THE PEW CHARITABLE TRUSTS

The State Role in Local Government Financial Distress

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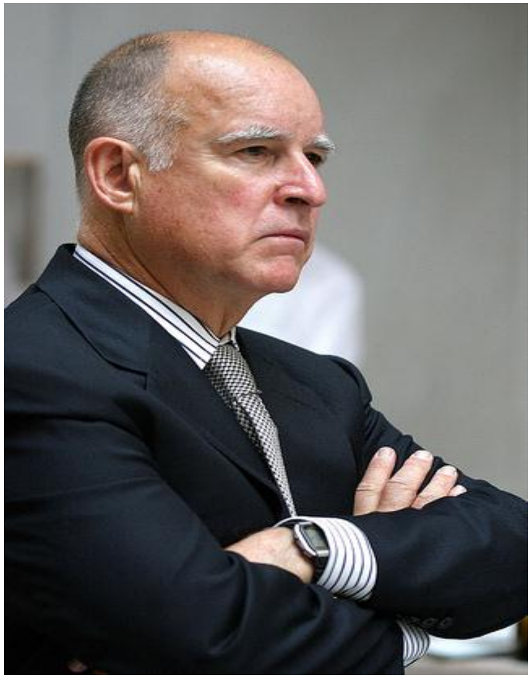


California Gov. Brown

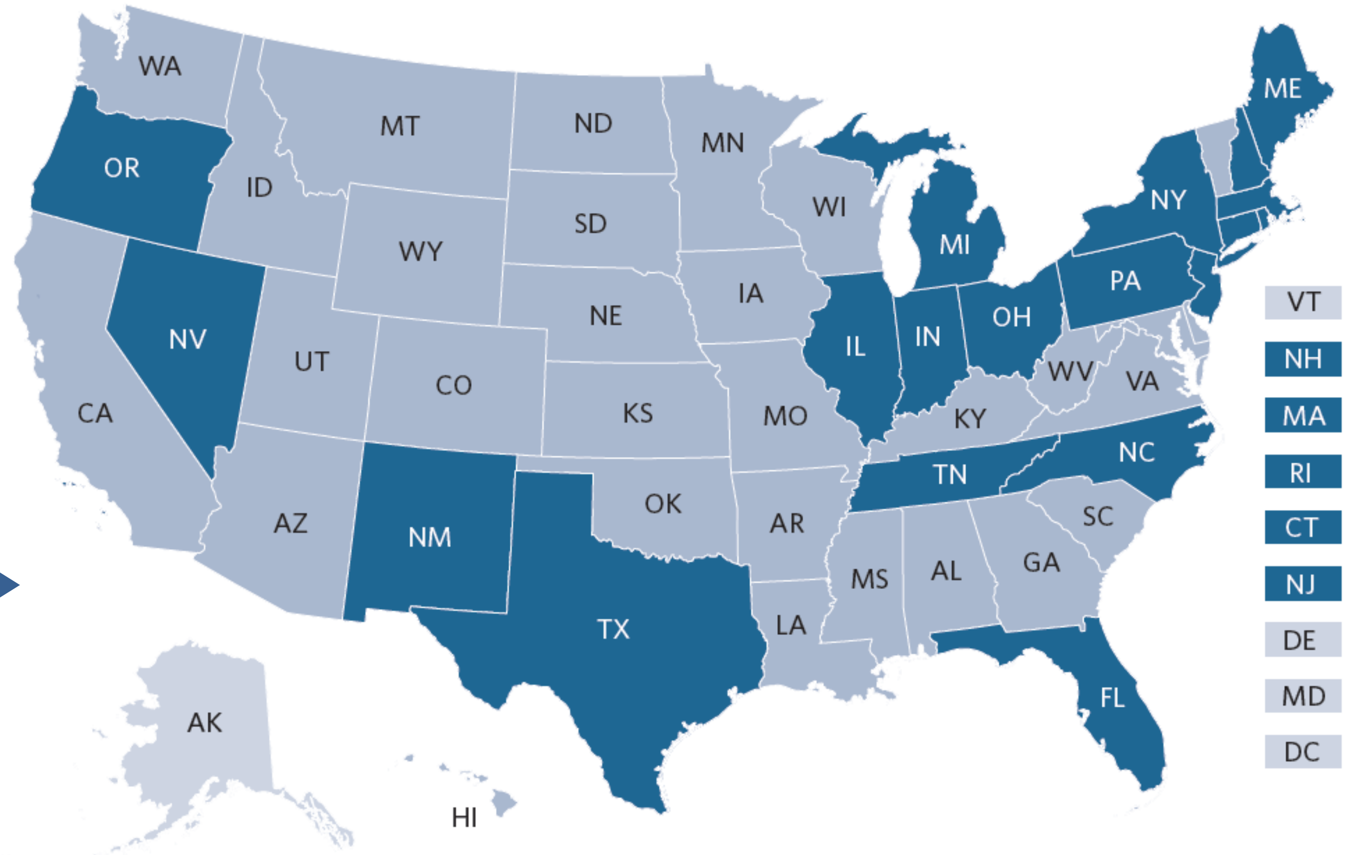
Alabama Gov. Bentley

Michigan Gov. Snyder

Key Findings: The Big Picture

19

states have laws allowing them to intervene in distressed localities.



States with local intervention laws in place

State by State Variations

- **Alabama** and **California** historically take a hands-off approach to assisting cities.
- **New Jersey** offers grants to distressed cities but because of budget cuts has had to be more strategic about aid.
- **Rhode Island** recently strengthened its intervention program after the Central Falls bankruptcy.
- **Michigan** and **Pennsylvania** have strong state intervention programs, with mixed results.
- **North Carolina** emphasizes state-level monitoring of local government finances.

Key Findings

- **Nineteen states have enacted laws allowing the state government to intervene in a city, town, or county financial crisis.** These laws were approved to provide an alternative to filing for bankruptcy or to prevent cities from filing.

- **Some states are more aggressive than others when they step in to help.** Michigan, North Carolina, Pennsylvania, and Rhode Island are among the states with the most extensive assistance programs. Alabama and California are among those without programs. Connecticut, New York, and Massachusetts decide the level of involvement on a case-by-case basis, depending on the severity of a city's financial emergency. Some states have not set up intervention programs because their cities have not experienced the same level of stress as those in other states.

- **Intervention practices vary among the states that have them.** States first designate an intervenor: a receiver, emergency manager, state agency head, or financial control board. Depending on the state, the intervenor is allowed to choose among restructuring debt and labor contracts, raising taxes and fees, offering state-backed loans and grants, providing technical advice, and even dissolving the local government.

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Key Findings

- **It is rare for a local government to seek bankruptcy protection from a court.** Despite the recent wave of publicity about bankruptcies in places such as Detroit, Stockton, Calif. and Jefferson County, Ala., of the nation's 55,000 municipal governments that sell bonds, fewer than 10 file for bankruptcy each year. A filing usually has a single identifiable cause: a bad investment decision (Orange County, Calif.); a failed infrastructure project (Jefferson County, Ala., and Harrisburg, Pa.); an expensive legal decision (Mammoth Lakes, Calif.); or escalating public pension costs (Central Falls, R.I.). State and city officials want to avert bankruptcies for several reasons, including the fact that the stigma of receivership and a state takeover can remain for years and increase borrowing costs for capital projects such as roads, parks, and public buildings.

- **Local governments often accept state intervention begrudgingly.** Several Michigan cities have pushed back against what they consider to be state interference. This organized resistance culminated with the November 2012 defeat by state voters of the mandatory emergency manager system. Michigan replaced that top-down structure with one that allows local officials to decide their fates by choosing among several options. But resentment remained when, in March, 2013, Governor Rick Snyder appointed an emergency manager to take over the day-today operation of Detroit. Despite the emergency manager, the city filed for bankruptcy protection in July, 2013.

Pew's Proposed Solutions

1. States and cities should be more proactive in detecting local government fiscal distress through state oversight and offering technical advice.

2. States and cities should adopt multi-year budgets to better manage finances.

3. States should design intervention programs to involve all stakeholders in the solution, and return control to local officials quickly.

4. Not every state has the resources to finance an intervention program or offer cities direct aid. Policymakers must use resources strategically.

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Find the report at:
http://www.pewtrusts.org/our_work_report_detail.aspx?id=85899492099