Approaches to Measuring Local Public Finances

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Local Government Financial Health Lags the Broader Economic Recovery

**FIGURE 1**: Percent of Cities “Better Able/Less Able” to Meet Financial Needs.
Local Government Financial Health Lags the Broader Economic Recovery

**FIGURE 3:** Year-to-Year Change in General Fund Tax Receipts (Constant Dollars).
Three Components of Local Government Financial Health

> Financial Position: A government’s ability to pay its bills as they come due

> Financial Performance: How well a government’s typical revenues cover its typical expenses

> Solvency: A government’s ability to pay bills that will arrive in the future
  - Cash Solvency: Does the government have enough cash on hand to pay bills that will arrive in the next 60-90 days?
  - Long-Term Solvency: Will the government produce enough revenue to cover its long-term spending needs
  - Service-Level Solvency: Can the government provide basic services despite major changes in its political or economic circumstances?
Measuring Financial Health

> The “Ten Point Test” (see the Governing Guide to Financial Literacy for Details)

> Presented here: Selected “Ten Point Test” indicators for local governments in top oil/gas producing regions

– Data from local governments’ comprehensive annual financial reports (CAFRs) from FY2005 through FY2013; available through Bloomberg
– Includes data on 77 cities and townships, 35 counties from oil/gas producing regions in CO, MT, OK, PA, TX, WY;
– For comparison: 452 cities and townships, 126 counties from non oil/gas producing counties in the same states
The Governing Guide(s) to Financial Literacy
Stronger Financial Position for Oil/Gas Producing Cities

Source: Author calculations; Merritt Financial, Inc.
Note: Small cities have population < 50,000
Stronger Financial Performance for Small Oil/Gas Producing Counties

Source: Author calculations; Merritt Financial, Inc.
Note: Small counties have population < 50,000
Stronger Solvency for Large Oil/Gas Producing Counties

Source: Author calculations; Merritt Financial, Inc.
Note: Small counties have population < 50,000
Takeaways

> Three years into the economic recovery, local government financial health is just starting to improve
> Small cities with significant oil/gas production have shown stronger overall financial health compared to small cities overall
> Financial health trends in large cities and counties with oil/gas production are less clear
> Biggest threats to long-term financial health are infrastructure (non) investment, and legacy costs