As Economy Slumps, New Study Highlights Tools For Avoiding Fiscal Crises in Local Government

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(PhysOrg.com) -- As news reports focus on the shaky footing of the national economy, a researcher from North Carolina State University has released a study laying out several best practices that can be implemented by state governments to prevent or mitigate fiscal distress at the local government level. In his paper, Dr. Charles Coe urges state governments to adopt these best practices in order to avoid the long-term problems – including high taxes, declining public services and an inability to pay local government employees – caused by fiscal distress at the local level.

Coe lays out the best practices in a new paper, "Preventing Local Government Fiscal Crises: Emerging Best Practices," which was published in the July/August issue of *Public Administration Review.*

The best practices consist of three components. The first step is for states to monitor local government finances in order to predict fiscal distress. If a potential problem is identified, the second step is for states to work with local governments to ameliorate the problem. Finally, if assistance is insufficient to keep the problem from worsening, states should have the ability to step in and take over local governance until the financial situation has been stabilized.

Only four states currently have all three best practices in place – North Carolina, New Jersey, New Mexico and Kentucky – but the issue of financial management at the local government level is growing in importance. As of 2003, 26 states reported that one or more of their local governments had recently experienced a fiscal crisis. Coe notes that the number of local governments facing financial hardship is likely increasing, due to fallout from the subprime mortgage crisis and skyrocketing oil prices. "Many local governments are on fumes right now," Coe says.

Coe, a professor of public administration in NC State's School of Public and International Affairs, says the study is the first to evaluate emerging best practices from states around the country on how to monitor and respond to the fiscal practices of local governments.

Coe says a cost-benefit analysis shows that implementing these best practices is advisable for many states. "The only real cost," Coe says, "comes from providing the staff necessary to review local governments' financial statements and provide oversight." But there are many benefits, Coe adds, including "healthy fiscal reserves, the ability to anticipate and respond to changes in the economic climate and the maintenance of public services."

Provided by North Carolina State University

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