

# HANDBOOK OF LOCAL GOVERNMENT FISCAL HEALTH

Edited by

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# FOREWORD

The time is right for this book. We have been experiencing a deep recession, the national government's programs to help the local governments through the recession have been terminated, teachers throughout the country are receiving pink slips, public pension benefits are being cut back, and some cities and counties have declared bankruptcy or come very close to it. Vallejo, California, declared bankruptcy in May 2008, a victim of the burst housing bubble in California. In November 2011, Jefferson County, Alabama, entered bankruptcy, caused by a combination of a sewer bond gone wrong, corruption, overspending, a devastating tornado, and a drop in revenues. By the end of 2011, public safety retirees had agreed to accept pension cuts in negotiations with bankrupt Central Falls, Rhode Island. Detroit, Michigan and Harrisburg, Pennsylvania were engaged in contentious wrangles over possibilities for retrenchment, state takeovers, or Chapter 9 filings. Michigan had appointed emergency managers to run the cities of Benton Harbor, Flint, and Ecorse, as well as the Detroit School District. Of course, not all cities are quite this seriously in trouble, and few observers lend credence to predictions of a massive wave of municipal bond defaults, but the loss of property tax revenues from the housing market collapse combined with state reductions in aid because of their own problems, and the failure of many pension funds because of stock market drops has affected many if not most U.S. cities, counties, and school districts. This book will not solve all these problems, but it should make many of them seem more manageable.

This book is impressive, first, because of its scope. I think it is fair to say that local government fiscal health has never before been addressed simultaneously from so many different vantage points. The topic coverage is nothing short of stunning, from tax and expenditure limitations to the intergovernmental revenue system, from postemployment benefits to slack and rainy-day funds, from definitions and problem identification to causes, solutions, and impacts over the short and long haul. Second, this book is impressive for its depth, covering in detail the literature on each topic, offering case studies,

recent cross-sectional data, and original analysis, and for putting issues into historical context. The essays, each written by known scholars in their fields, fit together, overlapping and providing context and support for each other. In my experience such thoughtful combinations of essays are rare. Third, this book is impressive because it moves beyond the literature: it links a thoughtful sifting of the literature with current research to formulate practical advice for public officials struggling with fiscal stress.

The aim of the book is not, however, to formulate a set of rules that can be used without much thought. The unstated premise of the book is that public managers don't need a how-to manual, but rather a deeper understanding of what is going on. They need to be able to identify problems down the road, not just current budgetary imbalances, and they need to be able to link the problems they see with a specific set of solutions.

Revenue mixes are changing, with what effect? To what extent are local fiscal problems brought about by overly elastic revenue bases that grow with good economic times but fall too quickly, too far when the economy falters? What should you do if your revenue mix is likely to generate too much volatility? What do you need to project, in the way of revenues, or expenditures, or the effects of tax increases, or declines in the selling prices of housing? How do you make such projections and how much trust should you put in short-term versus long-term models? How good a basis are such projections for policymaking? Many financial advice givers, including bond-rating agencies, have insisted that contingency funds of various sorts should be squirreled away during the boom years to smooth revenue declines during periods of recession if revenues are overly elastic—but does this work? Does it matter what form the savings take or how they are actually used? What about tax and expenditure limitations (TEs): are they a major contributor to fiscal stress, or would revenue increases have been off the table for political reasons regardless of the so-called TEs? No matter what the question, these authors take the reader a little deeper into the subject. Even those readers who know a lot about finance, and have a good grasp of how local officials deal with fiscal stress, will find something new in these chapters, something that will deepen their understanding or change the way they think about a given problem.

Academics and their students as well as practitioners will find this book satisfying, though they may focus on different aspects of the presentations. The manner in which fiscal stress is portrayed results in a good understanding of local public finance more generally, the constraints on revenue and spending, the intergovernmental system, the tax mix, and revenue projections. The authors are thoughtful in their reviews of the literature, generally showing the weaknesses as well as the conclusions, pointing out where better reporting, more consistent time series data, or more sophisticated analysis is needed. They also point to avenues for future research, the logically important topics that have not yet been discussed in the academic literature. Equally important, the book represents a kind of model of how intellectual discussion should proceed, from thoughtful analysis of what

is to be measured, to how various measures work and their shortcomings, to a careful look at the problems from nearly all possible angles. The authors home in on specifics and back off to show the forest as well as the trees.

The chapters are generally well written and free of most academic jargon, and where technical terms are used, they are defined and explained. It is easy and rewarding to dip into individual chapters without necessarily committing oneself to reading the whole book. This book is welcome, not only for its timeliness and practical usefulness but also for revivifying a literature that had begun to stultify. It is difficult to know what one can say that is new or useful about municipal fiscal stress, but this book points the way.

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