition continuum, it is likely experiencing fiscal crisis. Understanding the degree or level of fiscal distress is important because it will affect the ability of a local government to seek bankruptcy protection, monetize assets or issue debt to alleviate looming expenses and liabilities or unpaid pension obligations. As evidenced in practice recently, the most severe instances of fiscal distress that represent the far left side of the continuum have caused local governments to file for bankruptcy protection.
In addition, as local governments maintain evidence of fiscal health toward the right end of the continuum, they may be able to access the debt market and issue debt to address fiscal distress. Accordingly, municipalities that are unable to finance debt, or must issue debt at increased costs due to poor credit ratings, may consider monetizing assets to generate sufficient revenues. As depicted in Figure 2 below, the degree of fiscal distress will impact which method a local government is able to pursue. The more distressed a municipality is, the fewer options it has to take significant action to reduce fiscal distress. The direction of the arrow in Figure 2 illustrates the decreasing options available to local governments to address fiscal distress as fiscal condition deteriorates. Declining fiscal health will initially make marketing bonds and borrowing debt at advantageous interest rates more difficult for municipalities. As fiscal condition worsens, local governments will find it harder to monetize assets and maintain leverage in negotiating beneficial terms, and may be willing to accept inferior offers for the sale or lease of public infrastructure. Finally, when fiscal condition erodes to a certain critical level of fiscal distress, bankruptcy may be the only accessible option to address the problem.

**Figure 2: Options for Addressing Fiscal Distress on the Continuum of Fiscal Condition**

| Bankruptcy | Asset Monetization | Debt Issuance |

**Definitions of Fiscal Distress**

Fiscal crisis is a term that has been generally defined as the inability of a local government to reduce expenditures and increase revenues. In instances in which a local government does not have (i) the budgetary flexibility to institute politically acceptable or
feasible expenditure or program cuts, (ii) the ability to generate tax and revenue increases, or (iii) the capacity to borrow, then the government is in a fiscal crisis situation (Hirsch and Rufolo, 1990). Many states and local governments have laws and legislation to address fiscal distress under which various definitions of fiscal health and distress have been developed; however, there is scant literature examining the relationship between scholarly measures of fiscal condition and those that drive policy decisions (Maher and Deller, 2013).

Fiscal crisis and fiscal distress have been used interchangeably in the literature, but it is important to note distinctions made between these terms and fiscal stress, which represents the circumstances that generally precede fiscal crisis and distress during which increasing fiscal pressures strain the municipal tax base or when an inability to balance budgets exists (Honadle et al., 2004; Dougherty, Klase and Song, 2009; and Beckett-Camarata and Grizzle, 2014). However, fiscal stress may not always directly lead to fiscal crises or distress and as such, the causes of fiscal stress may not be the same as the causes of fiscal crisis or distress (Park, 2004).

While much of the existing literature documents such differences between fiscal crisis or distress and fiscal stress or strain, the characterizations of fiscal stress as a precursor to fiscal crisis or distress further support the basis for a continuum approach to fiscal health accepted herein, especially where the distinctions become blurred between overly defined concepts. Since many local governments currently experiencing fiscal crisis are “one step away from insolvency” (Fitzgerald, 2006, p. 1), the ability to differentiate between fiscal stress, distress and crisis is limited by the number of definitions thereof and becomes based on crude typologies.

From the general definitions, more specific definitions emerge. For example, time period, rather than the degree, over which revenues exceed expenditures has been incorporated into many characterizations of fiscal distress (Mead, 2001; Kloha et al., 2005). Other definitions of
fiscal distress are based on short-term considerations, such as a local government’s ability to meet its payroll and generally make payments in a timely manner. For example, Mead (2001) provides that financial condition is a consideration beyond the date of local government audits, to its ability to finance obligations as they come due. On the other hand, Kloha et al. (2005) acknowledge that fiscal distress definitions can include consideration of long-term trends in a local government’s tax base relative to its expenditures and commitments over several years.

Despite the incorporation of time periods, Ladd and Yinger (1991) suggest that fiscal health is contingent upon the ability of a local government to provide public services to its constituents. Additionally, the International City/County Management Association describes fiscal health as this ability to finance services on a continuing basis (ICMA, 2003), and the payment for such services. Likewise, fiscal strain is characterized by governments that can no longer provide services or make timely payments on service obligations (Martin, 1982; Rose and Page, 1982; Pagano and Moore, 1985; Mead, 2001; Deal et al., 2009; ACIR, 2013).

In 1973, the Advisory Commission on Intergovernmental Relations similarly provided that “to define a financial emergency mainly in terms of a city’s ability to meet its financial obligations, is to ignore a city's responsibility to the people who are dependent on the city for its services” (ACIR, 2013, p. 7). Accordingly, ACIR assertively supported definitions and research that consider the interests of constituents who have paid for and received services, invested as bondholders to fund municipal projects, and provided services as vendors.

In summary, Nollenberger et al. (2003) commonly describes the foregoing definitions of fiscal health along four general categories including (1) cash solvency: the ability to generate sufficient revenue to meet payment obligations for 30 to 60 days; (2) budgetary solvency: the ability to balance the budget and cover expenditures over a fiscal year; (3) service-level
solvency: the ability to provide adequate services to meet constituent needs and ensure their health, safety and welfare; and (4) long-term solvency: the general and consistent ability to balance revenues and expenditures, meet future long-term debt obligations, such as pension obligations, and the capacity to deal with unforeseen fiscal challenges.

From the literature it is clear that a basis for fiscal health depends on the relationship between local government revenues and expenditures, which affects the local government’s ability to (1) meet its financial obligations, and (2) provide services. A portion of the existing research that attempts to develop indicators from these definitions and ultimately measure fiscal health or condition, focuses on the financial aspects and the connection between local government revenues and expenditures, rather than on service-level concerns, potentially because the financial metrics are more easily utilized and understood by elected officials (Maher, 2013). Perhaps the ignorance of service considerations is a conscious decision by some researchers based on the inherent assumption that governments having the financial ability (i.e. revenues match or exceed expenditures) to provide services will provide services, and otherwise governments that do not have the financial capacity (i.e. expenditures exceed revenues) will not be able to provide services or meet other obligations, financial or otherwise.

In addition, it is possible that municipalities may experience fiscal distress that does not interfere with their ability to deliver services. Thus, while service-level concerns may play an important role in the definition of fiscal distress, the broader capacity of a local government to meet its obligations, whether financial, service, contractual, or so on, due to an imbalance of revenues and expenditures, is most fundamental thereto.

Nonetheless, if the ability of local governments to provide services is included as an indicator of fiscal distress, defining and measuring the level and quality of services and
controlling for or eliminating any potential non-financial impacts on services (i.e. instances in which local governments have the fiscal capacity to provide services but such provision is otherwise not feasible, non-essential, or intentionally cut) should be considered for a more complete evaluation. In other words, researchers should determine the threshold level and quality of local government services to be maintained in order to establish that service provision has been so affected as to warrant a change its fiscal status.

Theoretical Approaches to Studying Fiscal Distress and Decision-making

Public administration literature, and the narrower subfield of public management, is extensively concerned with public managers, officials and administrators, and their individual and collective actions of arranging actors and resources in order to direct or oversee activities as a means to carry out or accomplish policy outcomes, public objectives or goals in furtherance of public values. This concern is entrenched in a desire to not only explain and understand the processes public managers must undertake to perform such actions, but to guide these administrators in resolving policy problems.

While local governments cannot directly or immediately control for many of the environmental factors and influences that cause or indicate fiscal distress, including the amount of revenues received in any given year, addressing fiscal health is largely dependent upon the ability and capacity of a public organization to make decisions based upon such knowledge of the foregoing in consideration of expenditures and service provision.

Fiscal decision-making has been explained directly or indirectly through various theoretical approaches and frameworks. Lindblom’s incremental model as applied by Wildavsky (1964) proposes that budgetary and fiscal decisions are made piecemeal, but are consistent or repetitive over time, with generally minor, but occasionally major, adjustments. In addition,
Wildavsky (1964) suggests that such decisions often ignore actual funding needs and program value, and are based upon past determinations, partial review and limited evaluation of empirical data, inclusive of the concept of bounded rationality.

Bounded rationality approaches (Simon, 1957) may be used to explain the decisions that municipalities make with the information they have when faced with fiscal problems and other political, social, expertise and time constraints. Because of these constraints, local government managers are forced to rely not necessarily on rational approaches, but on experiential knowledge, which results in incremental and satisfactory, but not necessarily ideal, decisions that vary and are inconsistent among local governments based on individual conditions and determinations with regard to which services are most essential and need to be preserved therein.

Likewise, fiscal decision-making and associated strategies will vary based on economic conditions and environmental surroundings. Levine (1978) suggests that in times of good fiscal health, municipal organizations utilize informal methods of decision-making, and in times of crisis, local government subunits individually work to promote their own survival, regardless of the effects on the municipality as a whole. In line with a logical and rational decision-making approach, when increasing revenues is not an option, and efforts to improve efficiency, defer projects and voluntary reductions do not provide enough relief, service and program cuts follow.

In addition, systems theories advance a theoretical context in which municipalities must seek to maintain stability and balance with their environments in making decisions with regard to fiscal distress. Systems theories as furthered by Katz and Kahn (1966) are premised on the adaptability of organizations to connect with their environments and recognize the existence of a two-way flow of influence between organizations and their surroundings. Even if municipalities
are not developing formal or informal relationships with their environment, they increasingly rely on external sources of support, whether political, social, cultural or economic.

Theorists such as Thompson (1967) support the development of systems theories further from the classical view, by suggesting that the rational, closed-system approach may be utilized in municipal decision-making, but only at the technical level of organizational operations (Shafritz et. al., 2011). Such organizational elements traditionally focus on the rational nature of technical operations, however, in order to deal with the external environment, Thompson (1967) acknowledged that organizations would have to create specific elements designed to cope with the uncertainty of external factors.

Correspondingly, Meyer and Rowan (1997) advocated the creation of such external-coping elements through explaining the effects of cultural and institutional environmental influences: that modern society contains norms, values and practices which are socially constructed, and that these socially constructed influences provide the framework that shape modern formal organizations and legitimatize organizations that accept them and incorporate them into their organizational structure and operation. Taking systems theory further, by arguing that modern organizations not only are affected by and adapt to external factors, but are rather built upon, based on, and gain legitimacy from, outside influences, Meyer and Rowan (1997) developed the institutional theory of open systems. This reinforces the postmodern idea that the world is a product of our ideas and conceptions, and society’s socially created and validated meanings define reality.

This leads to a theoretical response utilizing the coping strategies approach in which local governments will seek solutions to fiscal problems that are both feasible and effective for the formal organization and the external environment. Therefore, service and program cuts are a last
resort and municipalities will resist raising taxes or reducing spending in order to maintain homeostasis with its environment by using reserve funds. Likewise, upsetting the external environment by reducing services in the event reserves are insufficient is most likely to occur, if at all, on government-wide basis, to avoid the presumption of inequality and unfairness among internal and external actors (Wolman, 1980).

Alternatively, some theorists contend that due to differences between local governments and their resources, legal constraints, environments, and level of professionalism, it is difficult to predict how municipalities will respond to fiscal distress. Such unstructured responses to fiscal distress may be described by the “garbage can model” of decision-making. Cohen, March and Olsen (1972) conceptualize this framework as highly fragmented, an environment that lacks communication, cohesion and comprehension among the actors, where individual participation and attention varies and alternatives are incomplete, resulting in decisions that are nonlinear and even personal or political. In applying the model, Morgan and Pammer (1988) found that, although structured strategies are difficult to explain, as local government manager perceptions of fiscal distress increase, revenues and spending cuts also increase. Accordingly, despite the finding that some responses may be undertaken upon manager notification, decision-making during times of fiscal crises can be indicative of an unstructured and irrational process.

The garbage can model of decision-making and organizational choice is the basis for Kingdon’s (1995) multiple-streams framework. Cohen et al. (1972) explained decision-making through “organized anarchies,” which are defined by three characteristics including problematic preferences (ambiguous problems and goals), unclear technology (poorly understood or vague rules, structures, process and methods for decision-making), and fluid participation (different actors at different times involved in decision-making). Like Kingdon’s model (1995) which is
comprised of three streams of actors and processes, consisting of policy, problem and politics streams, which operate independently until a “window of opportunity” presents itself and ultimately permits policy decisions to be made, the garbage can model conceives that decision-making through organized anarchies occurs in independent streams of problems, solutions, participants and choice opportunities.

The garbage can model acknowledges that problems may be ambiguous and poorly defined matters requiring attention. Accordingly, instead of providing clear solutions to address problems, problems are linked to solutions through ideas, organizational processes and policies. Further, various and irregular participants, or collectively organizations, undertake choice opportunities, or more simply make decisions, in the normal course of governing or as a result of specific events or circumstances (Cohen et al., 1972).

Kingdon’s model recognizes the evolution and adaptation of the streams over time, reduces the four streams to three streams, by developing the politics stream to include participants and choice opportunities, and expands the garbage can model with the concept of opportune policy windows. Both the garbage can and Kingdon models diverge from rational decision-making in that solutions or policies are not chosen because they are optimal or efficient methods for addressing problems, but through independent streams, problems are linked to solutions as a vehicle for policy adoption because they arise in tandem and are coupled based on timing.

Rubin (2000) expands upon Kingdon’s model in the fiscal decision-making context, identifying five linked clusters for consideration including revenues, expenditures, balance, process and implementation, emphasizing the environment and competition among participants for limited resources. Rubin’s framework is however more rationally based, adjusting decisions
based upon updated information from other streams and the environment. This framework is adaptive like Kingdon’s model and reflects the fluid context in which local governments make fiscal decisions like the fluid participation stream of the garbage can model.

Cohen et al., Kingdon’s and Rubin’s work offers insight on a number of relevant factors, or even variables, that this study can incorporate and provides a useful context for explaining the problem of municipal distress and its potential solutions. The quantitative fiscal distress indicators and resultant data evidence, characterize and define the problem stream, filing for bankruptcy, monetizing assets and issuing debt comprise the policy stream of solutions and alternatives, and the politics stream is depicted by the qualitative fiscal health variables that consider the environment, politics and the actions of participants.

The foregoing theories illustrating municipal decision-making in times of fiscal distress are not mutually exclusive and are potentially useful in considering not only the methods of municipalities in addressing fiscal distress, but serve to provide an understanding of the nature of local government organizational structures and components that affect the ability and capacity thereof in confronting these challenges. Nonetheless, theoretical models and approaches are not expanded upon or emphasized in the existing literature that seeks to measure fiscal health.

The Politics Stream: Conditions that Enable Fiscal Distress

As far back as the early 1970s, the existence of underfunded locally administered retirement systems and inadequate accounting and financial management techniques are noted as potential causes of fiscal distress (ACIR, 1973). In 1985, after conducting case studies of 18 local government bankruptcies occurring between 1973 and 1983, the ACIR expanded on its 1973 report to further include problems subsequently identified as causing fiscal distress, such as losses from court judgments and real estate development districts, and changes in
intergovernmental fiscal or structural relationships resulting in the reduction of funding from higher levels of government (ACIR, 1985). According to the ACIR (1985), other factors of fiscal strain that led to bankruptcy or default include financial mismanagement and inadequate planning.

Bankruptcy case studies comprise much of the literature providing insight into the conditions that enable or contribute to fiscal distress, but historically, many case studies consist of law reviews that have been dedicated to uncovering the novel legal framework surrounding municipal bankruptcy. However, there have been some cases published in financial management literature. Early on, Park (2004) explains these conditions or factors that cause municipalities to go bankrupt through the use of three categorical perspectives. The three overlapping perspectives, which include long-term and short-term, political and economic, and internal and external dimensions, can be used to explain the factors and conditions that lead local governments to bankruptcy (Park, 2004).

From the case studies, Park (2004) identifies various causes of municipal bankruptcy and in effect, fiscal distress, many of which are unique to each case due to different financial circumstances and some of which are reiterated in the field of literature. Some of these causes include lack of supervision, planning policies and revenue diversification, risky decision-making, mismanagement, lawsuits, ideology and inadequate political power, market downturns and reduction in state aid, and various internal and external pressures. While Park (2004) assigns one bankruptcy cause for each case study into each of the three perspectives, the model does not produce generalizable causes beyond the broader related perspective classifications or illustrate the importance or significance thereof.
Based on the Park model, Beckett-Camarata and Grizzle (2014), from the case of Harrisburg, Pennsylvania, uncover multiple bankruptcy causes and factors that altogether correspond with the mutually inclusive three perspectives. They found that internal factors of fiscal and political mismanagement and the political factor of weak structural leadership significantly contributed to the fiscal distress experienced by Harrisburg. In addition, the authors recognized other environmental factors including excessive debt and general fund transfers, inadequate fiscal accountability and professionalism, and poor revenue diversification, as well as structural budget problems, declining state revenues and demographic shifts, and other political factors including the absence of term limits, corruption, part-time politicians, and stopgap decision making by political figures, as well as limited state oversight over distress cities.

Watson, Handley and Hassett (2005), in their study of the City of Prichard, Alabama, bankruptcy in 1999, identified five socio-economic conditions that contribute to fiscal distress, including financial mismanagement, population decline, increasing per capita costs, structural change in the economic base, natural or man-made disasters and civic distrust. Likewise, Deal (2007) suggests that many local governments that have experienced natural disasters face bankruptcy. In addition, Watson and colleagues maintain that if the City had not faced the political and managerial issue, it could have avoided bankruptcy.

Kavanagh’s (2007) model evaluates and monitors current fiscal condition and incorporates strategic management principles for a jurisdictionally customized approach. The model assists municipalities with identifying financial strengths, weaknesses, opportunities and threats (constraints or challenges) in order to allow the local government to prepare for threats to fiscal stability and potentially mitigate impact. The model considers variables such as local government politics, the ability of the municipality to allocate the tax burden, to adapt and
reallocate resources when necessary and to align demand for services to available revenues, and capacity and economic potential of the jurisdiction to support and secure resources to provide and maintain services.

Deteriorating economic and socioeconomic conditions can lead to decreased revenues in a number of ways. In 2011, the Government Accountability Office (GAO) recognized that local revenues increase during economic expansions and decline during recessions. In an attempt to understand revenues and expenditure patterns to determine the circumstances that necessitate the provision of federal fiscal assistance in response to future national recessions, the GAO (2011) reviews labor market data for targeting assistance. This suggests that indicators measuring conditions such as employment and unemployment rates, hourly earnings, and wages and salaries, may also be included in models to expose economic conditions symptomatic of fiscal distress.

In addition, Kloha et al. (2005) developed a 10-point scale in order to predict a local government financial problem, which considers population fluctuations. Declining population could mean less property tax revenues, or reduced revenues generated from revenue-producing facilities. For example, Deal et al. (2009) found that the loss of revenue from Greenetrack, a casino-style gaming complex in Greene County, Alabama, may have left the local government with a disproportionate number of poor, uneducated and unemployed residents. These residents were not only unable to sustain the requisite revenue base, but quite possibly exacerbated the problem by having an increased level of need for government services. Consequently, revenue decline and increased service needs caused severe fiscal problems and may have led Greene County to file for bankruptcy.
Through a comparative case study of the bankruptcies of Orange County, California (1994), and Greene County, Alabama (1996), Landry and McCarty (2007) found that both counties relied on incoming revenues from risky sources to fund major portions of their governmental functions and therefore rising interest rates led to major losses. Similar to the conclusion presented by Watson et al. (2005), the authors further provided that politics, political infighting, poor leadership, and the disregard for future fiscal health is evident in both counties (Landry and McCarty, 2007). Likewise, Deal et al. (2009), suggest that bankruptcies and ultimately fiscal distress result from revenue decreases or rapid and unexpected increases in operating costs, and financial mismanagement.

Despite the usefulness of bankruptcy cases in revealing conditions related to fiscal strain, Hendrick and Crosby (2014) are critical of studying bankruptcies as a means of fully understanding the components causing fiscal distress because the U.S. Bankruptcy Code defines insolvency as an immediate budgetary and short-term cash problem and not in terms of service-level and long-term solvency issues. The authors suggest that this method could overlook the fundamental and long-term financial problems of governments.

However, if local governments are unable to make payments as they come due, they may not be able to pay long-term debt as it comes due in the future, and further, short-term cash flow deficits will result in imminent service delivery failures, which is included in the fundamental description of fiscal distress. Likewise, insolvency in bankruptcy, or generally not paying debts as they become due or being unable to pay debts as they come due, is in fact a service-level consideration, as the failure to meet payment obligations to render services would be included in such a filing. In addition, the inability to illustrate long-term solvency, as Hendrick and Crosby (2014) measure as the ratio of long-term liabilities over assets, is not excluded from
consideration in a bankruptcy proceeding, where a municipalities’ prospective inability to pay its
debts post-bankruptcy and discharge of its long-term liabilities is given due review. Finally, such
short-term problems that bankruptcies may detect can further create long-term problems.

While some of the foregoing conditions represent municipal policy choices that are
difficult to quantify, other conditions characterize events that precede fiscal distress and their
connection and relationship thereto is unclear. For example, the Boise County, Idaho, bankruptcy
is preceded by a lawsuit from a land developer, and the collapse of the real estate market in
California attributed to the City of Vallejo, California, bankruptcy filing (Hendrick and Crosby,
2014). In addition, unreported unfunded pension liabilities are credited with leading San Diego,
California, to severe fiscal distress, and in Jefferson County, Alabama, speculative bond
transactions (Hendrick and Crosby, 2014).

In summary, as shown in Table 1 below, the case study literature on fiscal distress
acknowledges and considers the importance and potential influence of causes and conditions in
addition to financial variables. The occurrence of these events or the existence of conditions
leading up to fiscal crises and bankruptcies should be further explored. Insight on whether the
local environment preceding fiscal distress is consistently stable for a period of years, or
experiences slow, mounting or rapid, dramatic changes in events or indicators may provide
perspective into the unique circumstances that are present in such a context.

Table 1: Variables Related to Fiscal Distress from Previously Reviewed Literature

<table>
<thead>
<tr>
<th>Variable Category</th>
<th>Related Factor or Condition</th>
<th>Variable</th>
<th>Operationalization</th>
<th>Study/Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial</td>
<td>Inadequate financial planning / accounting / No diversification</td>
<td>Financial procedures</td>
<td>Utilization of any formal or informal financial planning methods</td>
<td>ACIR (1973), ACIR (1985); Park (2004); Beckett-Camarata (2014)</td>
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<tr>
<td></td>
<td>Disregard or negligence</td>
<td>Attentiveness</td>
<td>Level of awareness, attention and</td>
<td>Watson (2005); Landry (2007)</td>
</tr>
<tr>
<td>Political</td>
<td>Responsiveness to Distress</td>
<td>Accountability and Oversight</td>
<td>State Oversight Agency or Program</td>
<td>References</td>
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<td>-------------------------------------------------------------------------</td>
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<td>---------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
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<tr>
<td>Lack of accountability / oversight</td>
<td>responsiveness to distress</td>
<td>Lack of accountability / oversight</td>
<td>State oversight agency or program</td>
<td>Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Poor / weak leadership</td>
<td>responsiveness to distress</td>
<td>Leaders have ability to address distress</td>
<td>Watson (2005); Landry (2007); Beckett-Camarata (2014)</td>
<td></td>
</tr>
<tr>
<td>Absence of fiscal or debt management policy</td>
<td>responsiveness to distress</td>
<td>Accountability and oversight and oversight</td>
<td>State oversight agency or program</td>
<td>Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Absence of strategic management objectives</td>
<td>responsiveness to distress</td>
<td>Leadership</td>
<td>Leaders have ability to address distress</td>
<td>Watson (2005); Landry (2007); Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Absence of strategic management objectives</td>
<td>responsiveness to distress</td>
<td>Fiscal policies</td>
<td>Existence of formal or informal policies and procedures</td>
<td>Pammer (1988); Groves (2003); Park (2004); Maher (2013)</td>
</tr>
<tr>
<td>Absence of strategic management objectives</td>
<td>responsiveness to distress</td>
<td>Strategic management</td>
<td>Capacity to secure revenues; ability to adapt; alignment of demand and allocation</td>
<td>Kavanagh (2007)</td>
</tr>
<tr>
<td>Financial mismanagement</td>
<td>responsiveness to distress</td>
<td>Financial management</td>
<td>Manager competency and capacity</td>
<td>ACIR (1985); Park (2004); Watson (2005); Deal (2009); Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Low level of professionalism / Part-time administrators</td>
<td>responsiveness to distress</td>
<td>Professionalism / job-time</td>
<td>Level of education, job time, compensation and staff size</td>
<td>Pammer (1988); Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Risky or hasty decision-making / speculative transactions</td>
<td>responsiveness to distress</td>
<td>Nature of decision-making</td>
<td>Limitations on information, resources and time</td>
<td>Park (2004); Landry (2007); Hendrick (2014); Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Hostile ideology</td>
<td>responsiveness to distress</td>
<td>Partisanship</td>
<td>Decision-maker ideology or party affiliation cohesiveness</td>
<td>Park (2004); Kavanagh (2007)</td>
</tr>
<tr>
<td>Corruption</td>
<td>responsiveness to distress</td>
<td>Morality</td>
<td>Adherence to ethical standards and deference for rules</td>
<td>Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Civic distrust</td>
<td>responsiveness to distress</td>
<td>Civic perception</td>
<td>Public observations, perspectives and opinions</td>
<td>Watson (2005); Beckett-Camarata (2014)</td>
</tr>
<tr>
<td>Economic</td>
<td>Public opposition / pressure for services</td>
<td>Public activism</td>
<td>Actions of the public resulting from perception</td>
<td>Park (2004)</td>
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<tr>
<td>Intergovernmental structural changes increasing burden or reducing resources</td>
<td>Intergovernmental relationships</td>
<td>Balance of or connection between resources and devolved obligations</td>
<td>ACIR (1985); Park (2004)</td>
<td></td>
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<tr>
<td>Adverse market conditions / economic downturns</td>
<td>Market / fiscal environment</td>
<td>Market fluctuations and occurrence of major fiscal events</td>
<td>Park (2004); Watson (2005); Kavanagh (2007); Deal (2009); Hendrick (2014)</td>
<td></td>
</tr>
<tr>
<td>Costly legal suits / judgments</td>
<td>Legal environment</td>
<td>Resources dedicated to defense of legal actions or payment of settlements</td>
<td>ACIR (1985); Park (2004); Hendrick (2014)</td>
<td></td>
</tr>
<tr>
<td>Population changes</td>
<td>*</td>
<td>*</td>
<td>Kloha et al. (2005); Watson (2005); Deal (2009)</td>
<td></td>
</tr>
<tr>
<td>Poor, uneducated and unemployed, low-wage population</td>
<td>*</td>
<td>*</td>
<td>Deal (2009); GAO (2011)</td>
<td></td>
</tr>
<tr>
<td>Crippling natural or man-made disasters</td>
<td>Physical environment</td>
<td>Nature of physical environment and occurrence of disasters</td>
<td>Watson (2005); Deal (2007)</td>
<td></td>
</tr>
</tbody>
</table>

Despite the foregoing acknowledged causes of fiscal distress being presented as conditions rather than indicators in some of the literature, it is important to note that regardless of their designation, conditions provide insight into measuring the degree of local government fiscal health and create a basis for the development many fiscal distress indicators. The difference between the conditions that contribute to fiscal distress and indicators that measure it should be carefully delineated in order to establish a proper analysis for fiscal distress.

An analysis of fiscal health or condition should consider the causes identified above, including socio-economic factors and the general economy, but must also include an evaluation...
of financial statements to appropriately determine the financial status of a governmental organization (Finkler, 2013). While the conditions above may indicate fiscal distress by their occurrence or existence and should be a part of the analysis, it should be noted that such causes do not measure local government financial status. The next section reviews literature that claims to measure fiscal health through the use particular financial indicators, as opposed to studying the causal or conditional indicators thereof, and offers designations of fiscal health or distress.

**The Problem Stream: Fiscal Distress Indicators and Degree Measurement**

To measure fiscal health, some literature suggests the consideration of fiscal distress in relation other local governments, or the deterioration of a local government’s fiscal health over a period of time (Ladd and Yinger, 1989; Wolman, 1992; Honadle et al., 2004). One of the earliest cited cases in the literature exposes six fact patterns that indicate fiscal distress, in which (1) current expenditures significantly exceed current revenues in one fiscal period; (2) current expenditures consistently exceed current revenues by minor amounts over several years; (3) current operating liabilities surpass current assets (fund deficit); (4) outstanding short-term operation loans or bills remain unpaid each fiscal period, and borrowing from restricted funds occurs; (5) there are increasing or high property tax delinquencies; and (6) unexpected and significant decreases in assessed property values result (ACIR, 1973, p. 4). Similarly, the United States Congressional Budget Office (CBO) (1978) presents three indicators of fiscal distress which include the measurement of (1) continuous and accumulating budget deficits, (2) assets (net cash revenues and investments) as a percentage of general fund expenditures, and (3) outstanding debt in relation to revenues.

The Financial Trends Monitoring System (FTMS), originally developed by Groves et al. (1980) and published by ICMA, and updated in 2003 (Nollenberger et al., 2003), is comprised of
42 fiscal condition indicators. Most of the indicators are related to internal financial data of the local government, while the remainder are intended to measure environmental and organizational factors, yet all indicators generate measures in the form of financial ratios (Wassily, 1986). The FTMS monitors trends in the measures of the indicators over five years or more to identify ratios for additional analysis that could negatively impact fiscal condition. The FTMS additionally provides guidance regarding the effectiveness of financial management practices (Groves et al., 2003; Pammer, 1990). FTMS is considered the most extensive and comprehensive source of potential indicators for assessing municipal fiscal health and contains most of the indicators found in the other condensed models (Brown, 1993; Chaney, 2002; Wang, 2007; Maher & Nollenberger, 2009). However, FTMS is a reactive model and overlooks indicators outside of the local government’s control and does not provide an adequate analysis of the fiscal environment nor for the collection of qualitative information from the environment.

At the state level, there are 19 states that have developed individual criteria to indicate local government fiscal distress with statutory frameworks that allow state intervention to address such fiscal distress. Some programs are noted as being more proactive or reactive than others. The proactive programs monitor local governments before fiscal distress is apparent and attempt to align revenues and expenditures, and match borrowings with prospective capacity to pay obligations coming due in the future. The reactive programs are critiqued as needing updating to provide clear exit-plan strategies (Pew, 2013).

Among the states that provide assistance to distressed municipalities, some states are more aggressive than others with imparting control and intervening to help. For example, North Carolina, home to the nation’s oldest intervention program, retains significant control over individual municipalities and offers a consolidated and centralized pension program.
Pennsylvania’s early intervention program suggests targeted measures for municipalities experiencing financial trouble to avoid the distressed status of Act 47. Pennsylvania also requires local governments to submit proposed debt proceedings for review and approval prior to debt issuance. Both Michigan and Pennsylvania have programs that allow deep state involvement in local government finances. Likewise, after experiencing similar fiscal events as Michigan and Pennsylvania, Rhode Island strengthened their weak intervention program and uniquely took efforts to protect investors in local government bonds (Pew, 2013).

On the contrary, Alabama and California, states that have faced notorious municipal bankruptcies, do not historically assist local governments in fiscal distress. In addition, New Jersey questions its role and involvement in municipal finances and has scaled back its financial aid to troubled local governments. Overall, the programs and level of control and intervention vary due to differences in economic structures and political traditions. While there is no one intervention model that would fit all states, such programs should concentrate on methods to restore management functions and control over finances back to municipalities before state involvement ends (Pew, 2013).

Moreover, while applicable only to Pennsylvania local governments, Section 201 of the act of July 10, 1987 (P.L. 246, No. 47), known as the Pennsylvania Municipalities Financial Recovery Act (Act 47), established an evaluation of a municipality’s financial stability, which may be extended to out of state fiscal analyses, based upon the following criteria: (1) running a one percent deficit over three years; (2) expenditures exceed revenues for three or more years; (3) default in payment of debt service on bonds or notes, or rentals due to any authority; (4) missed payroll for 30 days; (5) failure to make payments to judgment creditors after 30 days from judgment; (6) failure to transfer income taxes withheld or employer or employee
contributions for Social Security; (7) running a five percent deficit over two consecutive years; (8) failure to budget or pay pension obligations; (9) failure to negotiate or adjust a claim in excess of 30 percent against a fund, where no agreement with creditors has been reached; (10) filing a debt readjustment plan under chapter 9; and (11) a decrease in a quantified level of services delivered from the prior year resulting from an inability to raise taxes. The presence of one criterion under this model leads to the determination that municipal financial distress exists.

In 2004, Pennsylvania created an early intervention program to provide assistance to Pennsylvania local governments to avoid the distressed status of Act 47 through measures involving expenditure reduction, revenue enhancement, strategy development for tax base stabilization and intergovernmental cost-sharing, and the adoption of best management practices (Pennsylvania Local Government Commission, 2006). The early intervention program offers grants to municipalities to hire independent financial advisors to prepare three to five year financial plans and management review (Pennsylvania Department of Community and Economic Development, 2009). While the early intervention program does not consider specific indicators or criteria, applications are evaluated and approved based on program plan proposal quality and municipal fiscal characteristics, generally, including current and projected financial, economic and demographic condition, management capacity, intra- and intergovernmental cooperation, commitment to plan implementation, past performance and adherence to growth, investment and resource conservation principles focusing on the environment, revitalization, fairness, efficiency, and sustainability, and the creation of jobs, businesses and housing opportunities (Pennsylvania Department of Community and Economic Development, 2009).

In addition, Pennsylvania has made more recent, but unsuccessful attempts to establish criteria indicative of fiscal distress in order to reorganize affected local governments. Senate Bill
1357 of 2010, which never passed, proposed the creation of the Boundary Review Commission to allow municipal reorganization if three of seven criteria are met. Such criteria include the inability of local governments to pay debt service, to meet financial obligations to employees, vendors and suppliers, to provide proper accounting procedures, budgeting and taxing practices and functions, for the health, safety and welfare of citizens, and to make appointments to boards and commissions or elect representatives for necessary functions. The criteria also incorporate the presence of stagnant or declining local property values and tax base, and consideration of municipal population in decline over the last 10 years by 25 percent or totaling less than 400 people.

Patrick and Trussel (2014), in an attempt to determine the extent to which municipalities accurately report distress as defined by Pennsylvania’s Act 47, found the criteria difficult to calculate, measure and understand. In addition, the criteria are somewhat redundant and inconsistent especially with regard to the deficit benchmarks. The authors’ work uncovers the complexity of measuring the systems of fiscal distress, which exists on a fluctuating continuum rather than as a permanent or fixed condition. It is true that in order to measure fiscal distress, uniform criteria must be established and evaluated at some point in time; however, the nature, severity and status of fiscal distress realistically varies by municipality and moment, which further complicates such an analysis.

Further, Act 47’s crude characterization as a fiscally distressed municipality meeting a single criterion may not warrant such a classification, and additionally, each criterion is not equally relevant for making such a determination. For example, operating at a deficit for any given period of time may be a better indication in some instances of fiscal distress than the failure to negotiate a large claim. Therefore, reviewing the nature and circumstances of criteria,
rather than the apparent presence thereof, would provide better insight into the degree of municipal fiscal distress.

Alternatively, to reduce dependence on relative comparisons between local governments, Kloha et al. (2005) developed a 10-point scale in order to forecast financial problems before they become serious. The scale includes components as indicators including (1) population growth; (2) growth or (3) decline in real property tax values; (4) the ratio between general fund expenditures and real property tax values in particular years; (5) the deficit or the distance between current general fund revenues and expenditures, and (6) such deficient or distance over a certain number of years; (7) the size of general fund balance or reserves; (8) negative balances of general, special, capital and debt service funds; and (9) the amount of long-term outstanding debt as a percentage of the local government’s real property tax values. For every indicator that produced a negative result by the framework’s standards, the authors assigned points to imply the classification and degree of fiscal distress.

While Kloha et al. (2005) developed specific measures in their determination of fiscal distress, with the exception of population, most of their indicators consist of different methods of measuring the same thing: revenues in relation to expenditures. Still, population decline has a direct implication on revenues. With fewer taxpayers there are fewer revenues, but for the same reason, expenditures may also decline because there are fewer constituents utilizing local government benefits and services.

The authors acknowledge that examining the fiscal condition of local governments has been the subject of academic and legislative priorities since the 1970s, but suggest that such measures are flawed due to their reactionary, rather than proactive, nature. The authors propose an early warning system for fiscal distress in order to recognize and prevent such distress before
it occurs, and further contend that such previous attempts in the literature have been limited by poor data availability and variables that fail to adequately measure fiscal distress. Nonetheless, they propose that state monitoring of indicators and early intervention is important to avoid more costly state involvement in local government affairs when an emergency is finally recognized.

While it is important for municipalities to work closely with relevant state agencies with regard to their fiscal management because of the resources states can provide, states generally vary in the assistance they are willing to offer in light of broader national economic and financial concerns (Pew, 2010). Still, the role of states in monitoring fiscal distress is growing (Pew, 2010). For example, Pennsylvania recently amended Act 47 by, *inter alia*: (i) adding elements to be considered and criteria to be evaluated by a state agency for developing recovery plans, determining distressed status and providing for an annual performance review, (ii) codifying the early intervention program; and (iii) extending provisions relating to a declaration of financial emergency by the Governor and receivership to all classes of municipalities (Pennsylvania Local Government Commission, 2014). However, in amending Act 47, testimony was presented citing the nation’s overall lack of state intervention laws and programs and the predominantly reactive nature of such responses (Pew, 2013).

Trussel and Patrick (2009), similarly noting a lack of studies utilizing predictive models, suggest further inquiry of established indicators as inputs for such models of fiscal distress. The authors criticize previous literature for failing to test the statistical significance of the aforementioned indicators. In contrast with Kloha et al. (2005), Trussel and Patrick (2009) recommend the development of a multi-government comparative model with adequate sample sizes of fiscally distressed and healthy local governments, in order to determine whether such indicators accurately classify or identify the prior probability of fiscal distress.
Accordingly, Trussel and Patrick’s (2009) study seeks to uncover the differences between local governments that are fiscally distressed and those that are not, and to further understand how the indicators as risk factors affect the likelihood of fiscal distress. Measuring risk factors in four major categories including revenue concentration, administrative expenditures, debt usage and entity resources, the authors found that (1) as intergovernmental revenues from federal and state sources increase, so does the risk of fiscal distress, (2) local governments experiencing higher revenue growth are less likely to develop fiscal distress, (3) the risk of fiscal distress decreases as administrative expenditures increase, due to lower program and debt service costs, and (4) as the use of debt increases, so does the risk of fiscal distress.

Finally, with the exception of Act 47, prevailing solutions overlook general, special and pension fund balances in considering fiscal distress despite the problem being recognized as one of the current stresses on local governments. The level of funding for pension benefits already earned by employees and the actuarial value of plan assets versus actuarial accrued liability ratios are important concerns for the prospective financial stability of many municipalities (Maher, 2013).

In summary, as shown in Table 2, much of the literature on fiscal distress indicators expands upon and adopts indicators from previous studies. However, this method of selecting indicators is problematic. It has allowed the subject area to become inundated with various and indiscriminate indicators, resulting in a lack of consensus on identifying the most important indicators and agreement on the appropriate measurement or interpretation thereof (Cahill, James, Lavigne and Stacey, 1994; Trussel and Patrick, 2009). Most indicators focus on the relationship between revenues and expenditures, but each study measures this relationship by deviating standards and multiple, yet unsubstantiated, means.
The indicators listed in Table 2 are not comprehensive of all of the indicators established by the literature. Table 2 simply illustrates the repetitive nature of subsequent studies to adopt similar indicators with varying measurement standards, but fail to justify their divergence or variations or acknowledge that the similar indicators seek to measure the same thing: the relationship between revenues and expenditures of local governments. The indicators numbered in Table 2 correspond with the enumerated indicators as set forth in the foregoing literature review. Table 2 itemizes various representative indicators that are common throughout existing research, but does not provide an exhaustive list of all indicators used in each model and rather displays a sampling to demonstrate model similarities and differences.

Table 2: Sample of Fiscal Distress Indicators from Previously Reviewed Literature

<table>
<thead>
<tr>
<th>General Indicators</th>
<th>Study/ Author</th>
<th>Specific Indicators</th>
<th>Sub Indicators</th>
<th>Combination of Indicators</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship between Revenues and Expenditures</td>
<td>Trussel (2009) (Indicator 2)</td>
<td>Revenue Issues</td>
<td></td>
<td></td>
<td>No revenue growth</td>
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<td></td>
<td>Trussel (2009) (Indicator 1)</td>
<td>Inter-governmental Revenues</td>
<td></td>
<td></td>
<td>Increase in inter-governmental revenues</td>
</tr>
<tr>
<td></td>
<td>Kloha et al. (2005) (Indicator 2)</td>
<td>Real Estate Tax Values</td>
<td></td>
<td></td>
<td>2-year growth / decline</td>
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<tr>
<td></td>
<td>Kloha et al. (2005) (Indicator 3)</td>
<td>Departure of Major Taxpayer</td>
<td></td>
<td></td>
<td>Greater than average decline in real estate tax values during a 2-year period</td>
</tr>
<tr>
<td></td>
<td>ACIR (1973) (Indicator 6)</td>
<td></td>
<td></td>
<td></td>
<td>Sudden and unexpected, major decrease in assessed property values</td>
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<tr>
<td></td>
<td>ACIR (1973) (Indicator 5)</td>
<td>Property Tax Payment Delinquencies</td>
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<td></td>
<td>High or increased property tax delinquencies</td>
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<tr>
<td>Source</td>
<td>Indicator</td>
<td>Description</td>
<td>Calculation</td>
<td>Notes</td>
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<tr>
<td>Kloha et al. (2005) (Indicator 9)</td>
<td>Long-Term Debt as a % of Real Estate Tax Values</td>
<td>Current long-term debt divided by current tax values</td>
<td></td>
<td></td>
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<tr>
<td>Kloha et al. (2005) (Indicator 5)</td>
<td>Current long-term debt divided by current tax values</td>
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<tr>
<td>ACIR (1973) (Indicator 1)</td>
<td>General Fund Operating Deficit</td>
<td>Current revenues – current expenditures / revenues</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Act 47 (Indicator 2)</td>
<td>General Fund Operating Deficit</td>
<td>Current expenditures exceed current revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kloha et al. (2005) (Indicator 6) Act 47 (Indicator 7)</td>
<td>Act 47 (Indicator 1)</td>
<td>Prior deficits over 2 previous years (Act 47 – deficit of 5%)</td>
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</tr>
<tr>
<td>ACIR (1973) (Indicator 2) CBO (1978) (Indicator 1)</td>
<td>Debt Outstanding</td>
<td>Current expenditures exceed revenues over several years</td>
<td></td>
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<tr>
<td>ACIR (1973) (Indicator 3)</td>
<td>Debt Outstanding</td>
<td>Current operating liabilities exceed current assets</td>
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<tr>
<td>Act 47 (Indicator 1)</td>
<td>Debt Outstanding</td>
<td>1% deficit over 3 years</td>
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<tr>
<td>Kloha et al. (2005) (Indicator 8)</td>
<td>Other Major Fund Deficits</td>
<td>Current or previous year deficient in fund</td>
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<tr>
<td>Kloha et al. (2005) (Indicator 7)</td>
<td>Size of General Fund Balance</td>
<td>Balance as a % of revenues</td>
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<tr>
<td></td>
<td></td>
<td>Expenditure Issues</td>
<td>General Fund Expenditures as % of Real Estate Tax Values</td>
<td>Short-Term Operating Loans, Bills or Judgments Outstanding</td>
<td>Failure to Pay Obligations</td>
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<tr>
<td></td>
<td></td>
<td>Balance as a % of expenditures</td>
<td>Increase in administrative expenditures due to lower</td>
<td>Current expenses / current tax values</td>
<td>Failure to pay short-term operating loans, borrowing from restricted funds and unpaid bills each year</td>
</tr>
</tbody>
</table>
Deficiencies in Existing Fiscal Health Literature

Concerns with Validity of Prior Model Measurement

While predicting local government fiscal distress is the focus of much literature, a more complete understanding the problem deserves primary attention. Discussing the benefit of forecasting fiscal distress is premature if there is little to no consensus surrounding, or thoughtful reflection on, its definition or measurement. While advance awareness of fiscal distress may allow foresight for early intervention, one could argue that such a model is hardly needed to recognize that a local government is on the brink of fiscal crisis. Fiscal distress is usually no surprise. Such problems accumulate over years of mismanagement, inaccurate forecasting, and mounting deficits, and local government officials are often aware of these ongoing challenges (Deal et al., 2009).

Hindsight allows researchers to build a model for predicting fiscal distress while including local governments that have experienced some form of fiscal distress in the study data set. However, by the time results indicate that a local government is experiencing distress in previous studies, some states had already acknowledged the problem and appointed financial managers to take over the finances of local governments (Trussel and Patrick, 2009). Instead of
seeking to predict fiscal distress, models should include distressed governments in their data sets to confirm the range of indicators that evidence fiscal distress.

Further inquiry of established indicators as inputs for models of fiscal distress is necessary. The literature review uncovered that a multi-government model with adequate sample sizes of fiscally distressed and healthy local governments is important to determine whether such indicators accurately classify or identify fiscal distress. Revealing the indicators that are present between local governments that have varying degrees of fiscal health and the differences within those indicators can provide insight on how well such models characterize fiscal distress.

The goals of the models in existing literature have included the adequate classification of local governments as fiscally distressed, and degree thereof, as well as the underlying causes, or indicators presented, in situations where local governments experienced fiscal distress. The objective of such research is to develop models using indicators of fiscal distress from previous literature; however, the studies set standards for distinguishing between fiscal health and distress based on the measurement of the indicator, depending on the research questions therein. For example, while some fiscal indicators may be straightforward, like whether a deficit or surplus exists or population decline occurred, many distress indicators in certain literature are substantiated based on degree.

Deciding at which point an indicator denotes fiscal distress, such as the appropriate ratio of operating expenditures as a percentage of property tax revenues, is problematic when fiscal health is a matter of severity. A determination that population decline indicates fiscal distress, without allowing for any variance, results in a crude measure of fiscal distress in instances where there may be an inconsequential net loss of one municipal resident. In addition, certain indicators that measure the degree of fiscal distress have been indiscriminately classified by some
researchers as signifying distress simply because the ratio varies marginally from the average ratio of municipalities considered to be fiscally healthy.

Although standard deviations from such ratio means can be utilized to uncover significant differences, this method should be primarily employed for financial indicator ratios, rather than conditional or causal ratios, as fiscal distress designations are the product of unbalanced revenues and expenditures necessary to meet ongoing obligations and provide services. Computing standard deviations for conditional or causal factor ratios, which are secondary or underlying indicators, will not determine the fiscal status of a municipality; however, such deviations may provide insight if reviewed in the context of municipalities after their fiscal status is ascertained. In addition, it may be helpful if standard deviations for conditional and causal variables are based, not on the average ratios thereof across all municipalities, but separately with regard to the ratios of municipalities classified as fiscally distressed or healthy. In doing so, it may be possible to conclude whether some causal or conditional factors are generally indicative of either fiscal health or distress, or even both, which would suggest a minimal effect on fiscal status.

Some studies have developed models based on samples of local governments in which the authors classified as fiscally distressed or healthy. This common sense approach provides insight on fiscal status by analyzing the differences in the indicators and the means between municipalities that are designated as fiscally distressed or not for each of the indicators selected for review. However, some of these studies are problematic in that such designations in separating healthy and distressed municipalities are based on a single standard, for example, one study characterizes a local government in this manner based upon whether the municipality ran operating deficits of more than five percent for three consecutive years.
Despite such single standard designations of fiscal distress being accepted and recognized in the field of literature, deciding whether a single standard designation is meaningful is difficult as such determinations could result in excluding local governments from a distressed designation. Simply because the standard is not met in a certain study does not mean that the excluded municipalities are not fiscally distressed. In addition, there is no guarantee that examining the differences in the means of the indicators between two groups designated as fiscally healthy or distressed provides conclusive evidence of fiscal status.

Using an example above, the differences in the indicators present for local governments that carry a four percent deficit over 10 consecutive years or a 10 percent deficit over two consecutive years which results in not meeting the above distress-designated standard, and other municipalities that narrowly qualify for the above fiscally distressed standard by running a five percent operating deficit for three years, may not be significant or statistically different. Accordingly, several standards or measures should be considered over certain periods of time for better designations concerning fiscal status.

Even when studies use multiple measures, research questions and objectives should be carefully considered in light of developing and utilizing such measures, because the differences in the indicators chosen between the researcher-defined fiscally distressed and healthy municipalities may not be consequential to warrant such characterizations. Instead of guessing which indicators appropriately signify such designations, or relying on conclusions of existing literature that determined fiscal status based on statutory designations or comparisons of other local governments without regard or connection to fiscal status, models should include analyses of indicators of those local governments that, over which there is little doubt, are experiencing fiscal distress.
Even though not all local governments experiencing fiscal distress declare bankruptcy, all local governments filing for bankruptcy are experiencing fiscal distress (Park, 2004). As such, municipalities that have filed for bankruptcy present ideal cases for study, and with the inclusion of data from additional municipalities that have taken other action to address fiscal distress, such research could reveal better comparison methods for studying these designations. Measuring the indicators of municipalities that have successfully filed for and completed bankruptcy proceedings will certainly yield fiscal distress indicator ratios and can provide a baseline for comparison to other local government indicator ratios and further research.

Existing bankruptcy research in this area is generally limited to single-study cases in which quantitative information and such comparisons are unavailable. While it is true that circumstances surrounding bankruptcy are unique to each municipality and based on a variety of situational factors, the quantitative indicators present, such as the percentage of population decline and amount of budget deficits, can still be measured during the periods over which the bankruptcy occurred. Even so, existing bankruptcy literature does not provide comprehensive analyses of the distinct and individual causes therefor based on each case.

While some bankruptcy case studies recognize some conditions surrounding municipal fiscal distress, they fail to highlight the importance of such conditions that are not readily quantifiable, such as poor leadership and inadequate planning; conditions that on some basic, but perhaps not specific, levels may persist in or are pervasive to other fiscally distressed local governments. Likewise, most existing literature and case studies do not seek to uncover the systemic causes of municipal bankruptcy, and otherwise avoid examining cases in the context of such causes.
Lack of Consideration for Qualitative Conditions of Fiscal Distress in Models

The conditions of fiscal distress as noted herein often represent municipal policy choices that are difficult to quantify, or characterize events that precede fiscal distress. While such conditions and their correlation with fiscal distress are unclear, the potential influence of such qualitative conditions, in conjunction with quantitative fiscal indicators, is important for a comprehensive understanding of the issue.

The case study literature on fiscal distress acknowledges and considers the importance and potential influence of qualitative variables in addition to financial and quantitative indicators, but significant consideration and measurement of the qualitative variables is missing. The occurrence of conditions precedent or the existence of qualitative variables leading up to fiscal crises and bankruptcies can be included in models intended to measure the financial and quantitative indicators of fiscal distress. Even though qualitative conditions may be more difficult to define and evolve from messy historical, cultural and social contexts, incorporating such variables will enrich the models previously presented.

Previous literature has abandoned the theoretical underpinnings evident in systems theories concerned with external influences that the qualitative conditions herein are intended to enhance. Consideration of a local government as a system, comprised of the formal and informal organization, including networks and values, is essential when examining fiscal variables because of the numerous environmental institutions and phenomena that affect fiscal health (Wolman, 1983; Pagano, 1988). As consistently noted, variables outside of the direct control of the municipality and its managers may be included through the integration of qualitative conditions.
Conditions can provide insight into measuring the degree of local government fiscal health and create a basis for the development of many fiscal distress indicators. The difference between the conditions that contribute to fiscal distress and the indicators that measure it is a point of contention in the literature with regard to the result of fiscal distress, and both should be carefully considered in order to illustrate a proper analysis. Some conditions may serve as the bases for indicators. For example, suburbanization or decline of the tax base has been cited in the literature as a condition. At some point or level of population decline, local government fiscal distress may be inevitable. Accordingly, population decline or stagnancy has been adopted as an indicator in some models. Likewise, some indicators identified in prior studies have developed from conditions.

Including qualitative conditions could be beneficial for the future study of different methods of addressing particular instances of fiscal distress. The model presented by Park (2004) and extended by Beckett-Camarata and Grizzle (2014) offers insight into some qualitative conditions and can be expanded upon and validated further. Park (2004) identified various causes of fiscal distress, many of which are unique to each case due to differing financial circumstances. Park’s (2004) identification of the overlapping classifications of short-term and long-term, internal and external, and political and economic perspectives offers categories that may help explain fiscal distress by accentuating the generic aspects of the causes.

Park (2004), however, focuses on many specific causes of municipal bankruptcy, many of which are quantifiable, that he fits neatly into the three perspectives, including, but not limited to, short-term revenue shortfalls, long-term decline of city residents due to suburbanization, investment losses, mounting debt, reductions in state aid and tax revenues, and increased student enrollment. Further, Beckett-Camarata and Grizzle (2014) expand on the Park model by
identifying additional environmental factors including, but not limited to, economic factors such as excessive debt and general fund transfers, declining state revenues, and demographic changes.

Evidently, the foregoing examples in these models are not limited to qualitative conditions as the illustrated examples can be easily quantified. Accordingly, many of the conditions and causes identified therein can and should be measured and analyzed using quantitative methods to allow for such indicator comparisons as outlined above. The Park model as revised by Beckett-Camarata and Grizzle, reveals for the most part that, depending on how the authors characterize each factor, political factors are generally qualitative in nature and difficult to quantify, and environmental factors (but more so economic factors) are predominantly quantitative in nature and can easily be measured.

In addition, even though the models stipulate that the three perspectives are interrelated and have common characteristics, the political and economic or environmental dimensions are not mutually exclusive. There are causes that can easily be portrayed or confused as both political and economic. For example, Park (2004) cites reluctance to raise taxes as a political issue and the lack of risk-management policies as the economic issue. Because the political and economic factors overlap, are difficult to conceptualize, and have not been precisely defined, future research and study of the model is dependent on each subsequent researchers’ determination thereof. Conversely, since the internal and external and short-term and long-term dimensions can easily be demarcated as mutually exclusive, but are inherent in, describe and inform both the political and economic or environmental perspectives, an ideal model incorporates the former perspectives, or other discrete and distinct categories as primary or secondary dimensions.
Further, Park maintains that future research may enable practitioners to consider patterns of municipal bankruptcies and understand the importance of different causal factors of fiscal distress, which can be incorporated into decision-making behavior in similar circumstances. However, aside from identifying the specific causes, creating these dimension categories for which future research can ascribe those causes to is challenging in that, without defining such categories, most of the assignments are contingent upon how the individual author perceives and characterizes the cause. As a result, furthering these models requires the clarification of such categories in order to uncover any repetition of causal factors, which are likely unique to each case, but more importantly, any patterns of the broader categories thereof, which may exist across local governments.

Finally, the development of a model that can analyze local government fiscal distress caused or indicated by any number of conditions or factors, whether quantitative and qualitative, should be given more attention in the literature. Fiscal distress can arise in many different contexts and can stem from any number of problems, financial, political, economic or otherwise. Recognizing responses to fiscal distress as a focus of study allows for an analysis of response effectiveness in addressing the problem, and could serve as a model for additional research to evaluate causes and identify proactive strategies for distressed municipalities.

**Failure to Study Strategies for Addressing Fiscal Distress**

Earlier research provides an understanding of how municipalities have responded to fiscal problems in the past, however, the political and economic environment has changed over the past few years. In addition, existing literature offers little insight into why some local governments choose to implement some strategies and not others. The development of a model that can evaluate solutions that attempt to address local fiscal distress caused or indicated by any number of
quantitative or qualitative indicators and conditions will enrich the literature. Through incorporating quantitative data regarding particular strategies and considering qualitative conditions of fiscal distress in models that represent municipal policy choices or characterize social, historic, or economic variables that precede fiscal distress, this exploratory study aims to provide insight into the selection and utilization of strategies for addressing unfunded pension liabilities.

By utilizing a model to measure fiscal distress before and after a particular method (i.e. bankruptcy, asset monetization, or the issuance of debt) is applied by a local government in order to address fiscal distress, an examination is possible with regard to (1) the severity of fiscal distress before the particular method is introduced, (2) the relationship between the degree of fiscal distress and the selection of the particular response, (3) the change in the overall fiscal health immediately after the particular response is utilized, (4) the movement of the individual indictors and conditions before, during and after the particular response is carried out, and (5) the short-term and long-term effects of applying each particular response by comparing the respective results thereof against the other responses. In order to examine these matters however, it is important to consider local government context and specific statutory and legal frameworks that govern or alter how responses or strategies must be applied for such fiscally distressed municipalities.

Existing literature aimed at analyzing fiscal health is focused on determining the best indicators to measure fiscal distress in order to answer the particular research questions therein, or concerned with the identification of the specific causes or conditions thereof, but it overlooks potential solutions to address the problem. Such literature discounts the theoretical underpinnings of understanding hasty governmental reactions to fiscal distress and systems theories concerned with municipalities being influenced by, and maintaining homeostasis with, its environment in
light of searching for remedies. Future research should consider the outcomes of feasible solutions and the decision-making capacity and rationality of municipalities in their selection of methods to solve distress in times of chaos and crisis, in order to provide useful insight for practitioner responses.

Finally, the understanding of choices local governments make and the responses they undertake, in light of their legal and structural constraints in times of fiscal crisis is currently incomplete. An examination of the characteristics and fiscal condition factors and the environmental and political contexts of municipalities in times of fiscal distress may provide insight into how local governments make decisions to address fiscal distress. By focusing on fiscal distress addressed by one of three responses, the limited scope of this study may offer comparable and comprehensive findings into each of the local governments and the considerations of their leaders in attempting to resolve fiscal distress.

**Chapter Summary**

This chapter introduced the current literature on fiscal health, including the existing methods for describing and measuring fiscal condition. The definitions of fiscal distress were set forth in terms of the balance of revenues and expenditures and service delivery, as well as the theoretical approaches to studying fiscal distress and local government fiscal decision-making. The theoretical approaches include governmental decision-making and policy adoption in the context of open systems, bounded rationality, incrementalism and the garbage can model and expansions thereof.

The qualitative variables and conditions that affect and enable fiscal distress are identified in Table 1, and the fiscal distress indicators for fiscal condition measurement are presented in Table 2. The qualitative variables encompass the political, environmental, internal,
and economic context of fiscal distress. The quantitative indictors are financial in nature and include various iterations of local government revenues to expenditures, assets to liabilities, pension funded ratios and other socio-economic data that are suggested to operationalize, and sometimes predict, fiscal distress.

Next, additional variables and measures of fiscal condition not included in the literature review were considered. Deficiencies in the existing literature were recognized, including concerns with the validity of prior model measurement, the lack of consideration for qualitative conditions of fiscal distress in such existing models, and the failure to study various strategies for addressing fiscal distress. Finally, future research in light of the deficiencies, decision-making capacity and rationality of municipalities, and in consideration of the outcomes of feasible solutions to solve fiscal distress, were suggested.
CHAPTER 3: METHODOLOGY

The intent of this exploratory study is to learn about the influence of municipal bankruptcy, asset monetization and debt issues on resolving local government fiscal distress through the measurement and consideration of indicators and conditions before and after local governments undertake such responses, in order to better understand each responses’ effects on fiscal condition. The study also seeks to determine whether or not such responses are applicable to and appropriate for other financially distressed local governments that share similar indicators and conditions. In order to do so, this research must address and provide for the appropriate measurement or operationalization of fiscal distress. A convergent mixed methods design is employed, in which qualitative and quantitative data are collected in parallel, analyzed separately, and then finally merged.

The reason for collecting both quantitative and qualitative data is to develop a complete understanding of fiscal distress and the means by which to effectively address such distress. The qualitative conditions that contribute to fiscal distress as identified in Table 1 (Chapter 2; Page 51) will allow for the exploration of the influences of managerial, political and economic variables on local government fiscal distress and their effects on fiscal condition. In addition, the quantitative fiscal health measures as presented in Table 5 (Chapter 3, Page 103) are used to test the hypotheses that the indicators of fiscal distress are present at the time municipalities file for bankruptcy, and that the fiscal distress indicators illustrate improvement towards fiscal health or decline towards fiscal distress depending on the manner in which a municipality utilizes bankruptcy, asset monetization and debt issues, in order to address their fiscal distress.

In the remainder of this chapter, the qualitative and quantitative research questions and hypotheses are provided, as well as the rationale for the use of quantitative and qualitative
strategies, including the background of the mixed method research tradition, followed by an outline of the design. The outline of the research design additionally describes the setting of this exploratory study, the participants and units of analysis, the events and processes involved, as well as the measures employed for data analysis. Finally, key assumptions are made and the limitations of the methodology are evaluated.

**Rationale for Use of Mixed Methods Research Design**

This research draws on both quantitative and qualitative methods. The primary goal of this study is to explore how municipalities address fiscal distress, directed by a focus surrounding the efficacy of the particular method used, and by taking into consideration and accounting for the context and environment in which each municipality operates. Qualitative data relates to concepts, values, opinions and behaviors of individuals in context. In general, qualitative research methods are useful for discovering meanings that people ascribe to events they experience (Denzin and Lincoln, 2003). Accordingly, the goal of this research is furthered by the utilization of qualitative methods, but is also improved by adopting a qualitative method of inquiry that is not only representational and interpretive, but is attentive to context and incorporates complexity.

In order to explore the qualitative research questions and observable propositions based upon the review of the literature, the multiple case study method is utilized. As suggested by Yin (2009, p. 18), the scope of a case study is “…an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” In this instance, deliberately divorcing the phenomenon (bankruptcy, asset monetization and debt issues) from its context, and considering only the financial and economic quantitative data available at a
particular moment in time, does not sufficiently deal with the complicated interplay between phenomenon and context.

To better understand the economic and social forces that lead the three municipalities to undertake each of the responses to address fiscal distress, and the effect of those forces on financial condition, case studies are employed to uncover the nature of the individual failures therein and the existence of qualitative variables, factors and conditions, as opposed to the quantitative measures included in this study to reveal the extent or degree thereof. As deduced from the literature review, decisions by local governments to apply a particular method (the selected policy) to address fiscal distress are commonly based upon the extent of fiscal distress (the problem), however, many non-financial influences (politics) can shape the decisions made by officials and managers during these difficult times. Accordingly, Kingdon’s multiple streams approach will guide the case study narratives to study these decisions by local governments.

As discussed by Coleman (1957, pp. 2-3), case studies are useful in that municipalities are continually facing problems, which are:

“…unique in their own history and for which no precedent exists in the experience of the community leaders. It is in such a situation that social research can perform valuable service, by speeding up the diffusion process so that the experience of many communities becomes available to each.”

Likewise, case studies have been established as a robust technique for exploring a wide range of political and social science phenomena. The qualitative exploratory research questions and observable propositions in this study regard the differences in the qualitative variables that are present in and across each case context and involve questions regarding how variables differ in a contemporary setting with no manipulation by the researcher (Yin, 2009).

The combination of qualitative and quantitative approaches provides a more complete understanding of the research problem than either approach alone. In addition to the qualitative
case study method, quantitative research is also necessary for the purpose of examining and statistically analyzing the relationship among the municipal fiscal indicators and the designation and extent of fiscal health or distress.

Qualitative designs are based on the post-positivist notion that objective measurement of qualitative data is possible and it permits empirical testing in order to verify and refine models and theories developed in prior research (Creswell, 2013). Quantitative strategies allow for experiments with many complex variables and treatments, such as the application of a particular response to address fiscal distress, and can assist in the identification of causal relationships by and among the individual indicators, as well as the collective strength thereof, as evidence of fiscal distress.

Finally, the quantitative experimental research portion of this study will help determine how any of the particular responses including bankruptcy, asset monetization and debt issuance, improve or worsen the fiscal condition of local governments through analyzing the fiscal distress indicators of municipalities that have utilized such a particular response successfully and unsuccessfully. The quantitative research will provide the means to resolve and answer the fundamental research question presented in this exploratory study of operationalizing fiscal distress and on which the balance of the study relies. However, the qualitative case studies will enrich this inquiry and existing literature by adding context to the nature of municipal fiscal condition in varying circumstances.

**Theoretical Framework**

The theoretical framework that informs the context of this study, as outlined earlier (Pages 7-8) is Kingdon’s (1995) multiple-streams approach. This approach consists of three streams of actors and processes, including policy, problem and politics streams, which operate
independently until a “window of opportunity” presents itself, and ultimately permits policy action. The policy action in this study is the adoption of one of three enumerated responses by the local governments to address fiscal distress.

Based on the intent of this exploratory study, the multiple streams model provides a useful context for organizing this study for a comprehensive understanding of the problem of municipal distress and the responses used to address such distress as described herein. The conceptual framework draws on the model’s problem stream to identify and operationalize the dilemma of fiscal distress, the policy stream to consider policy solutions, and the politics stream that consists of people, context and the environment.

The quantitative portion of the study and the quantitative fiscal distress indicators evidence, characterize and define the problem stream, the three responses for addressing fiscal distress, including bankruptcy, asset monetization and debt issues comprise the policy stream of solutions and alternatives which is considered in both the quantitative and qualitative portions of the study, and the politics stream is illustrated by the qualitative portion of the study and the qualitative fiscal health variables that consider the environment and political climate.

Accordingly, the problem and politics streams are exemplified through the quantitative financial indicators concerning the ratio of various revenue and expenditure variables and the qualitative factors apparent in local governments that affect fiscal condition and influence decision-making, respectively. In that context, the policy stream component is shaped by the responses utilized by local governments for addressing fiscal distress. Examining the circumstances surrounding municipalities that have attempted to solve their fiscal distress with bankruptcy, asset monetization or debt issuance in the context of the multiple streams framework
Mixed Method Research Design

Mixed method research is relatively new compared to strategies of inquiry related to quantitative or qualitative approaches separately. This type of study originated in the late 1950s when Campbell and Fiske (1959) incorporated both qualitative and quantitative data and used multiple quantitative methods to study psychological traits, which is best understood by gathering different types of data. Major examples of mixed methods works and research began to develop in the mid-to-late 1980s, in which studies collected multiple forms of qualitative data from observations and surveys, in addition to quantitative survey data (Creswell, 2013).

Since there are inherent biases and weaknesses in both quantitative and qualitative methods, early researchers believed that triangulating data sources through the collection of both types of data could offset such limitations (Jick, 1979). By the early 1990s, the idea of integrating multiple types of research designs and the systematic convergence of quantitative and qualitative data became the standard for mixed methods research (Creswell, 2013).

This research employs a convergent parallel mixed methods approach. Six case studies were conducted for the qualitative phase and provide data for the quantitative phase. At the same time, qualitative and quantitative data were collected; however, the qualitative data is analyzed using a multiple case study method, and separately, quantitative data is statistically assessed. The results from both the qualitative and quantitative data analysis are compared to determine whether the qualitative conditions that contribute to fiscal distress and the quantitative measures that indicate fiscal distress when a municipality utilizes bankruptcy, asset monetization or debt issues, are supportive of one another in terms of whether or not the qualitative factors that are
suggested to enable fiscal distress are present in circumstances in which the quantitative indicators measure distress. Figure 3 below outlines this concurrent triangulation design.

**Figure 3. Sequence of Convergent Parallel Mixed Methods**

<table>
<thead>
<tr>
<th>Quantitative Data</th>
<th>+</th>
<th>Qualitative Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative Data Collection</td>
<td>Qualitative Data Collection</td>
<td></td>
</tr>
<tr>
<td>Quantitative Data Analysis</td>
<td>Qualitative Data Analysis</td>
<td></td>
</tr>
</tbody>
</table>

This mixed methods research aims to provide appropriate measurements of fiscal distress to validate whether or not the qualitative data from the sample cases are consistent with the quantitative indicators. Further, such an approach appreciates the role that both subjective and objective measures play in identifying and understanding fiscal distress. In addition, both sets of qualitative and quantitative data can help explain one another by exploring different types of variables that affect fiscal condition from management, political, social and unexpected issues, as well as financial and economic indicators, which can help inform to improve further inquiry.

While a number of models intending to measure fiscal distress have been previously developed in the literature, this exploratory study is unique in that it integrates a mixed methods design and incorporates a consideration of context and possible solutions for addressing the problem.

**Research Questions**

The principal research question guiding this exploratory study is: how do the strategies of municipal attempts to resolve fiscal distress, including bankruptcy, asset monetization and the issuance of debt, impact fiscal health? Further, are there circumstances in which such methods
are applicable to and appropriate for other financially distressed local governments experiencing similar measures of fiscal indicators and conditions? To answer the principal research question, fiscal health must be measured through the use of qualitative and quantitative indicators, to operationalize and determine fiscal distress in the problem stream and provide insight on the responses (the policy stream) and contextual environment (the politics stream).

Based upon the literature review, it is anticipated that the quantitative variables present for municipalities experiencing fiscal distress will comport with the qualitative conditions that have been identified and accepted by existing research in the politics stream. In addition, it is expected that the conditions can be characterized further into categories that are largely internal or external and long-term or short-term. Given the results of existing studies, many of the identified causes will represent internal conditions, either long-term or short-term, and fewer variables will exemplify external conditions, some long-term, and less short-term.

Unfortunately, the composition of the current literature presents challenges in deciphering the variables, meaning, definition and measurement of fiscal condition and distress. Some research describes conditions, events, indicators, variables or factors of such distress interchangeably. To make sense of the literature, it is important to comprehend the differences between the labels used. Accordingly, for the purposes of this study these conditions, events, indicators, variables and factors, regardless of how they are described within the literature, need to be separated and demarcated.

Figure 4 below visually sets forth the differences between the events, variables, factors, indicators and conditions that in some way are connected to municipal fiscal condition. It is important to note the divergence in the flowchart after the identification of variables that affect fiscal condition. For the purposes of this study, factors that enable fiscal distress inform the
qualitative portion of the study, in the context of the politics stream, in order to provide data on the conditions that cause distress. Conversely, the indicators that measure fiscal condition inform the quantitative portion of this study, in the context of the problem stream, in order to provide data to operationalize fiscal condition and ultimately, distress.

**Figure 4: Flowchart of Fiscal Condition Variables, Factors, Indicators and Conditions**

![Flowchart of Fiscal Condition Variables, Factors, Indicators and Conditions](image)

Further, to clarify Figure 4 above, events are simply happenings that intermittently occur surrounding fiscal distress, which may or may not have an effect on fiscal distress. From these events, potential variables may be identified and developed. Variables, meaning independent variables, are the events that are present before, during or after each of the methods are applied, which have an effect on, or in some way correlate with or bear a relationship to fiscal health, but such effect is uncertain or inconsistent, because the variables can, in principle, vary from one situation to another. Variables become indicators at the certain point at which its parameters are constant, revealing and diagnostic. Indicator measurements can suggest or determine the state or existence of fiscal health or distress. Indicators are factors when their elements not only indicate or measure fiscal health, but positively correlates with, supports or enable fiscal distress. Finally, when a factor has a strong enough positive correlation with fiscal distress to imply causality, it is considered a condition that produces fiscal distress.
Qualitative Research Questions and Propositions

The qualitative research questions seek to provide an understanding of the variables that affect municipal fiscal condition and whether or not such variables have the characteristics that existing research has found to be related to fiscal distress. The literature review yields general propositions, for example, that financial mismanagement, poor leadership, negligence and inadequate planning relate to fiscal distress, among others. Aside from identifying the presence of these factors, existing research provides less insight on whether or not these variables exist only in the context of each specific case, before or after each response is utilized, or across local governments with varying fiscal conditions.

Additionally, no attempt has been made in the literature to uncover the characteristics or nature of the variables that are suggested to affect fiscal health. In other words, for example, if financial mismanagement is identified as a factor that enables fiscal distress, what is it about the level or severity of that factor or underlying variable that makes financial mismanagement such a cause of fiscal distress in one local government at one point in time but not another?

Accordingly, the predominant goal of the qualitative research questions is to describe the variables and the environments of the cases based on observations over the study period so as to answer the overlooked characteristics and nature of qualitative variables, factors and conditions.

The qualitative research questions include:

1. What categories of variables emerge from the case studies as themes illustrative of fiscal distress?

   1a. Exploratory Proposition: The qualitative factors reflect variables that are internal or external in nature.

   1b. Exploratory Proposition: The qualitative factors reflect variables that are long-term or short-term in nature.
2. Are the qualitative variables recognized as being present before, during and after each local
government utilizes any one of the three particular responses?

   2a. Exploratory Proposition: The qualitative factors that enable municipal fiscal
distress are not recognized after any of the three responses have been carried
out when such factors enable fiscal distress.

   2b. Exploratory Proposition: The qualitative variables that represent municipal
fiscal health are recognized after any of the three responses have been
carried out when such factors enable fiscal distress.

   2c. Exploratory Proposition: The qualitative variables that are recognized
before and after the response is carried out signify that the qualitative
variable has minimal effect on contributing to fiscal distress.

   2d. Exploratory Proposition: The qualitative variables that are recognized
before and after the response is carried out signify that the attempted
solution has minimal effect on addressing fiscal distress.

3. How do the qualitative variables and factors compare across cases?

   3i. Are certain qualitative variables and factors recognized in each case that
utilizes one of the three enumerated responses?

   3ii. Are certain qualitative variables and factors recognized in both the
successful and unsuccessful cases utilizing the same method?

Exploratory Propositions:

   3a. The qualitative variables and factors that are recognized in each case that
utilizes one of the three enumerated responses will reveal conditions
indicative of fiscal distress.

   3b. The qualitative variables and factors recognized in both successful and
unsuccessful cases will vary across successful and unsuccessful cases
utilizing the same method.

Quantitative Research Questions and Hypotheses

4. Can municipal fiscal distressed be determined on the basis of measuring quantitative
variables?

   4a. Hypothesis: Fiscal health can be measured and is a function of the fiscal
condition measures presented in Table 5 through examining the degree or
ratio variations of the indicators between fiscally distressed and fiscally
healthy local governments.
5. What fiscal distress indicators are present before and after a local government utilizes one of the three enumerated responses (bankruptcy, asset monetization, or debt issues)?

5i. Are certain fiscal distress indicators present in the fiscal year before, but not after, a local government utilizes one of the three enumerated responses?

5ii. Are certain fiscal distress indicators present in the fiscal year after, but not before, a local government utilizes one of the three enumerated responses?

5iii. Are the fiscal distress indicators similar across local governments before and after their respective particular response is utilized?

Hypotheses:

5a. The fiscal distress indicators found in local government data present before a method is applied will not be present after any particular response has been carried out in successful cases.

5b. The fiscal distress indicators found in local government data present before a method is applied will be present after any particular response has been carried out in unsuccessful cases.

5c. The distress indicators will be similar across local governments before, but not after, each respective case response is utilized.

6. How does response utilization vary based upon the presence and degree of the fiscal health indicators?

6a. Hypothesis: The utilization of the particular response will relate to the severity of fiscal distress indicators.

Case Study Units of Analysis

The population for the case studies consists of six local governments in the United States, each being a self-governing, local taxing authority, that have (1) completed the process of undertaking (A) bankruptcy, (B) asset monetization, or (C) the issuance of debt, and (2) undertook such a response in light of their fiscal condition.

For each of the enumerated responses, two municipalities are purposefully selected for six total case studies based upon the ideal fulfillment of the foregoing criteria and because each
provides a level of detail to perform the contextual analysis of the variables and factors previously identified in the literature that affect and contribute to fiscal condition. Purposeful sampling is necessary in this situation in order to understand and gain insight on the research problem, and therefore, samples must be selected from which the most can be learned (Merriam, 1998). Exploring critical cases in depth pertinent to this study is necessary in order to generate similar comparable results or otherwise conflicting results for explicable reasons.

As discerned from the literature review, there are a number of municipalities that have undertaken each of the enumerated responses included in this study to address fiscal distress or improve fiscal condition. While there are numerous examples of local governments utilizing each method, the six municipalities are selected because they represent the most cited successful or unsuccessful cases of undertaking each of the methods that in turn either alleviated each local government’s fiscal problems, or on the other hand, failed to address or even negatively impacted each local government’s fiscal condition.

Based on the literature review, six specific local governments represent instances in which the outcomes of utilizing bankruptcy, monetizing assets, or issuing debt are determined to be either moderately effective in addressing the municipality’s fiscal problems, or on the other hand, unproductive in improving its fiscal condition or addressing fiscal distress. Accordingly, in conforming to the cases previously identified, the bankruptcy method case studies will focus on the City of Central Falls, Rhode Island, and the City of Vallejo California, the asset monetization method case studies will concentrate on the City of Allentown, Pennsylvania, and the City of Chicago, Illinois, and the debt issuance method case studies will center on the City of Boulder, Colorado, and the City of Scranton, Pennsylvania.
Bankruptcy Case Selection

First, in many instances after bankruptcy, the credit rating for a local government may be downgraded or suspended. However, Central Falls emerged from bankruptcy with a credible debt-restructuring plan to adequately address its financial problems. After unsuccessful attempts to renegotiate its pension contracts for months, the City of Central Falls is the first municipality to use bankruptcy to follow through on its promise to cut pension benefits. For Central Falls, bankruptcy became a valuable tool to contend with its budget-killing pension contracts. On the other hand, after the City of Vallejo, California, bankruptcy filing, the City’s credit rating dropped, public services were cut, crime and prostitution increased, and labor contract disputes drug on, diminishing reserves, resulting in negative effects and public disapproval.

Asset Monetization Case Selection

Second, with regard to asset monetization, the City of Allentown, Pennsylvania, entered into a 50-year lease of their water and sewer systems to the Lehigh County Authority, a public works agency. Out of the $211 million received in proceeds, Allentown applied $160 million to reduce its unfunded pension liabilities that were on target to consume one-third (1/3) of the City’s budget. Allentown also receives significant annual payments from the Authority under the lease agreement. Following the lease, the City was able to address its looming pension obligations and eventually received a better credit rating from Standard & Poor’s, which provided a positive outlook on the Allentown’s general obligation debt. On the other hand, Chicago leased its parking meter system for 75 years for an upfront payment of $1.15 billion, but failed to offset revenue losses with payments on an annual basis from the lease concessionaire. Chicago’s parking meter lease received noteworthy criticism due to the lump-sum lease payment amounting to approximately one-tenth (1/10) of the projected future profits from the meters.
Debt Financing Case Selection

Third, local government officials can manage the immediate financial effects of issuing debt by understanding the manner in which debt alters annual budget processes each year. Boulder, Colorado, issued $9 million in POBs in a favorable market at a low interest rate. Before floating the debt, the City of Boulder reviewed worst case scenarios and determined it could absorb potential losses. This case is one of the few examples that highlight the successful utilization of POBs by a local government. Here, Boulder understood POBs, the importance of debt management, and was in a position to tolerate the risk.

On the other hand, Scranton went as far as to borrow $5 million from a workers’ compensation trust fund to make payment on a tax anticipation note because the City needed to issue a second tax anticipation note to ensure that bills and employees would be paid. For Scranton, debt financing did not help the City tackle its fiscal distress but instead exacerbated the problem by allowing the City to ignore adopting a realistic budget in which revenues match expenditures. The City failed to take steps to address the City’s $12 million structural deficit, increase revenues or decrease expenditures, repeating the oversight year after year and widening the deficit over time, through temporarily dealing with budget shortfalls with short-term borrowings.

In consideration of the foregoing, using successful and unsuccessful cases is important to reveal the differences in the indicators and variables when one of the three responses are utilized to address local government fiscal distress. The local governments summarized above that will serve as case studies are reiterated in Table 3 below.

Table 3: List of Units of Analysis for Study

<table>
<thead>
<tr>
<th>Bankruptcy (Filing Date)</th>
<th>Asset Monetization (Date Undertaken)</th>
<th>Debt Financing (Issue Date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td>Successful</td>
<td>Successful</td>
</tr>
<tr>
<td>Unsuccessful</td>
<td>Unsuccessful</td>
<td>Successful</td>
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<tr>
<td>Unsuccessful</td>
<td>Unsuccessful</td>
<td>Unsuccessful</td>
</tr>
</tbody>
</table>
These case studies offer the opportunity to understand the uniqueness and context of each method and municipality, as well as their circumstances, in order to describe and deduce how and why each method was successful or not in each instance. However, little knowledge can be gleaned from a case study if the differences between the legal and statutory contexts of each individual case are overlooked. The similarities between these cases are limited to the recognition that they each made an attempt to address their fiscal distress as discerned from the literature review. In this study, the distinctions are uncovered and systematically delineated through not only reviewing the qualitative variables and factors, but also the legal and structural constraints surrounding each method and case.

**Legal and Statutory Context of Cases and Methods**

In order to properly study each case and understand its circumstances and context, the legal and structural constraints surrounding each response of bankruptcy, asset monetization and debt issuance for each case must be identified. Each case exists in a state that deals with each response differently which will in turn affect the municipality’s approach to and its utilization of such method. Accordingly, even if a certain response is uncovered that proves beneficial or effective in addressing fiscal distress for specific situations, before suggesting such a response, the review of a local government’s legal, statutory and structural constraints will first be necessary in order to determine whether or not the response is even permitted in that state, or if the requirements therein are such that the response would be undertaken in a materially different fashion to mitigate its usefulness.
Bankruptcy Legal Context

The first response, municipal bankruptcy, is authorized under federal law provided certain conditions are met; however, states vary in their approaches in allowing local governments access to bankruptcy. Given the disparities among state laws and the diverse causes of local fiscal distress, states retain varying degrees of control over bankruptcy and respond to cases of municipal distress differently, which may not be uniform to each case therein. For example, Rhode Island and Pennsylvania both provide oversight of and assistance to municipalities in fiscal distress (Doty, 2013).

Municipal bankruptcy filings have not always been specifically authorized by Rhode Island state statute. However, in 2010, when the City of Central Falls, Rhode Island was on the brink of fiscal collapse, the City filed a petition for the appointment of a judicial receiver for assistance. In response, the Rhode Island legislature quickly passed a new law, the “Act Relating to Cities and Towns – Providing Financial Stability” (R.I. Gen. Laws § 45-9-1 et seq.), which authorized a Rhode Island Department of State appointed receiver to file for municipal bankruptcy protection on a municipality’s behalf. Because the state was concerned with providing stability to its municipal credit markets, the law also created the process by which Rhode Island could support a city or town that experiences financial distress (Pfeiffer, 2010). Despite Rhode Island’s new statutory intervention to help provide Central Falls support, in 2011, the receiver and City sought bankruptcy protection to obtain additional leverage to restructure the City’s obligations (NASBO, 2012).

California law allows local public entities direct access to bankruptcy. A “local public entity”, having the same meaning as “municipality” in the Bankruptcy Code, is authorized to exercise powers “pursuant to applicable federal bankruptcy law” upon compliance with Code
requirements, which may include a neutral evaluation process (Cal. Gov’t Code § 53760).

Illinois, on the other hand, permits units of local governments (which includes counties, municipalities and special districts, but excludes school districts) indirect access to bankruptcy (50 Ill. Comp. Stat. 320/3(d); Ill Const. Art. 7, § 1.). In Illinois, a Financial Planning and Supervision Commission must recommend that a unit of local government may file a petition under chapter 9 (50 Ill. Comp. Stat. 320/9(b)(4)).

Political subdivisions in Pennsylvania also have indirect access to chapter 9 filings through Act 47 (53 Pa. Cons. Stat. § 11701.261). The Pennsylvania Department of State must provide prior written approval before such filings can be made (53 Pa. Cons. Stat. § 5571) and specific conditions must be met before filing (53 Pa. Cons. Stat. § 11701.261(a)). In addition, a political subdivision is only permitted to file if so authorized by a majority vote of its governing body (53 Pa. Cons. Stat. § 11701.261(b)). Pennsylvania has significant oversight of their local government’s bankruptcy proceedings. For example, in the case of the City of Harrisburg, the state enacted statutory provisions delaying the City’s access to bankruptcy (Doty, 2013).

Pursuant to Pennsylvania law, the state-appointed City receiver developed a receivership plan which included a tax increase and the sale or lease of City parking facilities, the incinerator, water and sewer utilities and other assets to raise revenue (Burton, 2012a). However, upon the City’s default of the repayment of its obligations, City Council refused to implement the tax increase sought by the receiver to pay down debt until a state court ordered an increase in its occupation tax from one percent to two percent (Burton, 2012b).

Unlike the foregoing examples, Colorado has particularly restrictive laws that only allow specific types of special districts to file for bankruptcy. In Colorado, any insolvent taxing district has direct access to chapter 9 (Colo. Rev. Stat. § 32-1-1403). However, such taxing districts must
be special districts as defined, organized or acting under Colorado’s Special District Act’s provisions (Colo. Rev. Stat. § 32-1-1402).

**Asset Monetization Legal Context**

Like bankruptcy, states diverge in their willingness to grant local governments the authority to sell and lease public infrastructure and enter into various types of public-private partnership arrangements to design, build, operate, maintain and manage public infrastructure. Pennsylvania has enacted legislation that permits public-private partnerships in most respects for transportation-related projects (Pa. Cons. Stat. 74 §§ 9101 thru 9124) and similar legislation has been introduced to allow these types of arrangements for local governments in other project areas.

Similarly, Illinois provides specific authorization for certain entities to enter into transportation-related partnerships, as well as for municipalities to make contracts of every kind and nature to acquire, construct, improve, operate, maintain and repair bridges, and to fix and apply tolls and fees for use of such bridges (605 ILCS §5/10-802; 605 ILCS § 5/10-602). On the other hand, Rhode Island has not specifically enacted legal precedent allowing public-private partnerships (R.I. Gen. Laws § 37-12). California allows specific agencies to enter into public-private partnerships for transportation projects subject to state approval (Cal. Streets & Highway Code §143) and permits agreements with private entities to study plan, design, construct, develop, finance, maintain and repair a variety of fee-producing infrastructure transportation-related facilities (Cal. Civ. Code §§ 5956 thru 5956.10).

On the contrary, Colorado law authorizes the use of public-private partnerships for (i) special districts (Col. Rev. Stat. § 32-9-128.5), (ii) local governments to enter into agreements for the design, financing, construction, operation, maintenance and or improvement of toll-roads
and (iii) county boards to participate in P3 initiatives regarding county highways and bridges, or
allows lease agreements for up to 99 years and the state is responsible for nine percent (9%) of
the transportation-related public-private partnership contracts in the nation. Like Pennsylvania
and Colorado, Rhode Island has implemented a design-build P3 process to help finance and build
various transportation-related projects, even though no statutory authority exists.

Similarly, Pennsylvania law is mostly silent on the ability of local governments to utilize
public-private partnerships. Pennsylvania municipal codes do not specifically address the
privatization of infrastructure utilities, although all municipal codes confer a general power of
local governments to provide for the health, safety, and welfare of their citizens. In many cases,
Pennsylvania municipalities do expressly have the power to sell or lease its real property. In this
regard, Pennsylvania Act 402 of 1935 states that a municipality may grant, convey, lease, or
transfer, its sewers systems to a municipality authority of a city or county; however, no language
explicitly authorizes the same to private entities.

In these circumstances, to determine whether local governments retain the type of power
necessary for asset monetization, recitations of Dillon's rule and home rule concepts may be
helpful. Dillon’s rule provides that a municipality may only do those things that it is expressly
authorized to do, that are necessarily or fairly implied, or essential to the accomplishment of the
purposes or objectives of the municipality (NLC, 2016). A state that is both a home rule state and
a Dillon’s rule state applies Dillon's rule to matters or governmental units not accounted for in
state law that grant home rule (NLC, 2016). Even though municipalities in these states have the
right to frame and adopt home rule charters, the implication is that a municipality would only
have such power if expressly granted it, and as such, the power of local governments in Pennsylvania or Rhode Island to lease or transfer public infrastructure to private entities is ambiguous at best.

Debt Financing Legal Context

Debt financing can also vary by state and local government by type and level of security. Some jurisdictions limit the amount of notes that can be issued in anticipation of taxes or other revenues to a percentage of such receipts actually received or expected to be collected in a given fiscal year. Pennsylvania, California and Illinois limit local government anticipation borrowing to no more than 85 percent of the taxes or revenues to be received in the most current fiscal year. Pennsylvania requires anticipation notes to be refunded before the end of the same fiscal year, California allows a 15-month final note maturity, while Illinois permits a two-year term for repayment. Colorado is more restrictive by limiting such borrowings to 50 percent of the taxes estimated to be collected in the current fiscal year and such notes must be repaid before the end of the same fiscal year. Rhode Island is less prohibitive by authorizing borrowings up to the amount of the total tax levy received in the prior fiscal year and permits a one-year note term for repayment.

Many pension obligation bonds and other long-term debt issued by Pennsylvania, Colorado, Illinois and Rhode Island local governments are general obligations backed by the full faith, credit and taxing power of the municipal issuer. General obligation bonds of California local governments are supported by a pledge of their taxing power, but not by their full faith and credit. All of the POBs issued in California over the past ten years are obligations imposed by law. In addition to obligations imposed by law, California local governments have also issued many bonds not backed by the taxing power of the local government, but rather by lease
revenues or certificates of participation from other political subdivisions or non-profit corporations.

States differ in their views on the security general obligation debt provides. Some states allow statutory liens for particular types of debt, while other states do so conditionally (Doty, 2013). Five states, including Colorado, Illinois and Rhode Island, provide statutory liens broadly in support of municipal general obligation bonds, whereas Pennsylvania does not (Doty, 2013). In California, however, general obligations should receive priority payment from general fund revenues, second only to education funding.

This distinction in the value states place on debt is significant in terms of determining debt-holder priority and security in being repaid from their investment in general obligation debt ahead of other municipal creditors. When local governments are experiencing fiscal distress, without such a statutory lien, debt-holders may be classified as unsecured creditors and be repaid last, or receive reduced or no repayment at all. Such unsecured obligations are also likely to be discharged in bankruptcy proceedings. Therefore, understanding if a state offers such a statutory lien or not may be an important consideration for a local government in deciding to issue such debt.

Qualitative Data Collection

For the qualitative data collection, two major data sources were used, each to check the validity of the information compiled from one data source to the other, and to help fill in case narratives. First, qualitative data for the six case studies was collected from local government administrative and organizational documents, strategic plans, meeting agendas and minutes, written reports and addresses, press releases, audited financial statements and budgets, news sources like local and national newspaper articles and financial publications, government
websites and debt offering documents. Multiple sources were consulted for each case study in order to outline critical issues regarding financial condition. In collecting the data, an electronic case study database was created to contain notes from document analyses and annotated bibliographies of the documents reviewed.

Primary data sources for each case study consist of the documents outlined below. Because the analysis calls for understanding the conditions that surround municipal fiscal distress, only those sources dated two years prior to and following the utilization of the three responses to address such distress are included in the document analysis. In addition, online searches of newspapers, periodicals and local government association publications provided a rich source of data establishing the qualitative variables that are present in each case. These resources offer a narrative of the local perspective of the causes of municipal fiscal distress and how effectively the problem is addressed. The data collected from the primary data sources informed the survey questions and surveys in order to generate the secondary data collected as hereinafter described.

### Table 4: List of Specific Documents for Qualitative Study

<table>
<thead>
<tr>
<th>Case Study</th>
<th>Date of Event</th>
<th>Study Period</th>
<th>Specific Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bankruptcy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Falls, Rhode Island</td>
<td>Filed on August 1, 2011</td>
<td>August 1, 2009 – August 1, 2013</td>
<td>Bankruptcy documents and filings</td>
</tr>
<tr>
<td>Vallejo, California</td>
<td>Filed on May 23, 2008</td>
<td>May 23, 2006 – May 23, 2010</td>
<td></td>
</tr>
<tr>
<td>Allentown, Pennsylvania</td>
<td>Approved on April 25, 2013</td>
<td>April 25, 2011 – April 25, 2015</td>
<td>Lease/Transaction documents</td>
</tr>
<tr>
<td>Chicago, Illinois</td>
<td>Approved on December 4, 2008</td>
<td>December 4, 2006 – December 4, 2010</td>
<td></td>
</tr>
<tr>
<td><strong>Debt Issues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boulder, Colorado</td>
<td>Issued on October 26, 2010</td>
<td>October 26, 2008 – October 26, 2012</td>
<td>Debt offering documentation</td>
</tr>
</tbody>
</table>
City officials or managers were identified by searching city websites and surveys were emailed to respondents after initial communication occurred. A snowball sampling method was used to identify survey participants. The principal administrator of each city, commonly the business manager or city clerk, was the initial point of contact. The principal administrator was asked to complete the survey, or otherwise identify and provide another city contact to whom the survey could be sent for completion.

In some instances, the principal administrator completed the survey; in others, the principal administrator requested the survey be delegated to another individual who had direct insight, such as their respective city finance directors. If the principal administrator suggested another individual was better able to participate in the study based on expertise, follow-up contact with the suggested individual was made. A total of six city contacts participated in the surveys: one for each city.

Surveys focused on past fiscal condition and the questions posed separate the historical and present context of each local government. Surveys were conducted through Survey Monkey. If the originally identified survey participants did not respond, attempts were made to identify additional or alternative municipal staff or officials to serve as survey participants. Surveys undertaken took 30 to 60 minutes to complete.

Survey participants were informed as to the nature of the study and their rights in consideration of participation thereof. Informed consent was obtained prior to each survey. Making survey participants comfortable was most important to engender responses and generate honest factual and opinion data, which best serves this research. The survey questions are set
forth in Appendix A, which was tailored to each specific case, based on the data generated from the primary data sources from the document analysis.

To examine the study’s research questions, the qualitative data collected was categorized by the variables listed in Table 1 (Chapter 2; Page 51). The variables in Table 1 include the factors from the literature review, excluding the operationalization of variables such as changes in intergovernmental funding, population, and socio-economic aspects as identified by asterisks, because these variables are not qualitative in nature, but have numerical aspects, and can be measured by the quantitative methods in this study. The variables in Table 1 illustrate the fundamental components of all of the factors or conditions identified in the literature review, apart from the propensity of such factors or conditions toward a characterization of fiscal distress.

To remove researcher bias in the determination of whether or not the qualitative factors or conditions identified in the literature are present in the case studies, each of the variables were explored and described in each case. Exactly what constitutes local government disregard or negligence of fiscal condition, for example, undoubtedly varies based upon each study’s assumptions and lenses. As a result, one researcher’s conservative perception of negligence might result in the speculative identification of the presence of a variable, while another researcher may overlook the variable as superficial. Therefore, the nature and operationalization of each variable as outlined in Table 1 is described and expressed in every case to allow for the comparison of fiscal condition despite disparities based upon the author’s conclusions regarding the nature or intensity of the variables.
Quantitative Data Collection

Quantitative data was collected from audited financial statements prepared for the municipal and local governments as required by Governmental Accounting Standards Board (GASB) standards, Statement No. 34 (GASB, 1999), which allow for comparisons across local governments. Local government financial statements contain new government-wide statements including a Statement of Net Assets and Statement of Activities that provide improved information with regard to municipal and local government assets, liabilities, net assets, expenses and revenues. Pension plan financial reports following the requirements of GASB Statement No. 67, Financial Reporting for Pension Plans, are now required. Pension funding statistics were also available in offering documents prepared by the local governments in connection with public debt issuances.

Local government audited financial statements were obtained from municipal websites, the EMMA database, or upon request from the municipality if otherwise unobtainable. Quantitative data that were not available in local government audited financial statements are available through the Bureau of Labor and Statistics (http://www.bls.gov/) and U.S. Census (http://www.census.gov/) websites.

The quantitative data collected was used as inputs for the measurement variables listed in Table 5 (Chapter 3, Page 103). Table 5 contains the measurement variables which include the variables and indicators present in the literature review in Table 2 (Chapter 2; Page 62), minus aspects or ratios suggested in the literature to represent a degree of fiscal distress. For example, high unemployment is generically identified as an indicator of fiscal distress in the literature. However, such literature does not specifically define the purported high unemployment rate level at which fiscal condition becomes indicative of fiscal distress. Because the existing research does
not uncover the levels of unemployment that are indicative of either fiscal health or distress and promotes numerous ways of defining such indicators, this exploratory study undertakes to compare and contrast the unemployment rates of the units of analysis, and other quantitative data, to provide insight into the variables and indicators and understand at what levels or degree they characterize fiscal distress.

Even if a certain combination of variables is determined to indicate fiscal distress in the literature review, the specific ratio of such indicators was initially ignored in this study because precise ratios may allow for the oversight or misidentification of potential indicators. To demonstrate, consider that an unemployment rate of 30 percent has been determined by previous research to be indicative of fiscal distress. Accordingly, if an unemployment rate of 29 percent is observed, the variable most likely will still have a negative impact on fiscal condition or indicate distress similar to the indicator at 30 percent, but would be overlooked for the purposes of its documentation as indicator therein, and further, when coupled with other indicators, may exacerbate fiscal distress in light of ignoring it as an indicator. As such, these crude thresholds should be disregarded for the proper focus on the underlying variable.

Further, most of the indicators present in existing literature in Table 2 are different variations of the same measure. Therefore, in an attempt to determine which variation of the indicators most adequately represent fiscal distress, only the fiscal health measures from the literature, without regard to specific deviations or standards reported to indicate fiscal distress as initially set forth in Table 2, are included in this study in Table 5.

<table>
<thead>
<tr>
<th>Category</th>
<th>Measurement Variable</th>
<th>Description</th>
<th>Study/Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial (Short-term)</td>
<td>Current assets ÷ current liabilities</td>
<td>Total assets (excluding capital assets) ÷ liabilities</td>
<td>Act 47; ACIR (1973); Kloha et al. (2005)</td>
</tr>
</tbody>
</table>

Table 5: Quantitative Fiscal Health Measures (Modified from Table 2: Chapter 2; Page 62)
<p>| Economic | Excluding those due &gt; 1 year | Brown (1993); Nollenberger (2003); Wang (2007); Maher (2009) |
| Total liabilities ÷ total revenues/net revenues | Revenues available to satisfy liabilities | Act 47; ACIR (1973); CBO (1978); Brown (1993); Kloha et al. (2005); Wang (2007); Trussel (2009); Maher (2009) |
| Total revenue ÷ total expenses | Fiscal solvency | Act 47; ACIR (1973); CBO (1978); Brown (1993); Kloha et al. (2005); Wang (2007); Trussel (2009); Maher (2009) |
| Population | Size of local government | Kloha et al. (2005); Watson (2005); Deal (2009) |
| Population change | Δ in population each year | Kloha et al. (2005); Watson (2005); Deal (2009) |
| Median household income | Wealth of local government | Deal (2009); GAO (2011) |
| Unemployment rate | Growth of local economy | Deal (2009); GAO (2011) |
| Financial (Long-term) | Total liabilities ÷ total assets | % of total assets to be liquidated to satisfies liabilities | Act 47; ACIR (1973); Kloha et al. (2005); Brown (1993); Nollenberger (2003); Wang (2007); Maher (2009) |
| Financial (Prospective) | Total liabilities ÷ net assets | % of net assets to be liquidated to satisfy liabilities | Act 47; ACIR (1973); Kloha et al. (2005) |
| Debt | Debt service ÷ total revenue | % of debt service of revenues | CBO (1978); Trussel (2009) |
| Long-term debt ÷ population | Long-term debt per capita | Act 47; CBO (1978); Brown (1993); Wang (2007); Trussel (2009) |
| (Total liabilities × 100) ÷ total assessed property values | Debt per $100 of assessed property value | ACIR (1973); Kloha et al. (2005) |
| Total liabilities/ expenditures ÷ population | Debt per capita | CBO (1978); Nollenberger (2003); Kloha et al. (2005); Kavanagh (2007); Wang (2007) |
| Total revenue ÷ population | Income per capita | Brown (1993); Nollenberger et al. (2003); Kavanagh (2007); Wang (2007); Sohl (2009); Maher (2009) |
| Tax collectible ÷ population | Tax collected per capita | ACIR (1973); Kloha et al. (2005); Watson (2005) |
| (Property tax revenues × 100) ÷ total assessed property values | Property tax revenues per $100 of assessed property value | ACIR (1973); Kloha et al. (2005) |</p>
<table>
<thead>
<tr>
<th>Financial (Overall)</th>
<th>Unrestricted net assets ÷ total revenues</th>
<th>Unrestricted net assets as % of annual revenues</th>
<th>Brown (1993); Kloha et al. (2005); Sohl (2009); Maher (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Δ in net assets ÷ total expenses</td>
<td>Change in net assets as % of total expenses</td>
<td>Kloha et al. (2005); Trussel (2009)</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>Unreserved fund balance ÷ total revenues</td>
<td>Available resources to provide services for ___ days</td>
<td>Act 47; Nollenberger et al. (2003); Honadle et al. (2004)</td>
</tr>
<tr>
<td>Revenue Risk</td>
<td>(Investment revenue + intergovernmental aid) ÷ property tax revenues</td>
<td>% increase in property taxes for every 1% decline in revenues</td>
<td>ACIR (1973); Kloha et al. (2005)</td>
</tr>
<tr>
<td></td>
<td>Intergovernmental revenue ÷ total revenue</td>
<td>Intergovernmental revenue as % of total revenue</td>
<td>ACIR (1985); Brown (1993); Nollenberger (2003); Park (2004); Kavanagh (2007); Maher (2009)</td>
</tr>
<tr>
<td>Fiscal Capacity</td>
<td>Property tax receivables ÷ current assets</td>
<td>% of assets not currently available</td>
<td>ACIR (1973); Kloha et al. (2005)</td>
</tr>
<tr>
<td></td>
<td>Property tax receivables ÷ property tax levy</td>
<td>% of delinquent taxes</td>
<td>ACIR (1973); Kloha et al. (2005)</td>
</tr>
<tr>
<td></td>
<td>Property tax revenue ÷ total revenue</td>
<td>Tax revenue as % of total revenue</td>
<td>ACIR (1973); Kloha et al. (2005)</td>
</tr>
<tr>
<td>Pension Risk</td>
<td>Actuarial value of pension fund assets ÷ unfunded actuarial accrued liability</td>
<td>% degree to which pension plan is underfunded overall</td>
<td>Act 47; Nollenberger (2003); Kavanagh (2007); Novy-Marx (2012); Martell (2013)</td>
</tr>
<tr>
<td></td>
<td>Unfunded actuarial accrued liability ÷ covered payroll</td>
<td>% magnitude of unfunded liability as compared to annual payroll</td>
<td>Act 47; Marlowe (2007); Novy-Marx (2012); Martell (2013)</td>
</tr>
<tr>
<td></td>
<td>Actuarial pension contribution ÷ actuarially required contribution</td>
<td>% degree to which pension plan is underfunded annually</td>
<td>Act 47; Marlowe (2007); Novy-Marx (2012); Martell (2013)</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>Municipal credit rating</td>
<td>General capacity to repay obligations</td>
<td>Raman and Wilson (1990); Hajek (2011)</td>
</tr>
</tbody>
</table>

**Qualitative Data Analysis**

The goal of the qualitative research is to describe the qualitative variables and the environments of the cases based on the observations and data collected over the study period.
The inferred descriptions are compared to the propositions derived from the literature review to expand upon the understanding of each variable’s role in fiscal distress and to confirm or dismiss the factors as identified in existing research.

The data analysis method of content analysis is utilized to reduce, understand and provide reliable qualitative data with regard to the variables derived from the various documents previously described. Qualitative content analysis is the systematic, social scientific analysis of text, and a method for making valid inferences based thereon through structures and procedures to analyze the qualitative research questions (Berelson, 1952). The purpose of content analysis in this study is to identify and compare specific criteria in the documents relevant to the variables derived from the literature through the classification of the core consistencies and meanings.

In order to employ content analysis, the texts are examined and grouped according to category. To examine the qualitative variables more precisely, the variables are further coded into categories of managerial, economic and political, and internal versus external. Coding for the study is based on a variation of the Park (2004) model as revised and extended by Beckett-Camara and Grizzle (2014) described in the literature review. While it is difficult to meaningfully define and delineate between the three categories, the assigned qualitative factors to the respective managerial, economic and political dimensions are illustrated in Table 1.

Internal versus external factors are also useful categories for coding qualitative conditions. Internal conditions are those over which management of the local government has proximate control and are the factors that have been largely left out of the existing quantitative research as described in the literature review. Internal conditions do not include political and structural vulnerabilities that are shaped by pressures from politicians, bureaucrats and other levels of governments because municipal managers do not have the ability to immediately
mitigate their exposure to these influences in times of fiscal distress. Likewise, external factors
are those conditions that affect fiscal condition but are outside of the direct influence, control and
authority of the local government manager.

Finally, content analysis is a well-suited method for this study to uncover themes within
text at both the micro and macro-levels (Weber, 1984). It is an appropriate method for revealing
the linkages and relationships embedded within the documents into content categories according
to the operationalization of the variables established. In performing the content analysis,
variables and their descriptions are considered as factors attributable to such cases’ fiscal
condition if the document discusses them in the context of affecting fiscal condition or
contributing to that instance of fiscal distress.

Following Creswell’s (2009) six-step data analysis process, upon the completion of the
case studies, the data will first be organized and prepared for analysis. This step is furthered by
the electronic case study database created during the data collection phase of the study which
contains notes from document analyses and bibliographies of the documents reviewed. Second,
the document and survey response data will be reviewed.

Third, data analysis begins with the coding process. Creswell (2009) suggests organizing
the material into segments by categorizing the text into labeled groups. As such, the text and
survey data are coded by variable identified in Table 1 (Chapter 2; Page 51), and further grouped
and labeled by topic. Fourth, the coding process is used to generate a description as well as
themes or categories of the cases. Similar variables from each case are clustered together and
noted. After reviewing the data, the clusters are categorized into common major and minor
themes.
Unlike Table 2 from the quantitative portion of this study which was modified in Table 5 to provide generic measurements for each indicator, Table 1 does not need to be similarly amended and restated into another table to illustrate how each variable will be measured, since prior literature regarding qualitative variables did not provide various methods for identifying or measuring each variable. In addition, because qualitative data does not lend itself to similar methods of measurement and since no strict ratios for determining whether certain qualitative factors indicate fiscal distress came from the qualitative literature review, no modification of the initial factors identified in the qualitative literature review is necessary. In other words, a qualitative factor is present in this research if a survey respondent identifies it; a quantitative indicator is determined by how it is measured and not by the ratio of such measurement.

For the fifth step, advancing how the description of the themes is represented in the qualitative narrative, the clusters or themes are summarized through the identification of the differences in the factors present in each case study. A pattern matching logic technique assists in matching observed conditions and events as independent variables of the local government’s fiscal distress. Using a variation of rival explanations as patterns and cross-case analyses, the successful matching of the patterns of fiscal distress to varying explanations is possible.

Lastly, the meaning of the data is interpreted. The narratives are produced to summarize and integrate the contents of the database and compose answers to the case study research questions. The narratives provide a basis for the case study report. Since the qualitative study is exploratory in nature, no hypothesis testing or data manipulation occurs as a part of the qualitative analysis.
The quantitative phase of this study is premised on the notion that municipalities that have undertaken bankruptcy proceedings are undoubtedly in fiscal crisis. By its very nature, bankruptcy proceedings allow filings by local governments as authorized by their state that meet the requirements of being insolvent, or not paying debts as they come due. By including the fiscal health measures for municipalities before, during and after bankruptcy, insight can be gleaned to illustrate the measurements of the variables that might indicate fiscal distress.

To determine that the measurement of the variables does in fact indicate fiscal distress, the bankruptcy measurement data is compared to the successful and unsuccessful cases that undertake the other two methods, asset monetization and debt financing. Since fiscal health is a matter of degree, the data from the measurement of the variables from municipalities that have utilized bankruptcy, is contrasted with data from the measurement of the fiscal condition variables of local governments that have issued debt and monetized assets to address fiscal distress.

The quantitative data in Table 5 is preliminarily analyzed by using descriptive statistics to help illustrate the characteristics of the cases and any differences in the means and standard deviations between the indicators thereof. Statistics between successful cases and unsuccessful cases and cases by response are compared. Further, statistical significance provides an assessment as to whether the observed continuous scores of the fiscal health measures reflect any patterns. Finally, analyses are conducted to explore the relationships between any of the variables or a combination thereof, and examine any differences or similarities between the variables present between local governments having varying circumstances of fiscal distress.
Approach to Discussion of Results

Kingdon’s model provides a useful context for organizing the discussion of the case study findings. The quantitative portion of the study characterizes the problem stream, and the need to adequately operationalize the problem of municipal fiscal distress. The qualitative portion of the research identifies the politics stream, which embraces the environmental, political and social conditions that influence fiscal distress. The policy stream is embedded in the research design that consists of qualitative and quantitative units of analysis that have utilized one of the three responses to address such fiscal distress, including filing for bankruptcy, monetizing assets, or issuing debt.

Explaining the results in terms of the multiple streams may be fruitful in describing the process of local governments in considering methods to address fiscal distress. This offers insight on how the streams are influenced by the presence and identification of the fiscal distress indicators and conditions. The interactions among and between the streams is described to ensure that the study acknowledges the simultaneous context and consideration of each stream to provide a comprehensive overview of the problem of municipal fiscal distress. The purpose of the discussion is to reveal and understand the framework of what actually happens when a local government decides to address such a problem with one of the responses identified herein, without intending to dictate or advocate for the utilization of a certain strategy or method.

Measurement Validity and Reliability

By utilizing a multi-phase design with both qualitative and quantitative components, this study attempts to provide a complete and accurate depiction of local government fiscal health. Qualitative validity is concerned with employing certain procedures to ensure accurate findings, while qualitative reliability focuses on consistency in approaches across research and designs.
The multiple-case design allows for more external validity by providing multiple observations of variables across cases (Campbell, 1998). Likewise, quantitative validity can be established by drawing meaningful and useful inferences from instrument scores, and quantitative reliability can be achieved through the consistency of the measurement results across constructs and over time (Creswell, 2013).

Numerous procedures have been incorporated to address validity and reliability concerns. To confirm that the measurement of the variables is reliable and free from random error, multiple variations of fiscal distress data are used for each indicator category and additional indicators have been included to assess the same condition. Additionally, reliability concerns for the coding of the qualitative data are addressed by setting forth the operationalized categories developed from the literature in Table 1 (Chapter 2, Page 51).

Furthermore, the data selected for the variables that constitute quantitative indicators were established by and are consistent with prior research and logically provide valid measures for studying fiscal distress. Many of the variables that comprise the indicators are related and have adequately measured fiscal concepts in previous studies. The relationship between the variables and indicators provide for a multidimensional assessment of the different characteristics and phases of fiscal distress. In addition, the quantitative indicator data is consistent across local governments because the financial statements from which it is collected are uniform as required by GASB standards.

Finally, through the use of mixed methods, the qualitative and quantitative data are collected from multiple sources to separately examine the indicators that evidence fiscal distress. A consensus of the established indicators based on the converging qualitative and quantitative sources further increases the validity of this exploratory study. Since there are inherent biases
and weaknesses in both quantitative and qualitative methods, triangulating data sources through the collection of both types of data offsets such limitations.

**Limitations**

Despite the utilization of a mixed methods approach, limitations of the exploratory study design are acknowledged. One limitation is inherent in the data collection process. The data obtained during the surveys is dependent upon a cooperative and forthcoming participant, and their willingness to share honest information. In addition, survey participant responses are limited to their own perspectives, opinions and lived experiences. However, this study’s triangulation of data is useful for verifying the research results to support the accuracy of the themes uncovered from the document data.

Further, while the case study approach is intended to incorporate insight into the complex environment in which local governments address fiscal distress and any extra-financial influences thereon, the scope of the case studies is constrained by the analysis of two cases for each of the three responses. Whereas specific case examination may provide useful data pertaining to the effect of numerous societal, managerial, external and other-occurring conditions and factors of fiscal distress, such information yields conclusions from each local government’s unique situation of limited generalizability, which may not be applicable to other cases of municipal bankruptcy, asset monetization or debt issues.

Case studies are criticized for missing the rigor and systematic aspects of other social science methods that offer more transparency, generalizability, and controls for selection and interpretation bias (Campbell, 1998). While the specific findings of the case studies may not be generalizable, the goal of this research is not to generalize precise variables, but to generalize
themes; to confirm or repudiate the results of the literature review and the observable propositions derived therefrom.

Undoubtedly, a case study is “an exploration of a ‘bounded system’ or case (or multiple cases) over time through detailed, in-depth data collection involving multiple sources of information rich in context” (Creswell, 1998; p. 61). The results obtained with regard to the non-financial conditions and variables are indeed limited to the six municipal specimens, however, this case study framework allows for the examination of a variety of evidence with regard to confirming the presence of the indicators of fiscal distress of a financial nature in the quantitative portion of the study, and even further, the case studies uncover potential examples of relationships between financial and non-financial contributors to fiscal distress for future study.

Finally, the qualitative methods are intended to manage the limitations of the quantitative approach. The reductionist nature of quantitative studies is based upon the researcher’s ability to reduce ideas or indicators into a small, discrete set to examine the study’s research questions and test hypotheses, and upon the idea that generally, measurement of an objective reality is possible. As such, the objective financial indicators that comprise the quantitative data alone cannot explain fiscal distress or provide the context offered by the qualitative variables in constructing the meaning and adequate measurement of fiscal distress, which is additionally shaped by subjective values and cultural and historical norms.

Chapter Summary

This chapter provided an overview of the methodology, rationale of the study, research design, conceptual and theoretical framework, and the methods of the exploratory study. The introduction of the chapter sets forth the intent of the research to understand the influence of municipal bankruptcy, asset monetization and debt issues in addressing local government fiscal
distress. In line with the intent, the rationale for this study sought to provide insight on improving fiscal condition and the applicability and appropriateness of the policy responses for other distressed local governments experiencing similar indicators and conditions. Research methods were explained to accomplish the research objectives through the measurement and consideration of quantitative indicators and qualitative conditions during local government utilization of specific responses to address fiscal distress.

Next, the theoretical framework of the research was described to organize the study as informed by Kingdon’s (1995) multiple-streams approach, consisting of three streams of actors and processes, which operate independently until policy action is permitted. The problem and politics streams are exemplified through the quantitative and qualitative portions of the study and in that context, the policy stream is shaped by the methods utilized by local governments for addressing fiscal distress.

The exploratory research questions, propositions and hypotheses were also provided in this chapter. A convergent mixed methods design was summarized in which qualitative and quantitative data were collected at the same time, but analyzed separately, at least initially. The quantitative and qualitative case study units of analysis, and the legal context thereof, was also disclosed. The qualitative conditions that contribute to fiscal distress were identified and operationalized in Table 1 and the quantitative fiscal health measures were presented in Table 5, as modified from Table 2.

Finally, the qualitative and quantitative research analyses and strategies were outlined along with the background and justification for utilizing mixed methods research. The qualitative data analysis procedures were set forth and described as content analysis. The quantitative data analysis consists of various techniques including descriptive statistics. Lastly, the key
assumptions and limitations of the methodology were evaluated. Measurement validity and reliability concerns were also addressed and discussed.
CHAPTER 4: FINDINGS AND DISCUSSION

This section presents the findings and provides discussion of the results of the case study analyses. The findings are structured around the exploratory research questions and hypotheses presented in Chapter 3. The first section in this chapter presents the review of the specific documents referenced in Table 4 (Chapter 3; Page 99) in order to provide background for the remaining analyses. The first section identifies the differences between the successful and unsuccessful cases for each response utilized including bankruptcy, asset monetization and debt financing, respectively. The next section continues with the qualitative analysis of the exploratory research questions identified above. Finally, the quantitative analysis section presents the findings reflecting upon the hypotheses previously set forth in Chapter 3.

The Politics Stream: Qualitative Analysis

Specific Document Review

Successful Bankruptcy Case: Central Falls

In 2010, the City of Central Falls filed a petition for the appointment of a receiver with the Rhode Island Superior Court citing fiscal insolvency due to revenue shortfalls, state budget cuts, unaffordable collective bargaining agreements and pension obligations. A month later, in light of a new statutory mechanism for state intervention in the finances of local governments in fiscal distress, the City withdrew its petition allowing control of the City’s finances to shift to a state-appointed receiver. The receiver filed for bankruptcy on August 1, 2011 (Central Falls Audit, 2011).

In 2011, upon filing for bankruptcy, the City of Central Falls claimed their estimated number of creditors was between 200 and 299. The City had filed a petition seeking relief under chapter 9 as the City’s financial condition deteriorated to insolvency. The overwhelming pension
obligations and the slowing economy, among other factors, significantly decreased revenues while the City's operational costs increased. The unfunded pension and other health insurance obligations were approximately $80 million based on an actuarial basis (Central Falls Bankruptcy Filing, 2011).

In addition, the City encountered a structural deficit of approximately $5 million with a total budget of approximately $16.4 million. Financial projections demonstrated that the deficit in 2012 would be significantly worse than the deficit in 2011, with the deficit projected to grow thereafter. On or before August 31, 2011, the City lacked sufficient revenues or cash flow to pay its bills as they became due, and then were not be able to pay its debts as they became due in every succeeding month for the remainder of the fiscal year, except for the month of October 2011. The City already maintained an operating deficit in excess of $2.3 million from 2010 and 2011. Further, the City was no longer able to access capital markets (Central Falls Bankruptcy Filing, 2011).

Before filing for bankruptcy, the City had reduced or eliminated funding for almost all programs and services, including eliminating certain essential educational and social service functions. The substantial majority of the City's expenditures were allocated to pay labor costs, including salaries and benefits of current employees and pension costs of retirees. These costs were mostly controlled by collective bargaining agreements, the terms of which the City could not unilaterally change outside of chapter 9. Due to contractual salary increases, the City's labor costs, and in effect its future pension obligations, would continue to increase (Central Falls Bankruptcy Filing, 2011).

Given the fact that the majority of the City's expenditures were associated with labor costs, including salaries and benefits of current employees, and pension and health insurance
benefits for retirees, the City recognized that it must find a way to reduce its annual labor expenditures to recover. The City had engaged the labor unions in negotiations and met with retirees; however they were unsuccessful in reaching any agreement. If the City was to avoid defaulting on its financial obligations, it had no option other than to seek chapter 9 relief (Central Falls Bankruptcy Filing, 2011).

In 2011, the City’s total net assets worsened for the fourth consecutive year. In 2011, government-wide revenues, total revenues received for charges and services, and operating grants and contributions decreased. However, total revenues received from capital grants and contributions increased, along with general revenues. General property tax revenues increased from 2010, while all other sources of revenues decreased, including intergovernmental revenues, local fees and other non-tax income, and departmental revenues. The Central Falls Prison Authority failed to pay the City costs for services rendered (Central Falls Audit, 2011).

Total expenditures decreased in 2011 as a result of reduced spending. As a matter of policy, the City’s minimum fund balance is five percent of the general fund total operating budget. The City’s largest expense is public safety, followed by employee benefits and municipal debt service (Central Falls Audit, 2011).

Finally, despite the City’s adoption of a definitive pension trust funding plan, the City had not made a pension contribution in two years. As of September 1, 2011, credit rating agencies placed the City on ‘negative’ and ‘developing’ status as a result of the City’s financial challenges and its general obligations were deemed to be “junk bond” status (Central Falls Audit, 2011).

From the review of the City’s audit and filed bankruptcy proceeding illustrated above, the following items are identified as indicative of the City’s distress: (i) the poor economy and
decreased revenues, (ii) increasing labor costs and pension obligations due to restrictive and prohibitive collective bargaining agreements, and (iii) consecutive years of decreasing net assets. However, it is additionally apparent that the City was astutely aware of its fiscal position and problems, made attempts to cut spending and reduce services, established a policy of maintaining a minimum fund balance and considered alternatives to address its situation.

Unsuccessful Bankruptcy Case: Vallejo

In May 2008, the City determined it was no longer able to meet its contractual obligations due to a lack of reserves, the poor economy, burdensome labor contracts, and an inability to raise taxes due to state constitutional restrictions (Vallejo Audit, 2008). Absent appropriations from a balanced budget required by both the City charter and the state constitution, the City’s general fund would have lacked the legal authority to continue paying for services after July 2008. On May 23, 2008, the City filed a case under chapter 9 of the United States Bankruptcy Code seeking to adjust its debts (Vallejo Audit, 2008). In their filing, the City claimed their estimated number of creditors was between 1,000 and 5,000 (Vallejo Bankruptcy Filing, 2008).

During bankruptcy, the City was able to modify existing agreements to reduce staff, freeze wages, decrease payments to retirees and ease principal and interest payments to bondholders. Such modifications allowed the City to continue to provide essential services to residents during the proceedings, however at greatly diminished levels (Vallejo Audit, 2008).

The fiscal problems of the City began before 2008. The City’s general fund had operated at annual deficits during the three years prior to the fiscal year ending June 30, 2008. The unreserved, undesignated fund balance dropped from $9.9 million in 2005 to $797,195 in 2008. Over the two prior years, employee costs increased by eleven percent, while revenue growth remained at three percent. To mitigate growing per-unit employee costs, the work force was
reduced by 18 percent, from 494 to 407 employees, over the four years leading up to the filing. Subsequent to 2008, the work force was further reduced to 330 (Vallejo Audit, 2008).

The City’s annual expenses of $284 million in 2008 were funded with $296 million of revenues, including $180 million of program revenues, generated for the use of specific programs, $88 million of general revenues, available for general use, and $28 million from the sale of Six Flags Discovery Kingdom. Public safety accounts for the City’s largest expense (Vallejo Audit, 2008).

The City’s audited financial statements for 2007 showed nearly $1 billion in total assets and $624.5 million in net assets in excess of liabilities. Its financial statement also reported $211 million of cash and investments, of which nearly $137 million was characterized as “unrestricted” and “available for operations”. However, Vallejo’s use of such general labels failed to convey restrictions on many of the underlying funds. Consequently, most of the information was initially misleading because much of Vallejo’s surplus cash and investments belonged to funds that were restricted by law or granted to specific uses and could not be used for operational costs (Vallejo Bankruptcy Filing, 2008).

In prior fiscal years, Vallejo used its general fund reserves to cover shortfalls in other funds. For that reason, the General Fund had suffered major deficits and reserves were exhausted by the end of the 2007-2008 fiscal year. Vallejo projected the general fund deficit at $17 million for the 2007-2008 fiscal year, with labor costs alone outstripping its revenues. It also projected that the general fund would carry a deficit of $22.7 million by November 2008 (Vallejo Bankruptcy Filing, 2008). The City’s bankruptcy filing indicated that Vallejo estimated its general fund revenues would be about $77.9 million in the 2008-2009 fiscal year ($5.3
million less than the prior fiscal year) as a result of falling sales taxes, real property taxes, and motor vehicle license fees (Vallejo Bankruptcy Filing, 2008).

Due to the deficits, the general fund could not borrow funds from other, restricted City funds unless the City had a balanced budget or demonstrated an ability to repay the borrowed money within the fiscal year. In addition, the City could not borrow from private credit markets because it had no reserves and insufficient cash flow to pay back loans. As a result, Vallejo was unable to pay general fund obligations in the 2008-2009 fiscal year. Vallejo searched for ways to improve its financial situation, but various state laws limited its ability to generate new revenues. The City considered a number of proposals, including increasing the garbage franchise fees, selling surplus real estate, charging a fee for false 911 calls, and filing claims with the State of California (Vallejo Bankruptcy Filing, 2008).

The audited financial statements of the City cite the fragile national, state and local economies, high unemployment, the housing crisis and slowing revenue growth in state personal income and retail sales as exacerbating the City’s insolvency (Vallejo Audit, 2008). From the review, a number of other internal factors affected the City’s position including (i) increased labor costs, (ii) falling sales taxes, real property taxes and motor vehicle license fees, (iii) depletion of reserves, and (iv) misleading accounting in audited financial statements.

The City made efforts to reduce its workforce and considered ways to increase revenues through charging fees. However, these alternatives were explored after experiencing financial problems. In addition, the City did not take much action until after filing for bankruptcy, after which it reduced its services.

There are a few similarities and differences between the bankruptcies reviewed in Vallejo and Central Falls. Both cities experienced the poor state of the national economy, reduced
revenues and high labor costs due to restrictive agreements. However, Central Falls made early attempts to consider alternatives, cut spending and reduce services, and had a policy of maintaining a minimum fund balance.

Vallejo’s fiscal position appears to have been worse than Central Falls. Vallejo cites more than 800 to 4,700 additional creditors than Central Falls mentions in its bankruptcy proceeding. However, there appears to have been a failure on the part of Vallejo officials and staff to recognize its fiscal distress, and its responsibility and role in creating, addressing and rectifying the problem. For example, Vallejo’s audit in 2008 cites economic factors as the cause of its distress, but does not disclose the mistakes it made such as depleting reserves and offering misleading financial statements.

Successful Asset Monetization Case: Allentown

In 2013, the Lehigh County Authority paid the City a sum of $220,000,000 upon closing in exchange for the lease of the system for 50 years. Starting in 2016, the City received a payment of $500,000, which is scheduled to increase over the years with inflation. The City used the upfront sum to eliminate unfunded pension liabilities and reduce water and sewer debt service (Allentown Lease Agreement, 2013).

As a condition of the Agreement, the Authority was required to retain union employees, recognize the labor unions and adopt collective bargaining agreements for such union employees. All employees retained by the Authority received offers of similar terms of employment, salary and benefits. The Authority operates and pays the costs and expenses of maintaining the system and the City has the right to enter and inspect the system and receive no charge for services (Allentown Lease Agreement, 2013).
Further, the Authority is responsible for making all capital improvements associated with the system, subject to City review, developing an asset management plan, and complying with operating standards and rates and charges as set forth or approved by the City. The Authority must provide notifications and reports to the City (Allentown Lease Agreement, 2013).

During this time, the economic development success in Allentown was attributed to the Neighborhood Improvement Zone legislation passed by the state legislature in 2009. In addition, the closing on the 50-year Concession Lease Agreement is credited with improving the City’s financial situation as the lump sum payment allowed the City to eliminate its large unfunded pension liability (Allentown Audit, 2013).

In 2013, the net assets of the City increased 27 percent from the prior year. The largest source of revenue for the City was real estate and Act 511 taxes, followed by charges for services. Intergovernmental revenues also accounted for a large portion of the City’s revenues. The largest expenses of the City were public safety, general government, and the solid waste operations. As of 2013, the City was rated A3 with a stable outlook and BBB+ with a positive outlook by credit rating agencies (Allentown Audit, 2013).

During the period over which the City of Allentown was experiencing fiscal problems due to its unfunded pension obligations, it still maintained a certain level of fiscal health. The City’s revenues and expenditures were balanced and the City achieved a positive credit rating. The City also thoughtfully considered a number of items in its Concession Lease Agreement as it provided for system employees and shifting the costs and expenses of the system to the Authority. However, the City, having listened to the concerns of its residents, retained some control over the system, fees and future plans. In addition, the City will also negotiated to receive free municipal water and sewer service and an annual sum of $500,000. Finally, no adverse fiscal
effect is cited in the City’s audits from forfeiting the annual revenue from the water and sewer system.

Unsuccessful Asset Monetization Case: Chicago

Prior to the lease, the City of Chicago requested qualifications from various groups and entities interested in entering into a concession transaction to operate, maintain, improve, install, remove, and collect fees from parking fee collection devices in its metered parking system. In exchange, the request provided that the concessionaire would be entitled to collect and retain the metered parking fees and to be compensated for its services in connection with such metered parking spaces pursuant to a concession agreement (Chicago Ordinance, 2008).

However, at the time of the concession, the City did not include in its previous annual budgets, the full amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims ($642.4 million), municipal employees, policemen and firemen net pension obligations ($2,874.7 million) and post-employment benefits ($269.3 million). Further, the City showed a significant unrestricted net assets deficit at the end of 2008 and long-term commitments that were greater than currently available resources (Chicago Audit, 2008).

In addition, over half of the City’s total revenue comes from taxes. Federal and state funds received vary greatly from year to year depending on the level of City spending on programs, construction and other projects. Public safety is the largest component of the City’s expenses, exceeding one-third of its total expenses (Chicago Audit, 2008).

In 2008, the year the City of Chicago leased its parking system assets, revenues and other financing sources available for general governmental operations decreased by 10.6 percent from the prior year. New home construction was 45 percent below 2007 levels nationally. For the City of Chicago, real estate transaction tax collections decreased by 42 percent from 2007. In
addition, the City’s unemployment rate increased to 6.4 percent from 5.6 percent in the prior year (Chicago Audit, 2008).

Accordingly, the City determined it was in the best interest of its residents and desirable for the welfare of its government and affairs to authorize the concession transaction. For the transaction, the City received a one-time amount of $1,156,500,000. In addition, the City retained control over meter rates and parking ticket revenues, but shared enforcement responsibilities with the concessionaire (Chicago Ordinance, 2008).

During the period leading up to Chicago’s lease of its parking meters, the City was experiencing economic woes such as reduced revenues and high unemployment. In addition, the review uncovered that the City ran a major deficit in unrestricted net assets and failed to account for the full amounts needed to finance future liabilities in its budgets. For some period of time, the City also received unpredictable amounts of intergovernmental revenues that varied from prior years.

Like the City of Allentown, Chicago retained control over many aspects of its parking system. However, unlike Allentown, the City failed to secure an annual payment to offset the lost revenues from the system. In addition, Chicago agreed to pay the concessionaire for its services, resulting in further revenue loss. Accordingly, while the fiscal position of Chicago appeared to be more dire than Allentown’s condition, the terms of Chicago’s lease agreement failed to protect employees and generate consistent revenue, and may have resulted in further exacerbating its financial problems.

**Successful Debt Financing Case: Boulder**

Pension obligation bonds (POBs) in the amount of $9,070,000 were issued pursuant to the authority granted by a ballot question approved by the voters of the City of Boulder at a
special municipal election held on November 3, 2009, the City’s powers as a home rule city, and pursuant to state and local law. The City used the proceeds of the POBs to fund ongoing required pension obligations of the City for police officers and fire fighters hired before April 8, 1978 in order to allow the City to establish a more predictable payment schedule for ongoing pension obligations. The City’s employees were covered under four separate retirement plans and two deferred compensation plans. Of those plans, the City administers two defined benefit pension plans (Boulder Official Statement, 2010).

The City charter requires the establishment and maintenance of a budgetary control system for general operations. At the fund level, expenditures cannot legally exceed appropriated amounts in the budget (Boulder Audit, 2010). The City has assets that exceed its liabilities by almost $900 million. Public safety, public works and culture and recreation accounted for the largest three expenditure categories of the City in 2011 (Boulder Audit, 2010).

Sales and use tax revenues make up a large portion of the City’s revenues, followed by much lower portions attributable to charges for services and property taxes. The property tax base increased and assessed valuation for property within the City grew in the years leading up to 2010. In addition, the City approved a ballot question that removed the remaining Taxpayer Bill of Rights or TABOR (a constitutional measure that limits the annual growth in local revenues to the sum of the inflation rate and the percentage change in the population) restriction on property tax revenues, resulting in a temporary reduction in property tax revenues, but increases over time. The City contemplated eventual property tax increases to offset some of the sales and use tax revenue reductions that would occur. Employment and consumer confidence are cited as causing a negative impact on sales tax revenues (Boulder Audit, 2010).
At the time of the issuance of POBs, any proposed increase in expenditures of the City were evaluated based on priority-based budgeting, which included strategic recommendations. Existing financial policies and the six-year planning model for operations were cited with assisting the City in keeping operating revenues, expenditures and funds balanced (Boulder Audit, 2010).

The City instituted plans and processes to maintain long-term financial integrity and sustainability, including working capital and capital improvement reserves, multi-year financial plans, continuous and ongoing monitoring, contingency plans, the disallowance of non-recurring revenues to fund on-going costs and the development of six-year capital improvement plans (Boulder Audit, 2010). In addition, the City achieved high credit ratings due to the general strength of its economy and its minimal reliance on sales taxes as compared to other Colorado local governments (Boulder Audit, 2010).

Despite its reduced sales tax revenues and the existence of its unfunded pension obligations, as noted above, the City carefully addressed such matters through the issuance of pension obligation bonds and approving a ballot question removing limits on annual City revenue growth. In addition, the City maintained a generally healthy fiscal condition and implemented a number of proactive plans, policies and procedures to ensure its fiscal viability.

Unsuccessful Debt Financing Case: Scranton

On December 7, 2010, Scranton City Council approved the issuance of two series of tax anticipation notes (“TANs”) for the 2011 fiscal year in the amount of $5,000,000 and $9,500,000, respectively (Scranton Council Meeting Minutes, 2010). Problems with the 2011 TANs became apparent at the end of the fiscal year when they became due and payable and the City repaid the TANs with borrowed money.
The City’s on-going structural operating budget and cash flow deficit throughout 2011 was due to a critical cash shortage in December 2011, that resulted in the City requiring a short-term transfer of Worker’s Compensation Trust Funds to meet the December 31, 2011 payment date for its 2011 TAN, which was the second continuous year that the City has had to draw upon its Worker’s Compensation Trust Fund in order to satisfy year-end account payables (Scranton Audit, 2011).

Members of City Council claimed the Mayor’s decision to borrow $5 million from the Workers Compensation Trust Fund was not communicated to City Council until December 15, 2011, after the 2012 budget was adopted. In addition, the City solicitor maintained that the $5 million deficit from the prior year was concealed from Council and the public, and that the Mayor used $5 million from the 2011 TAN to repay the 2010 TAN (Scranton Council Meeting Minutes, 2011). Further, Council claimed they were unaware of additional City loans due in 2011 that the Mayor was aware of. City Council believed the Mayor attempted to conceal the true nature of the City’s finances to force City Council to raise taxes from 26 to 29 percent and sabotage Council’s budget with unnecessary costs (Scranton Council Meeting Minutes, 2011).

Finally, in addition to the lack of cooperation and trust between Council and the Mayor, there were numerous City Council accusations of collusion between the Mayor and government agencies, and allegations that the local newspaper assisted in covering up mayoral wrongdoings (Scranton Council Meeting Minutes, 2011). However, at least one Council member admitted that City Council had received correspondence from various agencies regarding deficit and cash flow problems in March, August, September, October and November of the prior year, which recommended methods for addressing the deficit (Scranton Council Meeting Minutes, 2011).
During the time the City was attempting to address is cash flow problems with the TANs, the net assets of the City exceeded its liabilities at the end of 2010 by over $31.4 million. The total net assets decreased by more than $21.6 million mostly due to (i) the Pennsylvania Supreme court ordering the City to pay back wages to, and for apparatus and shift manning for, fire and police departments through the end of the fiscal year, and (ii) decreases in revenues such as property taxes and delinquent wage tax collections (Scranton Audit, 2010).

The greatest source of revenue for the City was Act 511 taxes, which comprise 36 percent of the City’s revenues and consists of the City’s wage tax, mercantile tax and occupational privilege tax. Standard and Poor’s downgraded the City’s bond rating from BBB- to BB- due to the inability to address budgetary pressures (Scranton Audit, 2010).

Correspondingly, the City’s three pension plans have been designated as severely distressed under Pennsylvania Act 205. Since 1992, the Pennsylvania Department of Community and Economic Development has categorized the City as a distressed municipality. In an effort to improve the financial condition of the City, property taxes, Act 511 taxes and permits and fees have been increased to balance the structural deficit (Scranton Audit, 2010).

From the information provided above, the fiscal distress experienced by Scranton may be due to a number of factors including: (i) the imposition of a large court judgment; (ii) reduced revenues; (iii) lack of cooperation and trust between local government leaders; (iv) potential corruption; and (v) a failure to develop solutions and alternatives to improve the City’s finances.

The situation and facts presented surrounding the debt financing undertaken by the City of Scranton and the City of Boulder are starkly different. Even though both cities needed to address their pensions, Scranton’s pension plans were markedly more severely distressed and underfunded than Boulder’s. Boulder was experiencing better fiscal health, directly addressed
their revenue shortfalls with targeted solutions, and instituted a number of strategic plans and fiscal policies to monitor its condition. Scranton, on the other hand, faced a poor economy and years of distress, wrought with political infighting, and failed to develop any thoughtful or sustainable solutions to remedy their circumstances.

**Analysis of Exploratory Research Questions**

The survey data identified a number of factors that influenced local government fiscal condition at the time of utilizing a response of bankruptcy, asset monetization or debt financing. The factors cited most often include inadequate financial planning or lack of, or no, diversification, poor or weak leadership, absence of strategic management objectives and adverse market conditions or economic downturns.

*Influential Variables Illustrative of Fiscal Distress*

The first exploratory research question is concerned with the categories of variables that emerged from the case studies as themes illustrative of fiscal distress. The next section identifies by case, survey response data from participants describing variables that were influential in the context of their respective city’s fiscal distress.

*Bankruptcy Variables*

**City of Central Falls, Rhode Island**

The City of Central Falls identified a number of factors that influenced the City’s fiscal position and its ability to suitably manage funds. These factors include inadequate financial planning, accounting and lack of diversification, disregard or negligence, lack of accountability or oversight, poor or weak leadership, absence of fiscal or debt management policies and strategic management objectives, financial mismanagement, low level of professionalism or part-
time administrators, risky or hasty decision making or speculative transactions, corruption, civic

distrust and adverse market conditions or economic downturns.

However, at the time of filing for bankruptcy, staff did not perceive that the City was

constrained by other levels of government, outside public officials, internal administrators or the

public in making financial decisions, although staff believed that they did not have immediate

control over its fiscal direction or finances. Accordingly at this time, the City had been in

receivership for more than a year, under which the receiver had full control.

City of Vallejo, California

The City of Vallejo cites a number of important factors that influenced their financial

c Condition which include poor or weak leadership, partisanship or hostile ideology, public

Opposition or pressure for services, as well as costly legal suits and judgments.

The most significant contributing factor disclosed was a $20 million drop in City

revenues before the financial crisis hit in 2008. Staff was noted to have warned the City in the

years leading up to the impending Great Recession, but such warnings went unheeded. City staff

developed solutions, but was unable to persuade department administrators to participate in

considering inter-department cooperation and across-the-board budget cuts.

The instability of the City manager position, political disagreement with City council and

labor organizations, and unachievable police salary and benefit expectations and demands also

contributed to the City’s poor fiscal condition. Poor decisions were made in light of these

demands. For example, the police force received a pay increase on the eve of the bankruptcy

filing, resulting in more layoffs than would have otherwise occurred with no pay increase. The

greed, lack of accountability and self-interest of unions and officials could not be remedied by

having proper policies and procedures in place.
Neither the unions nor the citizens believed that bankruptcy would occur. Culture, with a lack of stable leadership at the City manager level, allowed long-serving department leaders free reign over their discrete departments competing for resources without regard for the City as a whole. Each department expected others to make difficult cuts without offering solutions or reductions in their respective budgets. Department administrators were promoted because of technical ability, rather than financial knowledge, resulting in unprepared and unwilling leaders that could understand the financial implications of their actions. In addition, there were inequalities among employee pay and position. Certain staff was afforded generous salaries, pensions and benefits, with some employees being compensated more in overtime pay than base salary. Finally, the single largest constrain on City finances was the inability to impair CalPERS obligations.

*Asset Monetization Variables*

City of Allentown, Pennsylvania

The City of Allentown police officer and firefighter employment and benefit contracts became the most debilitating factor affecting the City of Allentown’s fiscal position. Specifically, the contracts allowed overtime to be included as a component in pension payment calculation, leading to large pension fund payments to retirees and a significant annual minimum municipal pension fund obligation.

The City employed certain staff that were unskilled and City administrators felt somewhat constrained by public opinion. Ultimately, the City leased its system because it had no other feasible option. It lacked the means, power and authority to reduce its pension obligations afforded to City employees under the existing contracts.
City of Chicago, Illinois

At the time of the lease of its parking meters, the most important factors influencing the City of Chicago’s fiscal management and financial position were inadequate financial planning and accounting, and lack of diversification. A public-private partnership, rather than a lease of the entire system to the Morgan Stanley-backed syndicate, with an increased City role, was noted as a strategy that should have been considered.

At the time of the lease of the meter system, certain City administrators felt constrained by other levels of government and internal government administrators, but not by outside public officials or the public in general. While certain administrators believed they had immediate control over their fiscal direction and finances, the decision to enter into the meter concession agreement was made by the Mayor’s office. In addition, the Mayor’s office and City’s budget office made financial decisions on behalf of the City, with little insight from other city administrators.

Debt Financing Variables

City of Boulder, Colorado

The most important factors affecting the City of Boulder’s fiscal management and financial position include: (i) the absence of strategic management objectives, and (ii) adverse market conditions or economic downturns. In addition, City managers felt somewhat constrained by other levels of government and outside public officials. For housing and transportation funds, the City relied on state or federal funding to meet its needs. To compensate for the decline in federal funds in both areas, the residents of the City voted to increase taxes. The financial policies in place enabled the City to control the costs of its water, wastewater and storm drainage services by setting the rates sufficient to pay all debt and ongoing capital costs.
In addition, the City implemented an inclusive process for solving financial problems through creating a blue ribbon commission and utilizing priority driven budgeting. Finally, the City fully understood the proper use and potential impact of POBs through considering worst-case scenarios that the City could absorb if necessary. The City also attributed their financial health to a strong professional organization network and training programs.

City of Scranton, Pennsylvania

The City of Scranton’s fiscal management was influenced by a number of factors including inadequate financial planning, accounting and diversification, disregard or negligence, lack of accountability or oversight, poor or weak leadership, absence of strategic management objectives, low level of professionalism or part-time administrators, and risky, hasty decision-making or speculative transactions. In addition, political factors like partisanship or hostile ideology, and intergovernmental structural changes that increased the burden on the City or reduced the resources it had received also affected the City’s financial position.

Finally, economic factors including costly legal suits or judgments and population changes further exacerbated the City’s problems. Also, the relationship between the Mayor and City council was strained. Political dysfunction and the lack of cooperation between the City administration and City council was the root of much of the City’s fiscal distress.

Qualitative Factor Themes

*Internal vs. External Factors*

The factors identified by respondents are reflective of both internal and external variables. The internal factors referenced include:

1. Inadequate financial planning or accounting and lack of, or no, diversification;
2. Government disregard or negligence;
3. Poor or weak leadership;
4. Absence of fiscal or debt management policy;
5. Absence of strategic management objectives;
6. Financial mismanagement;
7. Low level of professionalism or part-time administrators;
8. Risky or hasty decision-making or speculative transactions;
9. Partisanship or hostile ideology; and
10. Corruption.

The external factors referenced include:

1. Lack of accountability or oversight;
2. Civic distrust;
3. Public opposition or pressure for services;
4. Intergovernmental structural changes increasing burden or reducing resources;
5. Adverse market conditions or economic downturns;
6. Cost legal suits or judgments; and
7. Population changes.

As illustrated above, more internal factors are noted to have influenced fiscal distress than external factors. Likewise, the case study survey data indicates, as illustrated in Graph 1 below, that most of the time, overall, cities did not feel constrained by other levels of government, outside public officials or the public in making fiscal decisions.

Graph 1: Perceived Constraints on Fiscal Decision-Making

Three respondents (N=3; 50%) answered that, at the time of the response, their city was not constrained by either outside public officials, internal administrators or the public in making fiscal decisions. Two respondents (N=2; 33.3%) answered that, at the time of the response, their city was not constrained by other levels of government. On the other hand, one respondent (N=1;
16.7%) indicated that their city was constrained by other levels or government or internal administrators, one respondent (N=1; 16.7%) indicated that their city was somewhat constrained by other levels of government and external officials, and one respondent (N=1; 16.7%) indicated that their city was somewhat constrained by the public.

Of the respondents that answered that their city was, at the time of the response, constrained by external actors, the respondent noted that their city was constrained by other levels of government. However, this respondent also indicated that their city was constrained by internal administrators. Further, one respondent identified that the city was somewhat constrained by other levels of government and external officials, and a separate respondent determined that their city was somewhat constrained by the public in making fiscal decisions.

The answers the respondents gave regarding whether or not their city was constrained by internal or external actors do not relate, as assumed, to the answers respondents gave regarding whether or not the city had immediate control over its fiscal direction and finances. If local governments are not constrained by internal or external factors, it follows that the city would then have control over their fiscal direction and finances. However, only one respondent (N=1; 16.7%) believed that they had immediate control over their city’s fiscal direction and finances. In addition, one respondent (N=1; 16.7%) perceived that they had some control over their city’s finances, but no immediate control over its fiscal direction.

Two respondents (N=2; 33.3%) answered that their city did not have immediate control over its fiscal direction or finances, and two respondents (N=2; 33.3%) did not know if they had such immediate control. Only one respondent perceived their city to have immediate control over their direction and finances. One respondent felt that the city somewhat had immediate control
over its finances. The responses of all participants are illustrated in the aggregate below in Graph 2.

**Graph 2: Perceived Control Over Finances**

In conclusion, the qualitative factors reflect variables that are both internal and external in nature; however, the internal factors are identified to a greater degree by respondents as being significant in the context of influencing fiscal distress. In addition, while most respondents do not feel constrained in making fiscal decisions, they do not feel that they have immediate control over their finances.

**Condition Before, During and After Responses**

The second exploratory research question is concerned with the nature of qualitative variables that are present before, during and after each local government utilized any one of the three responses, including bankruptcy, asset monetization and debt financing. The next section identifies by case, survey response data from participants describing the context of their respective city’s fiscal distress before, during and after such methods were undertaken and the attempts were made to improve each city’s respective fiscal condition.
**Condition Surrounding Bankruptcy Cases**

**City of Central Falls, Rhode Island**

Before its filing for bankruptcy, the City of Central Falls suffered from poor fiscal condition. During the bankruptcy process, the City’s fiscal condition slowly recovered despite remaining in a status characterized as poor.

*Policies.* At the time it filed for bankruptcy, the City of Central Falls had no policies or procedures in place regarding City debt management, taxation, investment or spending. Post-bankruptcy filing, however, the City implemented policies or procedures in each area.

*Services.* At the time it filed for bankruptcy, some services provided by the City of Central Falls should have been increased, while other services should have been decreased.

*Revenues.* At the time the City of Central Falls filed for bankruptcy, the level of City revenues generated were insufficient for the City to properly operate and function, pay obligations that had become due and payable by the City, and provide generally for the health, safety and welfare of its citizens.

*Taxes.* At the time of its bankruptcy filing, the City of Central Falls was not imposing a level of taxes on its citizens that was adequate and accordingly, it was believed that the level of taxes should have been increased.

After emerging from bankruptcy, the City’s fiscal outlook improved and was described as very good. The City followed its chapter 9 plan and thereafter began generating a surplus in revenues.

**City of Vallejo, California**

Before filing for bankruptcy, the fiscal condition of the City of Vallejo was very poor. The City was experiencing declining reserves, increasing debt and budget pressures (and
deficits) for many years. Excessive salary and benefits costs, which comprised the majority of the budget expenditures, were found to be the main cause of the City’s financial problems. In addition, there was a culture within City administration and among residents encouraging increased and modernized service provision, even though revenue was insufficient to support such service levels or employee benefits. In addition, the City experienced high staff turnover. The City employed 23 City managers over the prior 26 years prior to bankruptcy. Finally, City council robustly disagreed about whether there even was a financial problem and how best to resolve it.

Prior to bankruptcy, City expenses, including salaries and benefits, were the fourth (4th) highest in the state of California. The poor condition of the City was aggravated by the great recession, at which time revenues plummeted before the City could react. After making drastic cuts in staffing, the City subsequently learned that larger employee cutbacks were warranted after receiving updated revenue estimates.

During the bankruptcy filing, the City’s fiscal condition is characterized as poor. The City endured the bankruptcy claims process and debt restructuring, and presented a workout "exit plan". The City negotiated settlements with labor unions to reduce salaries and benefits to what the City believed to be manageable and reasonable levels; however, California Public Employees’ Retirement System (CalPERS) pension obligations were not impaired. These measures lead to the City’s improving financial condition.

Policies. At the time of the City of Vallejo’s bankruptcy filing, City council had adopted formal debt management, taxation, investment and spending policies.

Services. At the time of the bankruptcy filing, the City of Vallejo offered services to their residents that were not fully adequate. However, resources were not sufficient to offer services to
residents and an adequate level, and services should have been decreased to conform to the amount of funds available to be dedicated to such purposes.

Revenues. At the time of the bankruptcy filing, the City of Vallejo generated insufficient revenues to operate and function, pay obligations of the City that were due and payable, and to provide for the health safety and welfare of residents. Revenues were insufficient for much needed road paving in the City and to increase police presence to an ideal level.

Taxes. At the time the City of Vallejo filed for bankruptcy, the level of taxes imposed by the City should have been increased. Revenues and expenditures were not balanced. Taxes should have been raised or expenditures should have been reduced. To maintain services at its current level, additional financial resources were necessary. Even still, the City described other issues as having a larger role in affecting its fiscal condition. City staff believed that tweaking revenues and service levels would have had minimal impact in alleviating fiscal problems.

Following bankruptcy, the City began to experience modest revenue growth as a result of a local one percent sales tax measure. The City also allocated a portion of the desired additional funding to improve infrastructure, pave streets and provide police service. In the next five years, the City anticipates significant pension cost increases as projected by CalPERS, and continuing, yet manageable, budget challenges (averaging $750,000 per year over the next five years). The City currently holds unassigned reserves of $6.9 million from general fund revenues totaling $90 million.

Condition Surrounding Asset Monetization Cases

City of Allentown, Pennsylvania

Before the City of Allentown leased its water and sewer systems, its financial condition was very poor. Impending and drastic pension obligations encumbered the City. The City
considered desperate options including a massive tax increase, foregoing minimum municipal pension obligation payments, or declaring bankruptcy. The City opted to lease the systems instead of filing for bankruptcy or raising taxes because an economic development project would have otherwise been negatively impacted.

Policies. At the time of the lease of its water and sewer systems, the City of Allentown followed an informal debt management policy, but had not adopted policies with regard to taxation, investment or spending.

Services. At the time of the lease of its water and sewer systems, the City of Allentown provided services to its residents that were overall adequate, with an increased focus on public safety.

Revenues. At the time the City of Allentown leased its water and sewer systems, the level of revenues generated were sufficient for the City to operate and function, and to provide for the general health, safety and welfare of its residents. The City had limited opportunity for revenue growth and needed to generate additional revenues or dramatically increase taxes on its residents in order to meet the minimum municipal pension fund payment.

Taxes. At the time it leased its water and sewer systems, the taxes imposed on residents in the City of Allentown should have been decreased. The City levied taxes at a higher rate than its surrounding municipalities. Due to looming pension obligations, the City needed to increase taxes, but was aware that the level of taxes imposed on City residents was already excessive.

After the lease, the fiscal condition of the City improved and is now characterized as fair. The City allocated proceeds of the water and sewer system lease to its pension fund, which resulted in a significant reduction in its minimum municipal pension fund payment obligation for the foreseeable future.
City of Chicago, Illinois

For many years before the lease of its parking meters, the City of Chicago was experiencing symptoms of poor fiscal health due to its outstanding pension obligations. Before and during the lease of the parking meters, the City’s financial condition was described as fair.

Policies. At the time of the lease of the parking meters, the City of Chicago had in place formal investment and spending policies or procedures, but did not have in place debt management or taxation policies or procedures. The City’s parking meter system had never been encumbered by debt and each year its operation, maintenance and equipment upgrades were included in the annual budget.

Services. At the time of the lease of the meters, the level of services provided by the City of Chicago was overall adequate. At times, staffing levels were not ideal with regard to the parking system, however, overall service was not affected.

Revenues. At the time of the lease of its parking meters, the level of revenues generated by the City’s meters exceeded $20 million and was sufficient for the City to operate and function, pay obligations as they became due and payable, and to provide for the health safety and welfare of the constituency.

Taxes. At the time of the lease of its parking meters, it was unclear to the Chicago respondent whether or not the level of taxes imposed by the City was generally sufficient overall. However, taxes were not sufficient to pay off City debt unrelated to the parking meters. The City’s meter system itself was not encumbered by any outstanding debt, but parking system revenue was dedicated to pay principal and interest on debt, unrelated to the system, of the City. But, the diminished parking system revenues after the lease were insufficient to pay such debt.
After the lease of the parking meters, the City’s characterization of its financial condition remained fair. Specifically, revenue was needed from the lease of the meters to balance the budget. However, following the lease of the meters, the City’s financial condition worsened and such revenue was not generated.

**Condition Surrounding Debt Financing Cases**

**City of Boulder, Colorado**

The City of Boulder experienced very poor fiscal health from 2001 through 2005 due to the information technology bubble bust. In addition, the City's regional mall experienced decline and was closed. A new mall, retail and “big box” stores opened outside of the City so no sales taxes were generated for the City. The City lost 17 percent of their sales tax revenues.

Before POBs were issued, the City of Boulder characterized their fiscal condition as fair. Prior to 2010, the City was recovering from the recession and finances were tight, but the financial policies of the City provided the structure to deal with such challenges. The long range planning that had been put into place considered yearly revenues and expenditures to maintain a structurally balanced budget. The City did not expand services during this time.

By the time the POBs were issued, all of the blue ribbon commission’s finance recommendations had been put into place and the City was in sound fiscal condition. The issuance of the POBs was carefully thought out and analyzed from many different angles. The City considered worst-case scenarios that if the financial markets were to collapse and the proceeds lost complete value, the City would have still been able to make the pension payments and the debt service payments on the POBs. The City did not issue the POBs in an attempt to earn arbitrage, but to stabilize the amount of the payments made each year due to the pension
plans. The POBs were considered for several years and the City calculated their issuance at a time when bond interest rates were low.

Policies. At the time it issued POBs, the City of Boulder had in place formal debt management, taxation, investment and spending policies. In addition, Boulder had strong financial policies in the area of reserve requirements for each city fund, and fund replacement policies for capital assets, revenues, procurement and long term financial planning. The City’s financial policies were greatly strengthened as a direct result of a long-range fiscal planning process that was undertaken prior to the POB issuance by a blue ribbon commission of community members. Long range fiscal planning and these policies assisted the City in navigating the challenging times successfully.

Services. At the time it issued POBs, the City of Boulder provided services to its citizens that were adequate overall. Prior to that time, the City was recovering from both the information technology bubble, also known as the dot.com collapse, from 2001 to 2004, as well as from the impact of the Great Recession. Since the City had in place primary operating budget policies providing that: (i) current ongoing expenses were to be balanced to current ongoing revenues, and (ii) one-time revenues were to be used for one-time expenditures, services and new requests therefore had to be prioritized. In addition, the community had the ability to determine by vote, whether or not they wanted to increase revenues (or taxes) to pay for the costs of new programs and services. Accordingly, significant community input was received and managers worked closely with City council throughout the year to ensure priorities were aligned with council and community needs.

Revenues. At the time it issued POBs, the City of Boulder generated revenues that were sufficient to operate, pay obligations due and payable by the government, and generally provide
for the health, safety and welfare of its residents. If revenues were inadequate, the City made trade-offs or allowed the community decide through ballot initiatives if revenues should be increased. The POBs were issued to stabilize the amount that would otherwise be paid annually by the City for the “closed, old-hire” defined-benefit pension programs for officers and firefighters employed before 1978. The POBs were not utilized as a financial operating tool to balance the budget.

Taxes. At the time it issued POBs, the City of Boulder imposed an adequate level of taxes on its residents. Community residents and City council collectively determined if taxes need to be increased. City managers provided relevant information to the public and council to make such decisions. City managers then implemented those decisions.

After the POBs were issued, the City characterized their financial condition as good and its credit rating improved. The City enjoyed a solid recovery since the Great Recession and the City participant believe their goal in issuing the POBs was achieved.

City of Scranton, Pennsylvania

Before the City of Scranton issued its TANs, the fiscal condition of the City was very poor. The fiscal condition of the City remained chaotic through 2013. After the issuance of the TANs, taxes increased significantly for the 2014 fiscal year, and again raised by a measurable percentage in 2015. The City’s 2016 budget proposed a tax increase of 5.7 percent.

Policies. At the time of the tax anticipation note issuance, the City of Scranton had formal debt management and taxation policies in place. The City’s debt management policies were subject to the City’s charter and influenced by the role of the financial advisor. In addition, the City ensured that the debt management policies complied with the limitations set forth in Pennsylvania’s Local Government Unit Debt Act.
Services. At the time of the issuance of the TANs, the City of Scranton should have increased the services it had been providing to its residents overall. In addition, the City had not adequately increased taxes to deal with the structural budget deficit. Accordingly, the tax and revenue anticipation borrowings were initiated to assist in covering City operating costs.

Revenues. At the time of the TAN issuance, the City of Scranton generated insufficient revenues to operate and function, pay obligations when due and payable and provide for the health safety and welfare of its residents. In addition, at the time of the issuance of the 2011 TANs, taxes were decreased in the City in the wake of the severe structural budget deficit.

Taxes. At the time of the TAN issuance, the level of taxes imposed by the City of Scranton on its residents should have been increased. Instead at this time, as noted above, taxes were decreased in the City.

After the issuance of the TANs and in recent years, the City’s fiscal health improved and since 2013, has been described as generally fair. Qualified staff was hired and a business administrator was appointed in January of 2014. The City continues to retain an experienced financial advisor and financial consultant with experience in navigating situations involving municipal fiscal distress. In addition, a more cooperative relationship was built with the City’s Act 47 recovery coordinator. Further, the City’s current fiscal condition is described as stable. Now, many initiatives are underway to further rejuvenate the City.

Qualitative Variables Across Cases

The third exploratory research question is concerned with how qualitative variables and factors vary across cases (i) categorized by response, and (ii) characterized as successful or unsuccessful. The next section compares the differences in the qualitative factors and variables
identified by survey respondents by response and by characterization of the cases’ respective outcome.

**Factors by Response**

The only factors that each of the bankruptcy, asset monetization and debt financing cases identified in common are inadequate financial planning and accounting or lack of diversification. Bankruptcy and debt financing case study responses identify a number of shared factors including disregard or negligence, lack of accountability or oversight, poor or weak leadership, absence of strategic management objectives, low level of professionalism or part-time administrators, risky or hasty decision-making or speculative transactions, partisanship or hostile ideology, adverse market conditions or economic downturns, and costly legal suits or judgments.

The case studies that utilized asset monetization as a response only recognized that two managerial category variables applied to their circumstances, which include inadequate financial planning and accounting or lack of diversification, and the “Other” factor category, which is indicated by the respondent to encompass staff incompetence that allowed for poor decision-making in connection with pension contracts and calculations. By far, the asset monetization case study responses noted the least amount of factors that may have influenced fiscal condition at the time of their assets were leased, but show that such fiscal distress could have been mitigated with additional planning and increased professionalism.

Debt financing case studies identified the next highest number of factors influencing fiscal distress, the most prevalent being the absence of strategic management objectives. Debt financing case study responses also identified intergovernmental structural changes increasing the burden or reducing its resources and population changes as influencing factors. The factors are equally indicative of managerial, political and economic variable categories.
Bankruptcy case studies identified the most factors influencing fiscal distress, the most dominant being poor or weak leadership, civic distrust and adverse market conditions or economic downturns. Bankruptcy case studies further recognized factors including absence of fiscal or debt management policy, financial mismanagement, corruption and public opposition or pressure for services. Accordingly, the factors unique to the bankruptcy case studies are primarily reflective of managerial and political variables as illustrated in Graph 3.

**Graph 3: Number of Factors Identified Based on Response**

![Graph 3](image-url)

Overall, the six respondents cited factors that were largely managerial in nature (19 of the 32 variables identified). Factors that were political and economic in nature accounted for the remaining variables identified as shown in Graph 4.

**Graph 4: Factors Identified by Category**

![Graph 4](image-url)
Factors by Characterization of Outcome

The case studies, whether characterized as successful or unsuccessful, identified a number of factors influencing fiscal distress. As shown in Graph 5, most of the factors identified by the three successful case respondents are managerial in nature (10 out of 14 variables identified by successful respondents), while only two factors each are characterized as political and economic variables. In unsuccessful cases, the three survey respondents identified mostly factors in the managerial category (9 out of the 18 variables identified by unsuccessful respondents), and twice as many political and economic variables (five and four, respectively) as the successful respondents. Accordingly, both successful and unsuccessful cases identified factors that were largely managerial (19 out of the 32 variables identified); however, the political and economic variable category factors are twice, or more, as prevalent for cases described as unsuccessful.

Graph 5: Factors Identified by Variable Category Between Outcomes

The Politics Stream Review Summary

Specific Document Review Summary

From the review of the specific documents, it is evident that the successful cases were experiencing a better fiscal condition than the unsuccessful cases. Central Falls had far less creditors, Allentown’s revenues and expenditures were balanced and the city achieved a positive
credit rating, and Boulder similarly obtained a high credit rating and minimally relied on sales taxes that were suffering based on the sluggish economy. On the other hand, Vallejo owed money to an increased number of creditors and ran significant fund deficits; Chicago likewise experienced a major deficit in its unrestricted net assets, high unemployment and relied on unpredictable amounts of intergovernmental revenue. Further, Scranton spent years in fiscal distress status under Act 47.

However, it is also clear from the review of the specific documents that the successful cases were more proactive than the unsuccessful cases. The City of Central Falls was aware of its dire fiscal position and made attempts to cut spending, reduce services, consider alternative solutions to address their condition and implemented financial policies. In addition, the City of Allentown thoughtfully deliberated its proposed solutions to mitigate its distress, listened to the concerns of its constituents, and negotiated favorable terms upon implementing its response. Finally, Boulder strategically tackled their fiscal problems with targeted approaches and instituted a number of plans and policies to improve its financial health.

Conversely, the unsuccessful cases made mistakes. Vallejo officials and staff failed to identify, take responsibility and address its distress. Vallejo also depleted its financial reserves and provided audits that contained misleading information about the City’s fiscal condition. Chicago failed to adequately negotiate the terms of its response to its distress and relinquished much of its revenues from, and control over, its parking meter system. Finally, Scranton leaders failed to cooperate, lacked trust in each other, and failed to develop solutions and alternatives to address the city’s poor finances.
Qualitative Analysis Summary

The qualitative data revealed the opinions and conclusions of six survey respondents from six different cities about their financial situation and context surrounding the utilization of a response to address their fiscal distress including bankruptcy, asset monetization or debt financing. About half of the survey participants, regardless of whether they were characterized as successful or unsuccessful cases, answered that they had policies in place regarding their financial management. Likewise about half of the survey participants, regardless of successful or unsuccessful designations, believed that their respective city’s taxes should have been increased, but that revenues were sufficient to operate and function, to pay obligations as they became due and payable and to provide for the general health and welfare of their constituents. Most respondents also believed that the services they provided to their citizens were adequate overall.

In addition, from the review of the surveys, of the factors present in each case, ten factors appear to be internal in nature and seven appear to be external. In addition, most respondents did not feel constrained in making fiscal decisions for their city. When respondents did feel constrained, they felt other levels of government and external officials, as well as the public, placed pressure on their fiscal decision-making.

Even though most respondents did not feel external constraints on their fiscal decision-making authority, only a few respondents felt they had immediate control of their city’s finances. These findings suggest that, despite the majority of respondents not believing they had immediate control over their city’s finances (or not knowing whether or not they in fact felt as if they had immediate control thereof), fiscal distress may primarily be a result, not of external influences, but of a local government’s internal capacity for dealing with its finances.
Further, asset monetization respondents identified the least number of factors as indicative of their city’s resulting fiscal position and bankruptcy respondents identified the most. Overall, most of the factors were managerial in nature, followed by political and closely thereafter, economic. Bankruptcy respondents identified factors that are primarily reflective of managerial and political variables, asset monetization respondents recognized managerial factors, and debt-financing respondents acknowledged factors are equally indicative of managerial, political and economic variable categories. Accordingly, economic variables were not identified or cited the least for two of the three responses.

In addition, both successful and unsuccessful cases identified factors that were largely managerial in nature; however, the political and economic variable category factors were identified as being twice, or more, prevalent by respondents in cases characterized as unsuccessful. This finding substantiates the specific document review indicating that unsuccessful cases experienced poorer fiscal condition and are impacted more so than successful cases by political and economic factors. Nonetheless, the findings still support that managerial factors and internal capacity play a more significant role in a local government’s fiscal condition.

Finally, unsuccessful case respondents identified their cities as being in poorer fiscal condition than the successful cases before, during and after their cities undertook their respective responses to address their fiscal condition. Despite this finding, almost all of the survey participants believed that their fiscal condition improved overall after they undertook bankruptcy, asset monetization or debt issuance.

**The Problem Stream: Quantitative Analysis**

4. Can municipal fiscal distressed be determined on the basis of measuring quantitative variables?
Hypothesis: Fiscal health can be measured and is a function of the fiscal condition measures presented in Table 5 through examining the degree or ratio variations of the indicators between fiscally distressed and fiscally healthy local governments.

Certain fiscal condition indicators included as the quantitative variables in this study vary drastically from year to year. In order to compare the differences in the indicators for each case since the inputs for each indicator differ based on case study (for example, revenues, as a component of certain indicators, is reflected in millions for Chicago and the thousands for Allentown), instead of using raw data, the percent changes from year to year were computed from the raw data. For example, rather than demonstrating that $1 million in revenues was received in year 1 and $1.5 million in year 2, the data is modified to reflect the percent change between the years or 50 percent, instead of the actual revenue figure. The following is an example of the formula used for the percent change calculation: \( \frac{\text{Year 2}}{\text{Year 1}} - 1 \).

Computing the percent change between two years of data results in the two data points from the two separate years being combined into one data point, or ‘New Variable 1’ as shown below. Accordingly, the new variable is not, for example, the computation of the City’s current assets over current liabilities for the year, but rather is the change or variation in the City’s current assets over current liabilities from year 1 to year 2.

**Table 6: Example Conversion of Raw Data to Percent Change Data**

<table>
<thead>
<tr>
<th>Raw Variable 1</th>
<th>City – Year 1</th>
<th>City – Year 2</th>
<th>City – Year 3</th>
<th>City – Year 4</th>
<th>City – Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.99</td>
<td>4.73</td>
<td>4.63</td>
<td>4.41</td>
<td>5.57</td>
</tr>
<tr>
<td>New Variable 1</td>
<td>City – Year 1</td>
<td>City – Year 2</td>
<td>City – Year 3</td>
<td>City – Year 4</td>
<td>City – Year 4</td>
</tr>
<tr>
<td></td>
<td>-5%</td>
<td>-2%</td>
<td>-5%</td>
<td>26%</td>
<td></td>
</tr>
</tbody>
</table>

By transforming the raw figures into data that reflect the percent change in the raw figures from year 1 to year 2, the data between cases can be synthesized. Otherwise, meaningful analysis between the raw figures is limited because the variation among the inputs for each case results in every indicator showing variation between cases regardless of significance. However,
the transformation of the data furthers this research by offering insight into the variation in the indicators in light of the responses to fiscal distress for each case and across cases. Accordingly, fiscal health can be measured through examining the variations of the indicators of local governments.

After the raw data for each indicator and case is transformed into percent change data between two continuous years, the mean and standard deviation of the percent change data for each indicator across cases are computed. The following Graphs 6 and 7 illustrate the comparison of the means and standard deviations between each indicator in each year across cases.

**Graph 6: Standard Deviations Across Indicators**

![Standard Deviations Across Indicators](chart1.png)

**Graph 7: Means Across Indicators**

![Means Across Indicators](chart2.png)
As shown above, fluctuations in the mean percent change and standard deviation percent change from year to year for certain indicators appears to be dramatic, by showing more than 50% variation in the Graph 7, and more than two standard deviations in Graph 6. Based on the graphs above, Table 7 below contains the indicators and their categories that display such major variations from year to year.

Table 7: Indicators and Categories with Major Variations

<table>
<thead>
<tr>
<th>All Cases</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Revenues available to satisfy liabilities (2)</td>
<td>• Revenues available to satisfy liabilities (2)</td>
<td>• Financial (Short-term) (2)</td>
</tr>
<tr>
<td></td>
<td>• Change in population (5)</td>
<td>• Change in population (5)</td>
<td>• Economic (5)</td>
</tr>
<tr>
<td></td>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
<td>• Financial (Long-term) (9)</td>
</tr>
<tr>
<td></td>
<td>• Debt service as percentage of revenues (10)</td>
<td></td>
<td>• Debt (10)</td>
</tr>
<tr>
<td></td>
<td>• Debt per capita (13)</td>
<td></td>
<td>• Financial (Prospective) (13)</td>
</tr>
<tr>
<td></td>
<td>• Income per capita (14)</td>
<td></td>
<td>• Financial (Prospective) (14)</td>
</tr>
<tr>
<td></td>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
<td>• Financial (Overall) (17)</td>
</tr>
<tr>
<td></td>
<td>• Change in net assets as percentage of total expenses (18)</td>
<td>• Change in net assets as percentage of total expenses (18)</td>
<td>• Financial (Overall) (18)</td>
</tr>
<tr>
<td></td>
<td>• Available resources to provide services for a certain number of days (19)</td>
<td>• Available resources to provide services for a certain number of days (19)</td>
<td>• Service Delivery (19)</td>
</tr>
<tr>
<td></td>
<td>• Percent increase in property taxes for every one percent decline in revenues (20)</td>
<td>• Percent increase in property taxes for every one percent decline in revenues (20)</td>
<td>• Revenue Risk (20)</td>
</tr>
<tr>
<td></td>
<td>• Intergovernmental revenues as a percentage of revenue (21)</td>
<td>• Intergovernmental revenues as a percentage of revenue (21)</td>
<td>• Revenue Risk (21)</td>
</tr>
<tr>
<td></td>
<td>• Percentage of delinquent taxes (23)</td>
<td></td>
<td>• Fiscal Capacity (23)</td>
</tr>
</tbody>
</table>
Because the mean percent changes can reflect positive or negative percentages for each indicator, the standard deviation of the percent changes may be considered in order to narrow down the indicators with meaningful variations. The mean is the average of the indicators across cases and is important in this study to understand the direction of the variables as either positive or negative, or increasing or declining. However, the means do not illustrate how much variation there is between the indicator data. Therefore, the standard deviations need to be studied as well. If the data are more similar, the standard deviations will be small, and if the data are more spread out, the standard deviations will be large. Accordingly, to determine which indicators are significant, the means of the indicators that vary by two standard deviations are considered below.

5. What fiscal distress indicators are present before and after a local government utilizes one of the three enumerated responses (bankruptcy, asset monetization, or debt issues)?

5i. Are certain indicators that reflect fiscal distress present in the fiscal year before, but not after, a local government utilizes one of the three enumerated responses?

Before the response, indicators 2, revenues available to satisfy liabilities, and indicator 18, change in net assets as a percentage of total expenses, reflect diminishing fiscal health until the response occurs, and then show signs of improving fiscal condition. This result does not mean that the cases have achieved fiscal health after the response, but only that the indicator suggests the cases overall were in a declining fiscal position in terms of revenues available to satisfy liabilities and had greater changes in net assets as a percentage of total expenses before, and until, the response was utilized.
From the first year, indicators 2 and 18 were relatively stable, then decreased significantly in year 2 during the response, and further in year 3, until showing a fair margin of improvement in year 4 after the response. These indicators illustrate distress, with regard to each indicator, is present before and during, more so than after, the response.

- Revenues available to satisfy liabilities (2)

- Change in net assets as percentage of total expenses (18)

For indicator 5, change in population, indicator 20, percent increase in property taxes for every one percent decline in revenues, and indicator 27, the degree to which the pension plan is funded annually, the opposite is true. The indicator variation increases significantly until year 2 for indicators 20 and 27, and until year 3 for indicator 5, at which time the indicator plummets, and then stabilizes by year 4, illustrating very little variation or a return to levels near year 1. For indicator 5, 20 and 27, year 4 illustrates that after the response, there is less variation in the indicator than before the response and further, that the indicator has stabilized from the preceding year or two. Less fluctuation in the indicators after response insinuates that the indicator, as a measure of fiscal distress, is generally present before but not after the response.
• Change in population (5)

• Percent increase in property taxes for every one percent decline in revenues (20)

• Degree to which pension plan is funded annually (27)

For indicator 19, available resources to provide services for a certain number of days, the percent change is initially negative in year 1 and increases each year until year 4, at which time it is positive. Positive changes in the variation in number of days there are available resources to provide services is a sign of a slowly recovering fiscal position. In this case, the indicator indicating distress is present before the response, and shows little variation after.
- Available resources to provide services for a certain number of days (19)

![Graph](image)

5ii. Are certain fiscal distress indicators present in the fiscal year after, but not before, a local government utilizes one of the three enumerated responses?

For indicator 9, percentage of net assets to be liquidated to satisfy liabilities, the indicator variation increases nominally until year 2, at which time the indicator decreases marginally after the response, before plummeting in year 4. For indicator 9, the indicator decreases dramatically. In other words, the variation increases dramatically in a negative direction after the response. Accordingly, this indicator illustrates that distress, with regard to this indicator, is present after, more so than before, the response for the cases studied.

- Percentage of net assets to be liquidated to satisfy liabilities (9)

![Graph](image)

5iii. Are the fiscal distress indicators similar across local governments before and after their respective particular response is utilized?

Indicator 17, unrestricted net assets as a percentage of annual revenue, shows an increase until year 2 during the response, followed by a decrease thereafter until year 3, and ending with
another increase in year 4. The result indicates that in the year after the response, the variation in the indicator decreased for a short time before varying to a greater degree again.

The opposite is true for indicator 21, intergovernmental revenues as a percentage of revenue, decreasing after the first year, then increasing after the response until year 3, then decreasing to stabilize in year 4. Accordingly, the variations in indicator 17 and indicator 21 do not appear to be affected by the response, or returned to a pre-response level of variation.

- Unrestricted net assets as percentage of annual revenue (17)

![Graph 17](image)

- Intergovernmental revenues as a percentage of revenue (21)

![Graph 21](image)

Hypotheses:

5a. The fiscal distress indicators found in local government data present before a method is applied will not be present after any particular response has been carried out in successful cases.

Between successful and unsuccessful cases, many indicators varied significantly by year. The mean percent change and the standard deviation percent change for each indicator from year to year that illustrated more than 50% variation in the means and more than two standard deviations is shown below in Graphs 8 through 11 below. The italicized indicators in the
successful row of Table 8 are unique to successful cases, and the italicized indicators in the unsuccessful row in Table 9 are unique to unsuccessful cases, respectively.

**Graph 8: Indicator Standard Deviation Across Successful Cases**

| Year   | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
|--------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Year 1 |   |   |   |   |   |   |   |   |   | 10 |    |    |    |    |    |    | 10 |    |    |    |    |    |    |    |    |    |
| Year 2 |   |   |   |   |   |   |   |   |   |    | 10 |    |    |    |    |    |    | 10 |    |    |    |    |    |    |    |    |    |    |    |
| Year 3 |   |   |   |   |   |   |   |   |   |    |    | 10 |    |    |    |    |    |    | 10 |    |    |    |    |    |    |    |    |    |    |    |
| Year 4 |   |   |   |   |   |   |   |   |   |    |    |    | 10 |    |    |    |    |    |    | 10 |    |    |    |    |    |    |    |    |    |    |

**Graph 9: Indicator Means Across Successful Cases**

| Year   | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
|--------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Year 1 |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Year 2 |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Year 3 |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Year 4 |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |

**Table 8: Indicators with Significant Means and Standard Deviations for Successful Cases**

<table>
<thead>
<tr>
<th>Successful Means</th>
<th>Standard Deviations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues available to satisfy liabilities (2)</td>
<td>Change in population (5)</td>
</tr>
<tr>
<td>Change in population (5)</td>
<td>Unrestricted net assets as percentage of annual revenue (17)</td>
</tr>
<tr>
<td>Debt service as percentage of revenues (10)</td>
<td>Change in net assets as percentage of total expenses (18)</td>
</tr>
<tr>
<td>Debt per capita (13)</td>
<td></td>
</tr>
<tr>
<td>Income per capita (14)</td>
<td></td>
</tr>
<tr>
<td>Unrestricted net assets as percentage of annual revenue (17)</td>
<td></td>
</tr>
<tr>
<td>Change in net assets as percentage of total expenses (18)</td>
<td></td>
</tr>
<tr>
<td>Available resources to provide services for a certain number of days (19)</td>
<td></td>
</tr>
</tbody>
</table>
- Percent increase in property taxes for every one percent decline in revenues (20)
- Intergovernmental revenues as a percentage of revenue (21)
- Percentage of assets not currently available (22)
- Percentage of delinquent taxes (23)
- Tax revenue as percentage of total revenue (24)
- Percent magnitude of unfunded liability as compared to annual payroll (26)
- Degree to which pension plan is funded annually (27)

- Available resources to provide services for a certain number of days (19)
- Percent increase in property taxes for every one percent decline in revenues (20)
- Percentage of delinquent taxes (23)
- Degree to which pension plan is funded annually (27)

Graph 10: Indicator Standard Deviation Across Unsuccessful Cases

Graph 11: Indicator Means Across Unsuccessful Cases
Table 9: Indicators with Significant Means and Standard Deviations for Unsuccessful Cases

<table>
<thead>
<tr>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Revenues available to satisfy liabilities (2)</td>
<td>• Revenues available to satisfy liabilities (2)</td>
</tr>
<tr>
<td>• Change in population (5)</td>
<td>• Change in population (5)</td>
</tr>
<tr>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
</tr>
<tr>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
</tr>
<tr>
<td>• Change in net assets as percentage of total expenses (18)</td>
<td>• Change in net assets as percentage of total expenses (18)</td>
</tr>
<tr>
<td>• Available resources to provide services for a certain number of days (19)</td>
<td>• Available resources to provide services for a certain number of days (19)</td>
</tr>
<tr>
<td>• Percent increase in property taxes for every one percent decline in revenues (20)</td>
<td>• Intergovernmental revenues as a percentage of revenue (21)</td>
</tr>
</tbody>
</table>

In sum, the successful cases had unique variations in its means for indicator 10, debt service as a percentage of revenues (debt variable category), indicator 13, debt per capita (financial – prospective variable category), indicator 14, income per capital (financial – prospective variable category), indicator 23, percentage of delinquent taxes (fiscal capacity variable category), indicator 24, tax revenue as percentage of total revenue (fiscal capacity variable category), indicator 26, percent magnitude of unfunded liability as compared to annual payroll (pension risk variable category), and indicator 27, degree to which pension plan is funded annually (pension risk variable category). In addition, the successful cases had unique variation in its standard deviations for indicator 20, percent increase in property taxes for every one percent decline in revenues (revenue risk variable category), indicator 23, percentage of delinquent taxes (fiscal capacity variable category), and indicator 27, degree to which the pension plan is funded annually (pension risk variable category).

The unsuccessful cases had unique variation in its means for indicator 9, percentage of net assets to be liquidated to satisfy liabilities (financial – long-term variable category). In
addition, the unsuccessful cases had unique variation in its standard deviations for indicator 2, revenues available to satisfy liabilities (*financial – short term variable category*), indicator 9, percentage of net assets to be liquidated to satisfy liabilities (*financial – long-term variable category*), and indicator 21, intergovernmental revenues as a percentage of revenue (*revenue risk variable category*).

The indicators as identified in the chart above for successful cases are present before and after any particular response is carried out. As evidenced by Graph 12 below, many of the indicators show less variation in year 4. This does not illustrate that the indicators are nonexistent towards year 4 and beyond, but only that the variation in the indicators decreases, or the indicator becomes more stable. In addition, there is a conspicuous directional change in the variations in the indicators at year 2 when the response was introduced.

**Graph 12: Means of Specific Indicators for Successful Cases**

5b. The fiscal distress indicators found in local government data present before a method is applied will be present after any particular response has been carried out in unsuccessful cases.

The indicators for unsuccessful cases, as identified in Table 9 above, are also present before and after any particular response is carried out. As evidenced by Graph 13, many of the
indicators show less variation in year 4, however, the indicators that showed less variation by year 4 also experienced less variation constantly throughout. In addition, two of the indicators show substantial variation. This may illustrate that the response did not address some of the distress indicators: here, indicator 9, percentage of net assets to be liquidated to satisfy liabilities, and indicator 19, available resources to provide services for a certain number of days, may have had little or no impact on the indicators with less variation throughout.

Unlike Graph 12 showing the successful cases above, for most of the indicators, the directional change in the variation thereof occur in year 2 and year 3. This may signify that the unsuccessful cases endured greater lag time before experiencing less variation within the indicators. It also suggests that the response utilized did not have a clear impact on the indicators.

Graph 13: Means of Specific Indicators for Unsuccessful Cases

![Graph showing means of specific indicators for unsuccessful cases]

5c. The distress indicators will be similar across local governments before, but not after, each respective case response is utilized.

After reviewing the data, the distress indicators are not identical across local governments before or after each respective case response is utilized as shown in Graphs 14 through 16 below. However, for the most part for each response, fluctuations show less variation after any response
is utilized. For each response, the variation in the indicators generally appears to diminish toward year 4, like the bankruptcy cases in Graph 14 below, but some indicators fluctuate in variation thereafter.

**Graph 14: Means of Specific Indicators for Bankruptcy Cases**

Most notable is the positive variation in indicator 19, available resources to provide services for a certain number of days, in the asset monetization cases in Graph 15, and the negative variation in indicator 9, percentage of net assets to be liquidated to satisfy liabilities, in the debt financing cases in Graph 16.

**Graph: 15: Means of Specific Indicators for Asset Monetization Cases**
The positive variation in indicator 19 for asset management cases shows that there is a significant increase in the number of days there are available resources to provide services, which is indicative of fiscal health. Conversely, the extreme negative fluctuation in the indicator for debt financing cases illustrates that an increasing amount of net assets would need to be liquidated in order to satisfy liabilities, which is indicative of fiscal distress.

**Graph: 16: Means of Specific Indicators for Debt Financing Cases**

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 5</td>
<td>Indicator 9</td>
<td>Indicator 18</td>
<td>Indicator 21</td>
</tr>
<tr>
<td>Indicator 23</td>
<td>Indicator 27</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. How does response utilization vary based upon the presence and degree of the fiscal health indicators?

6a. Hypothesis: The utilization of the particular response will relate to the severity of fiscal distress indicators.

Between responses, many indicators varied significantly by year. The mean percent change and the standard deviation percent change for each indicator from year to year that illustrated more than 50% variation in the means and more than two standard deviations is shown in Table 10, 11 and 12 below. The italicized indicators in the each response row are unique to that response.
### Table 10: Indicators with Significant Means and Standard Deviations for Bankruptcy Cases

<table>
<thead>
<tr>
<th>Bankruptcy</th>
<th>Standard Deviations (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Means (14)</td>
<td></td>
</tr>
<tr>
<td>• Revenues available to satisfy liabilities (2)</td>
<td>• Change in population (5)</td>
</tr>
<tr>
<td>• Change in population (5)</td>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
</tr>
<tr>
<td>• Debt service as percentage of revenues (10)</td>
<td>• Available resources to provide services for a certain number of days (19)</td>
</tr>
<tr>
<td>• Debt per capita (13)</td>
<td>• Percent increase in property taxes for every one percent decline in revenues (20)</td>
</tr>
<tr>
<td>• Income per capita (14)</td>
<td></td>
</tr>
<tr>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
<td>• Degree to which pension plan is funded annually (27)</td>
</tr>
<tr>
<td>• Change in net assets as percentage of total expenses (18)</td>
<td></td>
</tr>
<tr>
<td>• Available resources to provide services for a certain number of days (19)</td>
<td></td>
</tr>
<tr>
<td>• Percent increase in property taxes for every one percent decline in revenues (20)</td>
<td></td>
</tr>
</tbody>
</table>

### Table 11: Indicators with Significant Means and Standard Deviations for Asset Monetization Cases

<table>
<thead>
<tr>
<th>Asset Monetization</th>
<th>Standard Deviations (7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Means (13)</td>
<td></td>
</tr>
<tr>
<td>• Total assets over current liabilities (1)</td>
<td>• Revenues available to satisfy liabilities (2)</td>
</tr>
<tr>
<td>• Revenues available to satisfy liabilities (2)</td>
<td>• Change in population (5)</td>
</tr>
<tr>
<td>• Change in population (5)</td>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
</tr>
<tr>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
<td></td>
</tr>
<tr>
<td>• Debt service as percentage of revenues (10)</td>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
</tr>
<tr>
<td>• Debt per $100 of assessed value property (12)</td>
<td>• Change in net assets as percentage of total expenses (18)</td>
</tr>
<tr>
<td>• Debt per capita (13)</td>
<td>• Available resources to provide services for a certain number of days (19)</td>
</tr>
<tr>
<td>• Unrestricted net assets as percentage of annual revenue (17)</td>
<td></td>
</tr>
<tr>
<td>• Change in net assets as percentage of total expenses (18)</td>
<td></td>
</tr>
<tr>
<td>• Available resources to provide services for a certain number of days (19)</td>
<td></td>
</tr>
</tbody>
</table>
• Percent increase in property taxes for every one percent decline in revenues (20)
• Percentage of delinquent taxes (23)
• Degree to which pension plan is funded annually (27)

• Degree to which pension plan is funded annually (27)

Table 12: Indicators with Significant Means and Standard Deviations for Debt Financing Cases

<table>
<thead>
<tr>
<th>Debt Financing</th>
<th>Means (9)</th>
<th>Standard Deviations (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Revenues available to satisfy liabilities (2)</td>
<td>• Change in population (5)</td>
</tr>
<tr>
<td></td>
<td>• Change in population (5)</td>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
</tr>
<tr>
<td></td>
<td>• Percentage of net assets to be liquidated to satisfy liabilities (9)</td>
<td>• Change in net assets as percentage of total expenses (18)</td>
</tr>
<tr>
<td></td>
<td>• Change in net assets as percentage of total expenses (18)</td>
<td>• Intergovernmental revenues as a percentage of revenue (21)</td>
</tr>
<tr>
<td></td>
<td>• Percent increase in property taxes for every one percent decline in revenues (20)</td>
<td>• Percentage of delinquent taxes (23)</td>
</tr>
<tr>
<td></td>
<td>• Intergovernmental revenues as a percentage of revenue (21)</td>
<td>• Percent magnitude of unfunded liability as compared to annual payroll (26)</td>
</tr>
<tr>
<td></td>
<td>• Percentage of delinquent taxes (23)</td>
<td>• Degree to which pension plan is funded annually (27)</td>
</tr>
<tr>
<td></td>
<td>• Percent magnitude of unfunded liability as compared to annual payroll (26)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Degree to which pension plan is funded annually (27)</td>
<td></td>
</tr>
</tbody>
</table>

In sum, the bankruptcy cases had unique variations in their means for indicator 14, income per capita (financial – prospective variable category), indicator 22, percentage of net assets not currently available (fiscal capacity variable category), and indicator 24, tax revenue as percentage of total revenue (fiscal capacity variable category), and in its standard deviations for indicator 20, percent increase in property taxes for every one percent decline in revenues (revenue risk variable category).

The asset monetization cases had unique variations in their means for indicator 1, total assets over current liabilities (financial – short term variable category), and indicator 12, debt per $100 of assessed value property (financial – prospective variable category), and in its
standard deviations for indicator 2, revenues available to satisfy liabilities (*financial – short
term variable category*).

The debt financing cases had unique variations in their means for indicator 26, percent
magnitude of unfunded liability as compared to annual payroll (*pension risk variable category*),
and in its standard deviations for indicator 21, intergovernmental revenues as a percentage of
revenue (*revenue risk variable category*), and indicator 23, percentage of delinquent taxes (*fiscal
capacity variable category*).

**The Problem Stream: Quantitative Analysis Summary**

The quantitative data identifies a number of significant indicators for the cases studied.
The factors identified are indicative of most indicator categories including financial (short-term),
economic, financial (long-term), financial (overall), service delivery, revenue risk and pension
risk. As a whole, the indicators, which comprise these categories, are present more so before or
after any response is undertaken, and some are similar before and after such responses are
utilized.

For all cases, indicator 2, revenues available to satisfy liabilities, indicator 5, change in
population, indicator 18, change in net assets as a percentage of total expenses, indicator 19,
available resources to provide services for a certain number of days, indicator 20, percent
increase in property taxes for every one percent decline in revenues, and indicator 27, the degree
to which the pension plan is funded annually, are present and indicate distress before each
response is utilized.

Before the response, indicators 2 and 18 reflect diminishing fiscal health until the
response occurs in year 2, and then show signs of improving fiscal condition toward year 4. In
addition, for indicators 5, 20 and 27, the indicator variation increases significantly until year 2
for indicators 20 and 27, and until year 3 for indicator 5, at which time the indicator severely drops, and then stabilizes by year 4, illustrating very little variation or a return to levels near year 1. For indicator 5, 20 and 27, year 4 illustrates that after the response, there is less variation in the indicator than before the response, and further that, for indicator 19, available resources to provide services for a certain number of days, the indicator has stabilized from the preceding year or two. Accordingly, these indicators illustrate distress, with regard to each indicator, is present before, more so than after, the response.

For all cases, indicator 9, percentage of net assets to be liquidated to satisfy liabilities, is present and signifying distress after each response is utilized. For indicator 9, the indicator variation increases nominally until year 2, at which time the indicator decreases marginally after the response, before dramatically plummeting in year 4. Accordingly, the variation increases dramatically in a negative direction after the response. Accordingly, this indicator illustrates that distress, with regard to this indicator, is present after, more so than before, the response.

Finally, for all cases, indicator 17, unrestricted net assets as a percentage of annual revenue, and indicator 21, intergovernmental revenues as a percentage of revenue, are present and fluctuate in a similar manner before and after the response is undertaken. Indicator 17 shows an increase until year 2 during the response, followed by a decrease thereafter until year 3, and ending with another increase in year 4. The result indicates that in the year after the response, the variation in the indicator decreased for a short time before varying to a greater degree for a second time. The opposite is true for indicator 21, which decreases after the first year, then increases after the response until year 3, then declines again to stabilize in year 4. Accordingly, the variations in indicator 17 and indicator 21 do not appear to be affected by, and are similar before and after, the response.
For successful cases, the significant indicators illustrate less variation after the response is introduced and stabilize thereafter. For unsuccessful cases, most of the significant indicators stabilized toward year 4, while some continued to vary wildly thereafter. Most of the indicators that stabilized, however, illustrated less substantial variations before the response was utilized. Therefore, it is unclear whether the response had a considerable impact on the significant indicators in unsuccessful cases.

Further, the successful cases had unique variations in its standard deviations with regard to indicators that include taxes and pensions as a part of its computation. These indicators belonged to indicator categories including fiscal capacity and pension risk. On the other hand, unsuccessful cases had unique variations in its standard deviations in indicators with general revenues or net assets as a part of its calculation; the categories for which indicators include short- and long-term financial variables. Therefore, the successful cases may have experienced more specific problems with generating or collecting taxes or unwieldy pension obligations that affected their fiscal position, while unsuccessful cases had wider systemic financial issues.

Between bankruptcy, asset monetization and debt financing cases, the significant indicators appear to be consistent as to respective indicators and indicator categories, but do not appear to behave similarly across local governments before or after each respective case response is utilized. In general, however, fluctuations show less variation after any response is utilized toward year 4. Despite general stabilization, some indicators fluctuate significantly, including a positive variation in indicator 19, available resources to provide services for a certain number of days, indicating a degree of fiscal health in the asset monetization cases, and a negative variation in indicator 9, percentage of net assets to be liquidated to satisfy liabilities, indicating a degree of fiscal distress in the debt financing cases.
In addition, bankruptcy cases had unique variations in its means and standard deviations for indicators in financial – prospective, fiscal capacity and revenue risk indicator categories. Asset monetization cases had unique variations in indicators in financial – short term and financial – prospective categories, and debt financing cases showed unique variations in pension risk, revenue risk and fiscal capacity categories. Consequently, by response, each case experienced some common and unique fiscal distress indicators, but the differences in the unique indicator categories are not readily apparent.

Finally, of the indicators studied and identified, net assets, is perhaps the most significant piece of financial information identified herein as indicative of fiscal distress. Net assets constitute a component of three indicators identified as being significant and present before and after any responses are utilized. In addition, insufficient net assets are identified as problematic in audits of successful and unsuccessful cases, and are identified as significant indicators in successful and unsuccessful cases, as well as in each of the bankruptcy, asset monetization and debt financing cases. Indicator 9, which considers net assets, appears to be especially indicative of fiscal distress in debt financing cases. Thus, this observation implies that all municipalities concerned with their fiscal condition should pay close attention to their net assets.

**Chapter Summary**

This chapter presented the findings from the specific document review, and the qualitative and quantitative exploratory research questions, propositions and hypotheses posed in Chapter 3. The specific document review identified major differences between the successful and unsuccessful cases in overall general fiscal health prior to the response and the actions of their local government officials and staff in attempting to address the problem.
The qualitative analysis recognizes more external factors than internal factors in playing a role in fiscal condition. In addition, data suggest that while local government staff may not feel as if they have total control over their finances, they do not otherwise feel constrained by other levels of government, external government leaders or the public in making fiscal decisions. Further, the variables identified as problematic for municipal finances were predominately managerial in nature.

Finally, the quantitative analyses acknowledged the indicators that had significant variations in the cases studied. Some of these indicators are significant before and after each response, while other indicators do not appear to change depending on the response. The quantitative data suggests that more variation exists in the indicators between successful and unsuccessful cases, rather than between cases because of the response utilized. Following up on the analysis provided in this Chapter 4, Chapter 5 provides a more in depth comparison of the findings and recommendations for additional and future research.
CHAPTER 5: CONCLUSION

This exploratory study analyzed three particular responses utilized to address fiscal distress in the context of qualitative and quantitative fiscal condition variables and indicators encompassing the political, environmental, economic, social and financial context. The analysis presented of these variables and indicators is summarized in this chapter. First, insight is gleaned from the specific documents reviewed, followed by the qualitative data, then quantitative data. Finally, objectives for future research are recommended.

Integration of Findings and Streams

Specific Document Review Findings

From the specific document review, it is clear the data illustrate differences between successful and unsuccessful cases in terms of fiscal condition overall and approach to addressing financial problems surrounding the time each city undertook their respective responses in order to address its fiscal distress. The successful cities were better off financially during the time period surrounding their fiscal problems and the unsuccessful cases experienced a poorer fiscal environment overall. In addition, the successful cases were proactive in addressing their financial difficulties, while the unsuccessful cases revealed underlying mistakes that further exacerbated their distress. Table 13 below lists the differences between the successful and unsuccessful cases summarized above. The letters following each bullet point designate its applicability to each case (A = Allentown, B = Boulder, C = Chicago, CF = Central Falls, S = Scranton and V = Vallejo).

Table 13: Specific Document Review Summary

<table>
<thead>
<tr>
<th>Successful</th>
<th>Unsuccessful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better fiscal condition overall</td>
<td>Worse fiscal condition overall</td>
</tr>
<tr>
<td>• Less creditors (CF)</td>
<td>• More creditors (V)</td>
</tr>
<tr>
<td>• Balanced budgets (A)</td>
<td>• Ran deficits (V, C)</td>
</tr>
<tr>
<td>• High credit ratings (A, B)</td>
<td>• High unemployment (C)</td>
</tr>
<tr>
<td>• Less reliance on sales taxes (B)</td>
<td>• Relied on unpredictable intergovernmental revenue (C)</td>
</tr>
<tr>
<td></td>
<td>• Years in distressed status (S)</td>
</tr>
</tbody>
</table>
Based on Table 13 above, the unsuccessful cases failed to do most of the things that the successful cases did. They depleted reserves and failed to identify their fiscal problems, take responsibility their situation, and develop solutions. Cases characterized as unsuccessful did not negotiate favorable deals or contract terms with third parties, and lacked cooperation and trust between city administrators and/or officials. One unsuccessful case prepared a misleading audit. Altogether, the wide variety of mistakes on the part of unsuccessful cases signifies a serious widespread problem with their city finances and dysfunction in their general operations.

**Qualitative Case Study Findings**

While the specific document review revealed stark differences between successful and unsuccessful cases, the qualitative portion of the study did not in some contexts. For example, Graph 17 below reveals that the unsuccessful cases had formal financial policies in place with regard to financial issues more so than successful cases. This finding is at odds with the specific document review above illustrating that only successful cases implemented polices.
The qualitative data did not reveal a contrast between successful and unsuccessful cases in whether or not the level of services provided by the city to citizens, or the level of taxes imposed on its citizens, were adequate during the time of the response taken to address fiscal distress. Two successful case respondents and two unsuccessful case respondents believed that their city’s services were adequate overall; one respondent from a successful case indicated that some services should have been increased, while other services should have been decreased, and one respondent from an unsuccessful case recognized that services to citizens should have been increased overall. This is consistent with the specific document review in that it uncovered that Central Falls reduced services to improve their fiscal condition.

Further, each successful case participant provided a different response as to whether their city’s level of taxes was sufficient. Successful respondents indicated that the level of taxes imposed on city residents was adequate, should have been increased and should have been decreased, respectively. Two unsuccessful case respondents said that taxes should have been increased, while one unsuccessful respondent did not know whether or not taxes were adequate, should have been increased, or should have been decreased. The result that unsuccessful
respondents determined that the level of taxes should have been increased is consistent with the specific document review in that the unsuccessful cases were worse off in terms of fiscal condition overall and needed to generate more tax revenue.

Similarly, the qualitative data did not show that there were major differences between successful and unsuccessful cases in the sufficiency of revenues during the time of the response. As illustrated below in Graph 18, two of the three successful case respondents said that revenues were sufficient to operate and function and provide for the general health and welfare of city residents, but insufficient to pay the city’s obligations as they became due and payable. One successful case respondent said that revenues were insufficient to operate and function and for the general health and welfare of the city, but were sufficient to pay obligations as they became due and payable.

Alternatively, two of the three unsuccessful case respondents believed that revenues were insufficient to operate and function, pay obligations as they became due and payable and to support the general health and welfare of the city. One unsuccessful case respondent answered that revenues were sufficient for such purposes.

Additional research could provide more insight into whether there are significant differences between the sufficiencies of revenues dedicated to certain purposes. In this research, it appears that the three unsuccessful cases are slightly worse off in terms of revenues than three successful cases were, but more data is needed to substantiate such findings.
The qualitative data is consistent with the specific document review with regard to overall fiscal condition. When asked to identify their fiscal condition before, during and after the response is undertaken to improve their fiscal condition, the three unsuccessful case respondents identified a poorer outlook of their fiscal condition in general than their three successful counterparts did. This finding is demonstrated in Graph 19 below.

**Graph 19: Fiscal Condition Surrounding Response - Successful and Unsuccessful Cases**
Despite the findings on fiscal condition surrounding the responses in Graph 19 above, almost all survey respondents (N=5; 83.3%), regardless of whether they were identified as successful or unsuccessful cases, believed that their fiscal condition improved after their respective response was undertaken to address fiscal distress. One unsuccessful case did not. This finding shows that despite the level or severity of fiscal distress before, during and after the responses, the attempt by the city to address its financial problems is perceived to have improved the fiscal condition of the city overall.

Finally, the finding also indicates that the particular response, be it bankruptcy, asset monetization or debt financing, may not specifically be as crucial in addressing fiscal distress as the local government’s act of undertaking any method or approach. In other words, any thoughtful or deliberate response by a municipality may be deemed to have a positive impact on fiscal condition from an administrator’s perspective. The fact that each city is responding to the problem with any method or approach also shows that the city realizes there are financial issues that need to be addressed and is thinking about ways to resolve them. Perhaps it is less about the response, and more about the city’s ability to implement any response, its internal capacity to strategically consider alternatives and understand and execute deliberated courses of action, which affects financial condition.

Quantitative Case Study Findings

Consistent with the qualitative findings, the quantitative data reveals that there may not be an impact from the response utilized on the indicators for unsuccessful cases; however, additional cases need to be studied for longer periods of time after such responses are undertaken to confirm this finding. If the indicators are not impacted by the response utilized, then it follows
that the response did not address the fiscal distress, or at least affect the indicators in any discernable way that are determined to be significant in signifying fiscal distress.

Between bankruptcy, asset monetization and debt financing cases, the significant indicators appear to be consistent as to respective indicators and indicator categories identified, but do not appear to behave similarly across local governments before or after each respective case response is utilized. The two bankruptcy cases had unique variations in its means and standard deviations for indicators in financial – prospective, fiscal capacity and revenue risk indicator categories.

Further, the two asset monetization cases had unique variations in indicators in financial – short term and financial – prospective categories, and the two debt financing cases showed unique variations in pension risk, revenue risk and fiscal capacity categories. Consequently, by response, each case experienced some common and unique fiscal distress indicators, but the differences in the unique indicator categories do not appear to be noteworthy, or are unclear due to the small sample size.

For the three successful cases, the significant quantitative indicators illustrate less variation after the response is introduced. For the three unsuccessful cases, some indicators appear to be affected by the response during the response and a year after the response. This may mean that in the unsuccessful cases, there was a time lag after the response before the indicators stabilized. It may also mean that the indicators continued to vary significantly after the years outside of the scope of the research. Finally, the data may suggest that the response did not have a clear impact on the indicators or, in other words, address the problem of fiscal distress.

Further, the three successful cases had unique variations in their standard deviations with regard to indicators that include taxes and pensions as a part of their respective computations.
These indicators belonged to indicator categories including fiscal capacity and pension risk. On the other hand, the three unsuccessful cases had unique variations in its standard deviations in indicators with general revenues or net assets as a part of their calculations; the categories for which indicators include short- and long-term financial variables. Therefore, the three successful cases may have experienced more specific problems with generating or collecting taxes or unwieldy pension obligations that affected their fiscal position, while the three unsuccessful cases had greater or more ubiquitous financial issues.

Lastly, the above quantitative finding is fairly consistent with the specific document review. The three successful cases addressed fiscal distress with targeted proactive approaches, which suggests they encountered specific fiscal problems. Successful cases cut spending, reduced services, considered alternatives, implemented policies, listened to public concerns and negotiated favorable terms in contracts. The three unsuccessful cases did not take similar actions and their quantitative indicators illustrate more generic imbalances in indicators that include revenues and net assets components.

**Important Indicators and Variables**

The quantitative data suggests that financial (short-term), economic, financial (long-term), financial (overall), service delivery, revenue risk and pension risk indicators should be studied more closely. As a whole, the indicators, which comprise these categories, are present more so before or after any response is undertaken, and some are similar before and after such responses are utilized. These specific indicators include:

- revenues available to satisfy liabilities;
- change in population;
- change in net assets as a percentage of total expenses;
- available resources to provide services for a certain number of days;
- percent increase in property taxes for every one percent decline in revenues; and
- the degree to which the pension plan is funded annually
When compared to the qualitative data as a whole, all six respondents identified factors that contributed to their distress. While the factors are mostly managerial in nature, the specific factors identified by respondents include:

- Inadequate financial planning / accounting / no diversification
- Disregard or negligence
- Lack of Accountability / oversight
- Poor / weak leadership
- Absence of fiscal or debt management policy
- Absence of strategic management objectives
- Financial mismanagement
- Low level of professionalism / part-time administrators / staff competence
- Risky or hasty decision-making / speculative transactions
- Partisanship / hostile ideology
- Corruption
- Civic distrust
- Public opposition / pressure for services
- Intergovernmental structural changes increasing burden or reducing resources
- Adverse market conditions / economic downturns
- Costly legal suits / judgments
- Population changes

The only three qualitative factors that were listed that no respondents checked are:

- Poor, uneducated and unemployed or low-wage population;
- Crippling natural or man-made disasters; and
- None of the above.

Between successful and unsuccessful cases in the qualitative portion of the research, there are no clear assumptions that can be made from the differences in the variables identified. The three unsuccessful case respondents identified a higher number of qualitative variables as contributing to the city’s fiscal distress, but in general, all respondents identified variables that were mostly managerial in nature, even though the three unsuccessful case participants identified slightly more political and economic variables as contributing to their fiscal distress than the successful case participants did.

Graph 20 below illustrates the difference in factors identified between the three successful and three unsuccessful case respondents. Out of the 34 total factors identified by
survey participants, the two bankruptcy respondents identified 19 factors, the two asset monetization respondents identified two factors, and the two debt financing respondents identified 13 factors that contributed to their respective fiscal distress.

**Graph 20: Factors Influencing Fiscal Condition - Successful and Unsuccessful Cases**

![Factors Influencing Fiscal Condition

Successful Unsuccessful]

Like the specific document review, the qualitative data reveals that one unsuccessful case respondent identified intergovernmental reliance as a factor contributing to their fiscal condition. More so than unsuccessful case respondents, successful case respondents (N=2; 67.7%) found that absence of strategic management objectives and adverse market or economic conditions were factors surrounding their financial situations. Unsuccessful case participants (N=2; 67.7%) detected factors including inadequate financial planning, poor/weak leadership, partisanship or hostile ideology and costly legal suits or judgments more so than their successful counterparts did. This finding is consistent with the specific document review that revealed that the unsuccessful cases made mistakes in failing to take responsibility, identify their problems, negotiate and cooperate internally, and otherwise operated in an environment of mistrust.
Population change is the only variable explicitly common in both the quantitative and qualitative findings; however, the quantitative indicators may more likely be the result of the some of the qualitative factors identified by respondents that contribute to fiscal distress. For example, the quantitative indicators such as the degree to which the pension plan is funded annually and changes in net assets from year to year, may be the result of any combination of qualitative factors including financial mismanagement, inadequate planning or costly legal suits.

Likewise, in connection with the specific document review, the differences identified between successful and unsuccessful cases including number of creditors, reliance on taxes or specific revenues, balancing budgets, maintaining reserves and reducing spending could all be indicated by the ratios of significant quantitative indicators such as the level of revenues to satisfy liabilities or available resources to provide services for a certain number of days. Nonetheless, more research is needed to make more definitive assumptions about any connections between the qualitative factors and specific quantitative indicator ratios.

Finally, of the quantitative indicators studied and identified, net assets, is perhaps the most significant piece of financial information identified herein as being indicative of fiscal distress. Net assets constitute a component of three separate quantitative indicators identified as being significant and present before and after any responses were utilized in the quantitative research.

In addition, insufficient net assets are identified as problematic in audits of both successful and unsuccessful cases, and as significant quantitative indicators in both successful and unsuccessful cases, as well as in each of the bankruptcy, asset monetization and debt financing cases. Indicator 9, which considers net assets, appears to be especially indicative of
fiscal distress in debt financing cases. Accordingly, municipalities concerned with their fiscal condition should consider their net assets when gauging their fiscal health.

The qualitative factors identified most by all participants, whether successful or unsuccessful, include inadequate financial planning, poor or weak leadership, absence of strategic management objectives and adverse market conditions or economic downturns. In the specific document review, it is clear that unsuccessful cases experienced a poorer fiscal condition overall than successful cases, and that the successful cases were better at proactively and deliberately addressing their problems than the unsuccessful cases. Accordingly, unsuccessful cases may be embedded with wider organizational, political and cultural problems than successful cases are.

**Additional Research**

Further research is necessary in order to validate the exploratory research presented herein. Only six cases were reviewed in this study and additional cases need to be included in a larger study to determine if the results of this research are applicable to a broader range of municipalities. The differences in the data between successful cases and unsuccessful cases are more significant than the differences in the data between response utilization. Accordingly, further attention should be given to identifying cases to include for study that have been noted to be either successful or unsuccessful to determine if there are additional characteristics or actions of successful cases that other local governments can emulate or implement.

Further, while the case study approach is intended to provide insight into the environment in which local governments address fiscal distress, the scope of the case studies are constrained by the analysis of two cases for each of the three responses. Whereas specific case examination may provide useful data pertaining to the effect of numerous societal, managerial and external
factors of fiscal distress, such information will yield conclusions from each local government’s unique situation of limited generalizability, which may not be applicable to other cases of municipal bankruptcy, asset monetization or debt issues. Therefore, less attention should be given to choosing cases to be studied based on response. Instead, successful and unsuccessful cases and the differences therein, regardless of response, should be considered in future research.

Despite the foregoing limitations, the goal of this research is not to generalize precise variables, but rather identify themes in the data that warrant further review. Consequently, additional research is necessary to better understand the role of net assets in fiscal distress, as well as the impact of a local government’s internal and managerial capacity on fiscal condition. In addition, a larger sample size of successful and unsuccessful cases needs to be studied in order to uncover the differences in the pursuits, activities and conduct of successful and unsuccessful cases that may be used or avoided to mitigate fiscal distress on a broader level.

Chapter Summary

This chapter summarizes the case analyses in Chapter 4 of the specific documents reviewed, the qualitative data and the quantitative data. In addition, recommendations for additional research are presented. From the review above, there are a number of prominent conclusions. First, while each successful and unsuccessful case experienced financial setbacks, the successful cases maintained a healthier fiscal position prior to utilizing its response. In addition, the successful cases showed initiative to improve their fiscal condition and made fewer missteps or oversights in connection with their finances than the unsuccessful cases did.

Second, as noted in the qualitative review, survey respondents did not feel that, or did not know if, they had immediate control of their finances, but as a whole, did not feel constrained by other levels of government, external officials or the public. In addition, the factors identified by
the respondents were more internal and managerial in nature and the economic variable category was recognized the least. However, the political and economic variable category factors were identified as being twice, or more, prevalent by respondents in cases characterized as unsuccessful. This may illustrate that when local governments are experiencing a declining fiscal position or are in fiscal distress as were the unsuccessful cases, economic and political variables may have more of an impact on their finances.

Finally, from the quantitative review, a number of indicators were identified as being significant in the cases studied. Some of these indicators are present more so either before or after each response is undertaken, while others do not appear to change based upon the response. For successful cases, the significant indicators illustrate less variation after the response. The successful cases may have experienced more specific tax and pension problems, which their response directly addressed. Alternatively, it is unclear whether the responses had an impact on the significant indicators in unsuccessful cases. In addition, unsuccessful cases may have had wider financial issues that no one response alone could address.

Between bankruptcy, asset monetization and debt financing cases, the significant indicators appear to be consistent as to respective indicators and indicator categories, but do not appear to fluctuate similarly across local governments before or after each respective case response is utilized. Accordingly, by response, each case experienced both similar and unique fiscal distress indicators, but the differences in the unique indicators do not appear to be remarkable. Finally, net assets were repeatedly noted in the data analysis and review. Accordingly, additional consideration should be given to net assets in future research and further, by local governments who may be troubled by their fiscal condition.
REFERENCES


——— (1994b). “Statement No. 27, Accounting for Pensions by State and Local Employers.” Governmental Accounting Standards Board, Norwalk, CT.

——— (1999). “Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments.” Governmental Accounting Standards Board, Norwalk, CT.


APPENDIX A: SURVEY QUESTIONS

Please answer all of the questions based on your recollection of the two (2) years prior to and the two (2) years following the local government's [response] on [response date].

1. At the time of the [response], did the local government have financial policies or procedures in place, formal or informal, regarding debt management, taxation, investment and/or spending?

<table>
<thead>
<tr>
<th></th>
<th>Yes, formal</th>
<th>Yes, informal</th>
<th>No</th>
<th>No, but we do now</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spending</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

If yes, or if there are/were other financial-related policies and/or procedures, please describe.

2. In your opinion, at the time of the [response], was the level of services provided by the local government to citizens adequate? Should services have been increased or decreased?
   o Services were adequate overall.
   o Services should have been increased overall.
   o Services should have been decreased overall.
   o Some services should have been increased and others decreased.
   o I don't know.
   Why or why not?

3. In your opinion, at the time of the [response], was the level of revenues received by the local government sufficient to operate and pay obligations due and payable by the local government, and generally provide for the health, safety and welfare of the citizens?

<table>
<thead>
<tr>
<th></th>
<th>Sufficient</th>
<th>Insufficient</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>To operate and function?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To pay obligations due and payable?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To provide for health, safety and welfare?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Can you think of any other essential governmental functions for which you believed revenues were sufficient or insufficient?

4. In your opinion, at the time of the [response], was the level of taxes imposed by the local government on its citizens adequate? Should taxes have been increased or decreased?
   o Taxes were adequate.
   o Taxes should have been increased.
   o Taxes should have been decreased.
   o I don't know.
Why or why not?

5. How would you characterize the fiscal condition of the local government before, during and after the [response]?
   
   Before
   - Very Poor
   - Poor
   - Fair
   - Good
   - Very Good
   Please describe the local government’s fiscal position at that time?
   
   During
   - Very Poor
   - Poor
   - Fair
   - Good
   - Very Good
   Please describe the local government’s fiscal position at that time?
   
   After
   - Very Poor
   - Poor
   - Fair
   - Good
   - Very Good
   Please describe the local government’s fiscal position at that time?

6. After the [response], do you think the local government’s fiscal condition improved, stayed the same or worsened?
   - Improved
   - Stayed the same
   - Worsened
   In your opinion, prior to the [response], was the local government experiencing symptoms of poor fiscal health? If yes, for how long?

7. In your opinion, at the time of the [response], what were the most important factors (qualitative or quantitative) influencing the local government’s fiscal management and financial position? Please check all that apply.
- Inadequate financial planning / accounting / no diversification
- Disregard or negligence
- Lack of Accountability / oversight
- Poor / weak leadership
- Absence of fiscal or debt management policy
- Absence of strategic management objectives
- Financial mismanagement
- Low level of professionalism / part-time administrators
- Risky or hasty decision-making / speculative transactions
- Partisanship / hostile ideology
- Corruption
- Civic distrust
- Public opposition / pressure for services
- Intergovernmental structural changes
- Increasing burden or reducing resources
- Adverse market conditions / economic downturns
- Costly legal suits / judgments
- Population changes
- Poor, uneducated and unemployed or low-wage population
- Crippling natural or man-made disasters
- Other
- None of the above

Can you provide any other factors or examples that reflect your opinion?

8. At the time of the [response], did you feel constrained by other levels of government, outside public officials, or the public in making fiscal decisions? Did you feel that you had immediate control of the local government’s fiscal direction and finances?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>Somewhat</th>
<th>No</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constrained by other levels of government?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constrained by outside public officials?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constrained by internal government administrators?</td>
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<tr>
<td>Constrained by the public?</td>
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<tr>
<td>Immediate control over fiscal direction?</td>
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<td></td>
</tr>
<tr>
<td>Immediate control over finances?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Can you think of any other internal or external impediments to fiscal decision-making at the time?

9. Can you identify any additional strategies or actions that the local government has taken to help improve local finances? In your opinion, what else could have been done to help improve the local government’s fiscal condition or maintain good fiscal health?

10. Is there anything else, or other insight, that you think I should know of or that I’ve missed in the foregoing questions regarding the [response] and the fiscal condition of the local government?
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