



Virginia House Appropriations Committee

State Approaches to Distressed Cities and Recommendations for the Commonwealth



PFM Group Consulting LLC
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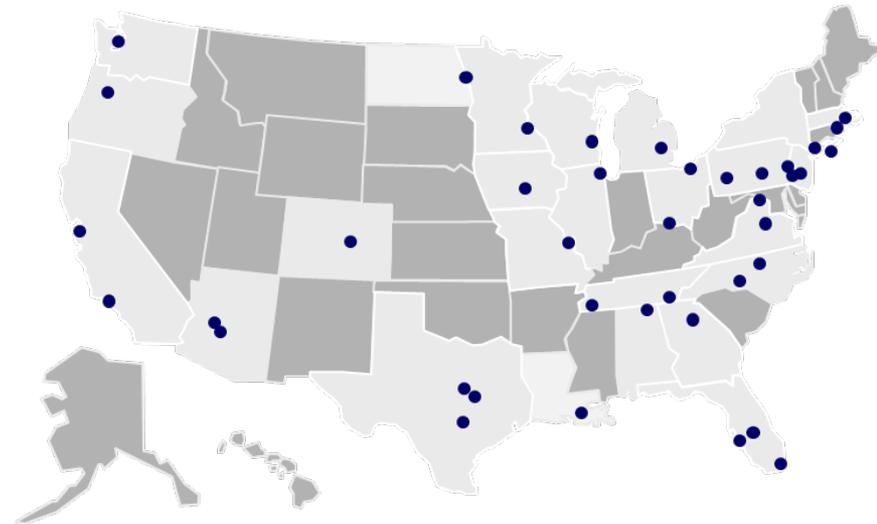
Presentation Outline

- I. PFM Background
 - II. State Approaches to Distressed Cities
 - III. Application to the Commonwealth
 - IV. Recommendations
 - a. Identifying Indicators of Fiscal Distress
 - b. Providing Technical Assistance
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PFM Overview

- PFM was founded in 1975 on the principle of providing sound, independent financial advice to state and local governments.
- Today the PFM Group includes Public Financial Management, Inc. the nation's leading financial advisory firm, PFM Asset Management, LLC, an SEC-registered investment advisor, and PFM Group Consulting, LLC, which provides management and budget consulting to state and local governments.
- The PFM Management and Budget Consulting group is a dedicated team of experienced professionals focused on the unique challenges of financial management in the public sector, with services including:
 - Program and Performance Evaluation
 - Local Government Fiscal Recovery
 - Workforce Consulting
 - Economic Development and Incentives Design
 - Inter-governmental Relationships and Programs

PFM has over 600 professionals located in 40 locations nationwide



State Approaches to Distressed Cities: Overview

- Origins of the State and Local Government Relationship
- Dillon's Rule versus Home Rule
- State Authority Related to Local Government Bankruptcy
- Commonwealth's General Approach

Other State Approaches and Programs

General State Approaches to Address Local Government Fiscal Distress:

- Reporting and Monitoring
- Assistance
- Oversight
- Control

Reporting and Monitoring

- Most Basic Approach is Local Reporting of Budget or Other Financial Information
 - 22 states have a formal process for monitoring and regularly reviewing financial information
 - 15 states have statutes that define local fiscal distress
 - There is a wide variety of reporting structures (who reports, to whom, and what)
- Examples
 - Georgia Department of Community Affairs reviews local government budgets and financial management decisions on an annual basis
 - Louisiana's Legislative Auditor developed an early warning system to flag local governments headed toward fiscal distress
- In Many States, Reporting and Monitoring is a First Step in a State Continuum of Response

Assistance

- Split between Technical and Financial Assistance and Pro-active and Reactive Approaches
- Examples
 - Pennsylvania Early Intervention Program seeks to address problems before they become severe by providing technical assistance
 - New York's Financial Restructuring Board for Local Governments can provide a comprehensive financial review and recommendations, as well as grants or loans to implement recommendations
 - Nevada's Committee on Local Government Finance provides technical assistance on budgets, contracts, spending and debt management to avoid more serious state intervention
 - New Jersey provides transitional aid to assist cash-strapped cities
- As with Monitoring, Some States Use Assistance as a Part of a Continuum that May Lead to More Intrusive State Action

National Resource Network

- Strong Cities, Strong Communities Initiative Designed to Assist Economically Challenged Cities
 - Coordinates federal programs to spark economic growth in distressed areas and create stronger cooperation among federal and local government and community leadership
 - National Resource Network (NRN) is a component - \$10 million technical assistance program funded by HUD
 - PFM is a key partner and David Eichenenthal serves as the NRN Executive Director
- National Resource Network
 - Worked with over 50 economically challenged cities nationally (including Danville)
 - Focused on a range of challenges by providing assistance with workforce development, downtown revitalization, community development and house, education, public safety, municipal budgeting and operations
 - Assistance varies depending on the level of distress and local capacity
- Evolution of State Resource Network Programs
 - Massachusetts developed state funded version
 - Other states are considering similar program

National Resource Network Examples

- Richmond, California: The City risked continued credit downgrades and was unable to address other pressing needs such as affordable housing. City leadership partnered with the Network to craft a five-year financial plan to enable this Bay Area city to better leverage its economic and geographic strengths. Mayor credits the Network's activities and counsel with helping the City avoid junk bond status.
- Providence, Rhode Island: The Network team worked with City leadership to develop a 10-year financial plan to balance budgets and provide for key investments in education, neighborhoods and infrastructure. To build broad support for the plan's continued implementation, the Network worked with the City to bring community stakeholders into the process, including colleges and universities, business organizations, nonprofits, and foundations. The City is now moving forward with implementation of the plan. In November 2016, Fitch upgraded its rating of City debt based on "improved budget practices."

National Resource Network

“The recommendations by NRN, a public-private consortium that is a component of the ... Strong Cities, Strong Communities initiative, could serve as a template for action for just about any fiscally struggling local government.” – Charles Chieppo, Governing, September 19, 2016

- Danville, Virginia: Network assessment indicated that the City already has strong fiscal policies in place. Key to long term fiscal health was to increase economic competitiveness. Network deployed a team to work with City and local philanthropy to establish community development corporation designed to focus on neighborhood revitalization.

Oversight and Control

- Significant Spill-over Between these Categories, and Some States Combine the Functions

- Examples
 - Florida's Financial Emergency Oversight Boards are triggered by specific local government failures, with the Board having broad authority over municipal fiscal affairs
 - Tennessee's Comptroller of the Treasury can require distressed municipalities to come up with corrective plans, issue funding bonds, reduce expenditures or even raise taxes
 - When a Louisiana municipality is found not fiscally stable, a financial administrator can be appointed by the Court, who then has control over all fiscal operations of the local government
 - Pennsylvania provides a combination of assistance and oversight to cities triggered by specific criteria. Distressed cities have an appointed Coordinator who develops a multi-year financial and management plan for the local government

- Concern in Some States that Oversight and Control becomes an Entrenched Condition

Other State Approaches and the Commonwealth

- Virginia Does Not Have a Formal Process for Local Government Reporting - or Intervention for Distressed Cities
- Lack of Past State Involvement Suggests a Nuanced Approach Focused on Three Key Considerations:
 - **Ease of Administration** (use existing mechanisms for reporting and oversight)
 - **Tailored Response** (flexibility to provide resources and assistance focused on specific local government needs)
 - **Prevention First** (early stage response is more cost-effective than later stage oversight and control)
- Devising a Financial Reporting System is a Logical First Step
- Providing Targeted/Flexible Technical Assistance is a Key Complementary Activity

Recommendation: Financial Reporting

- Develop Indicators of Fiscal Distress in Two Categories
 - Internal factors (such as fund balance, debt ratios, required payments)
 - External factors (such as levels of employment or unemployment, poverty rates)
- States and the NRN have Established Internal Criteria that may be Adapted, such as:
 - Fund balance levels below a stated minimum level or declining for a period of three years or more
 - Expenditures that have exceeded revenues for a period of two years or more
 - Failure to make timely payments due to any state or regional authority
- Consider Economic and Demographic Data
 - NRN criteria are an example (often a form of early warning of possible future internal issues) -- average unemployment rate of 9 percent or more, population decline of 5 percent or more, a poverty rate of 20 percent or more
 - Economic and demographic indicators are particularly helpful for early warning

Recommendation: Targeted Technical Assistance

- Distressed Cities Need a Readily Available Vehicle for Procuring Needed Services ('Doctor on Call')
 - Time is often of the essence, and delay usually means further decay
 - Cities often do not or cannot access the needed level of effective technical assistance
- Cost Can be an Obstacle to Obtaining Help
 - Preventive maintenance is more cost effective – repair the roof before it collapses
 - Cities most in need of assistance generally least able to afford to pay for it
 - That said, even distressed local governments generally have some financial resources, and the likelihood of successful intervention is enhanced when the local government has financial buy-in to the process
- There are multiple models for funding technical assistance
 - State funding
 - Local government assessment for pooled funding
 - Combinations of state/local funding

Case Study: Massachusetts Resource Network

- Commonwealth of Massachusetts wanted to extend eligibility for Network assistance to cities not otherwise eligible (e.g. poverty rate of 19.5% vs. 20%, population under 40,000 residents)
- City, through statewide development agency, agreed to fund a pilot initiative to provide assistance to up to six additional cities. MassDevelopment entered into MOU with the National Resource Network.
- Cities go through the same assessment process as National Resource Network cities and are eligible for direct assistance. Commonwealth funds the assessment and the non-local share of Network engagement.
- Launched in 2016, 3 cities have applied for assistance and are completing that process. Likely engagements will start in the next 1 – 2 months.

Questions and Discussion

