

Approaches to Measuring Local Public Finances

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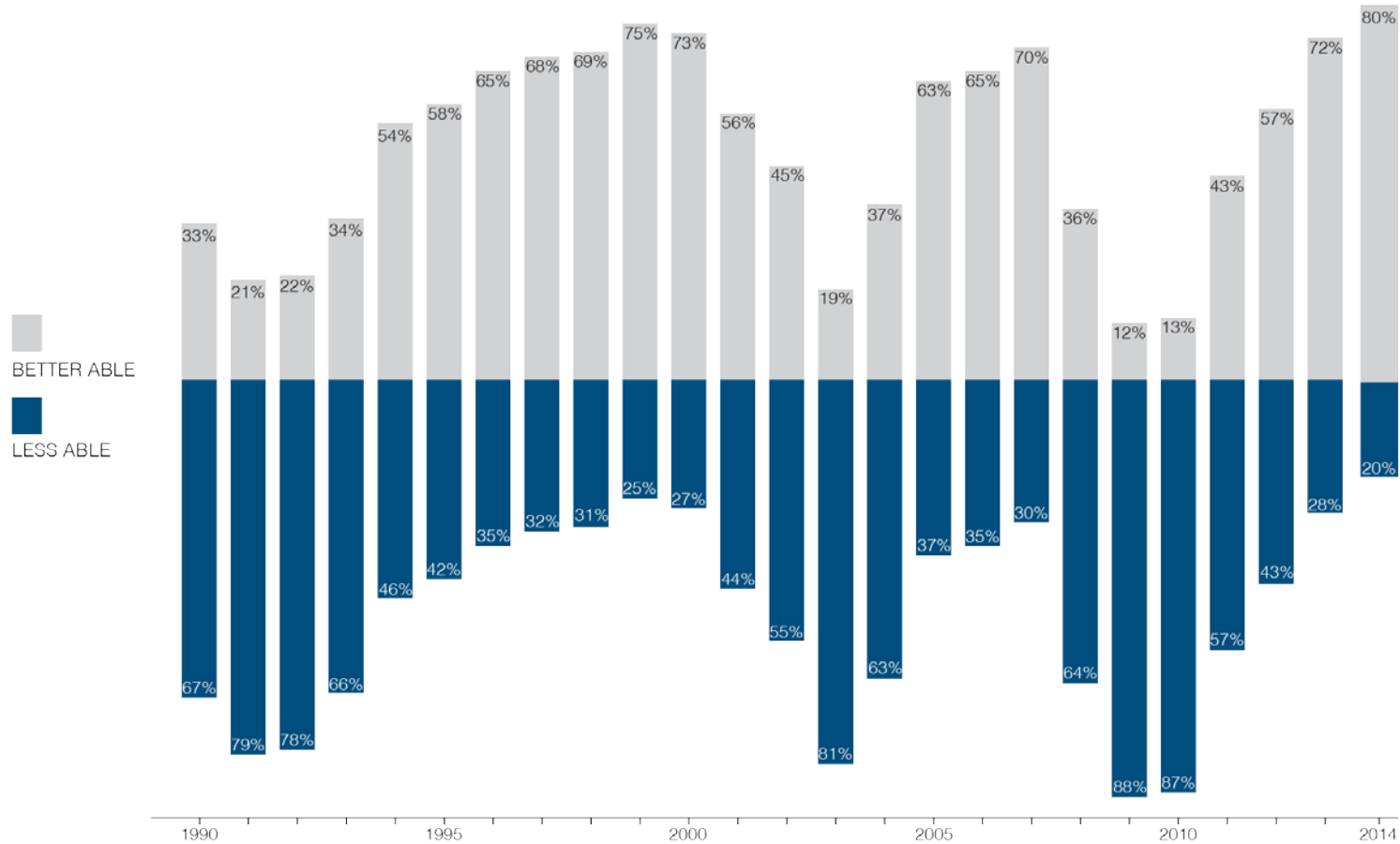
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Local Government Financial Health Lags the Broader Economic Recovery

FIGURE 1: Percent of Cities “Better Able/Less Able” to Meet Financial Needs.



Source: National League of Cities
Available at: <http://www.nlc.org/find-city-solutions/city-solutions-and-applied-research/finance/city-fiscal-conditions-report-2014>

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FIGURE 3: Year-to-Year Change in General Fund Tax Receipts (Constant Dollars).



Source: National League of Cities
Available at: <http://www.nlc.org/find-city-solutions/city-solutions-and-applied-research/finance/city-fiscal-conditions-report-2014>

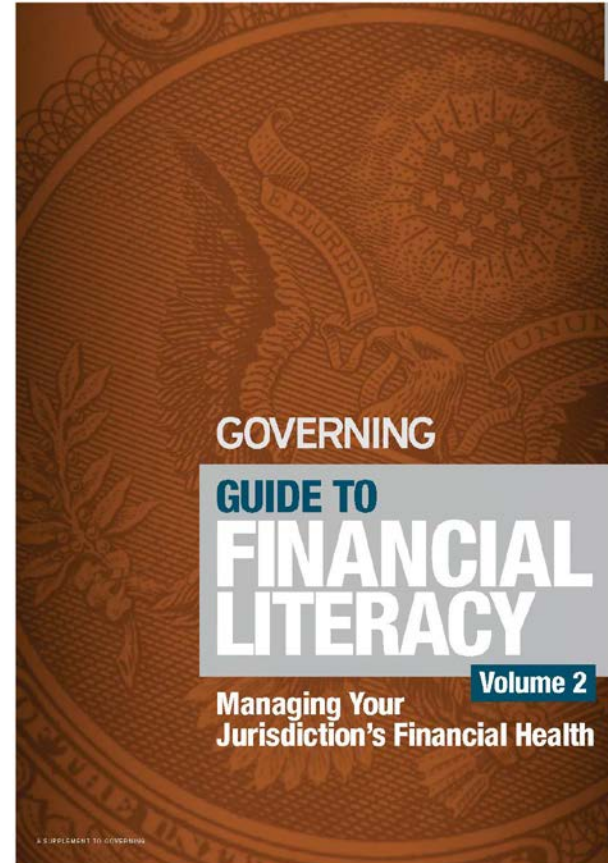
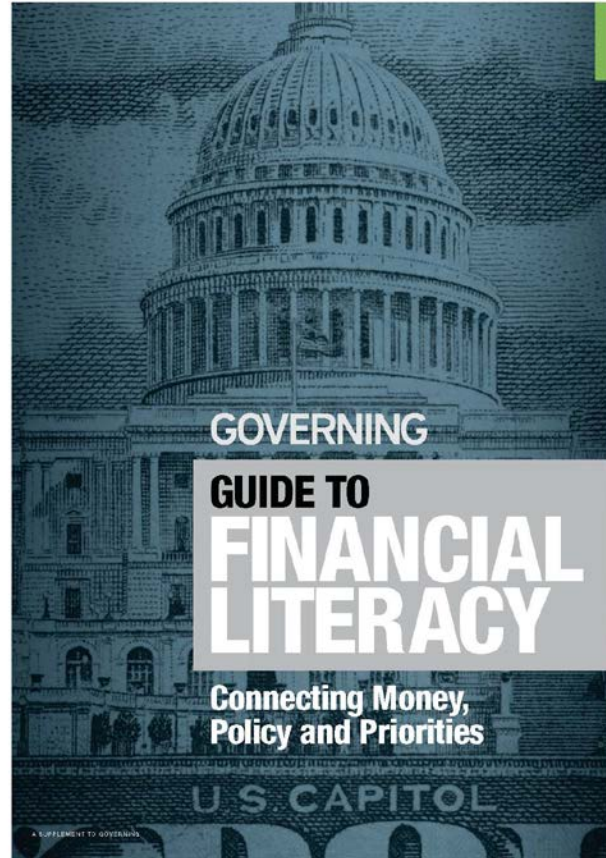
Three Components of Local Government Financial Health

- > **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?

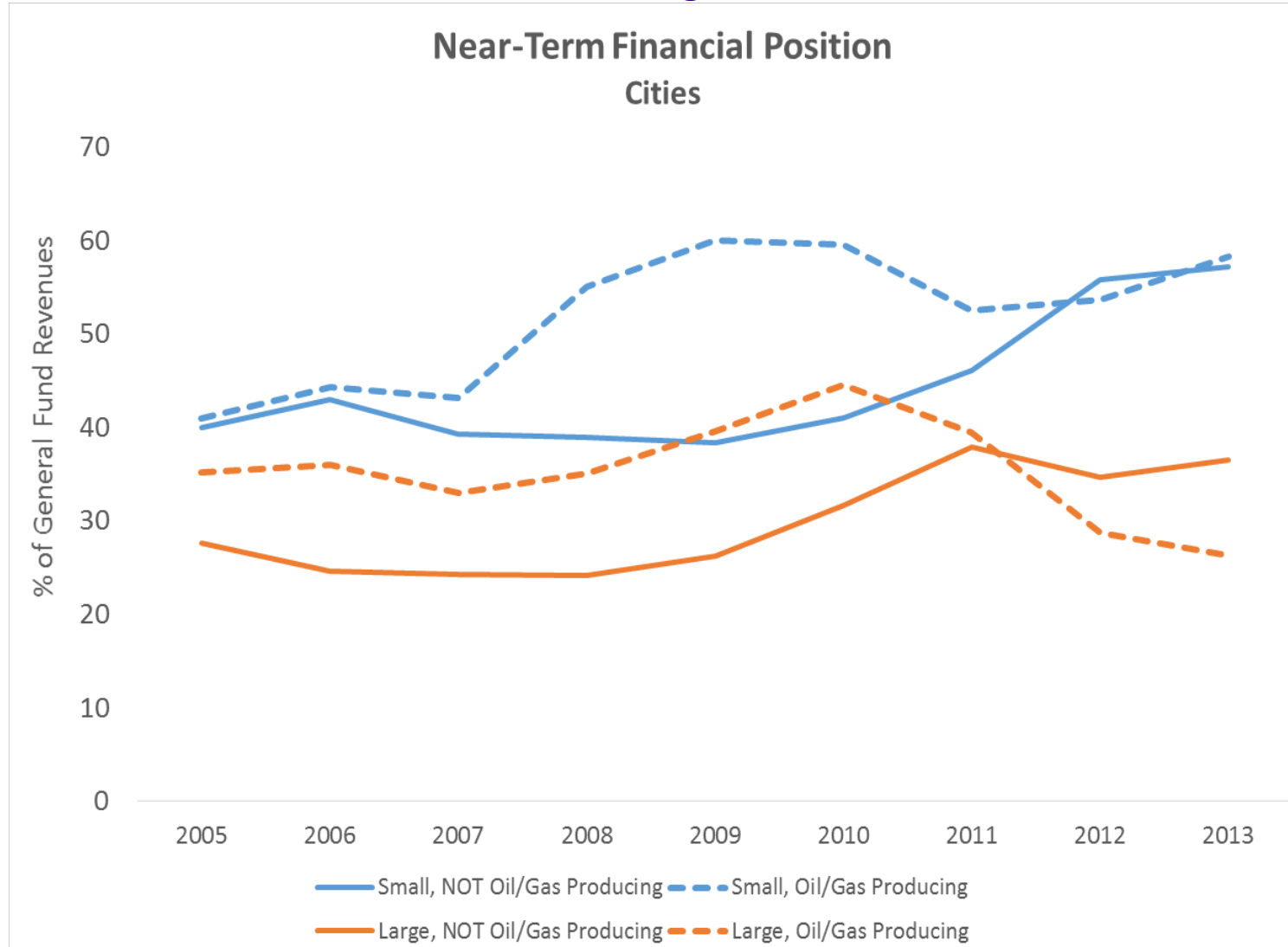
Measuring Financial Health

- > 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*

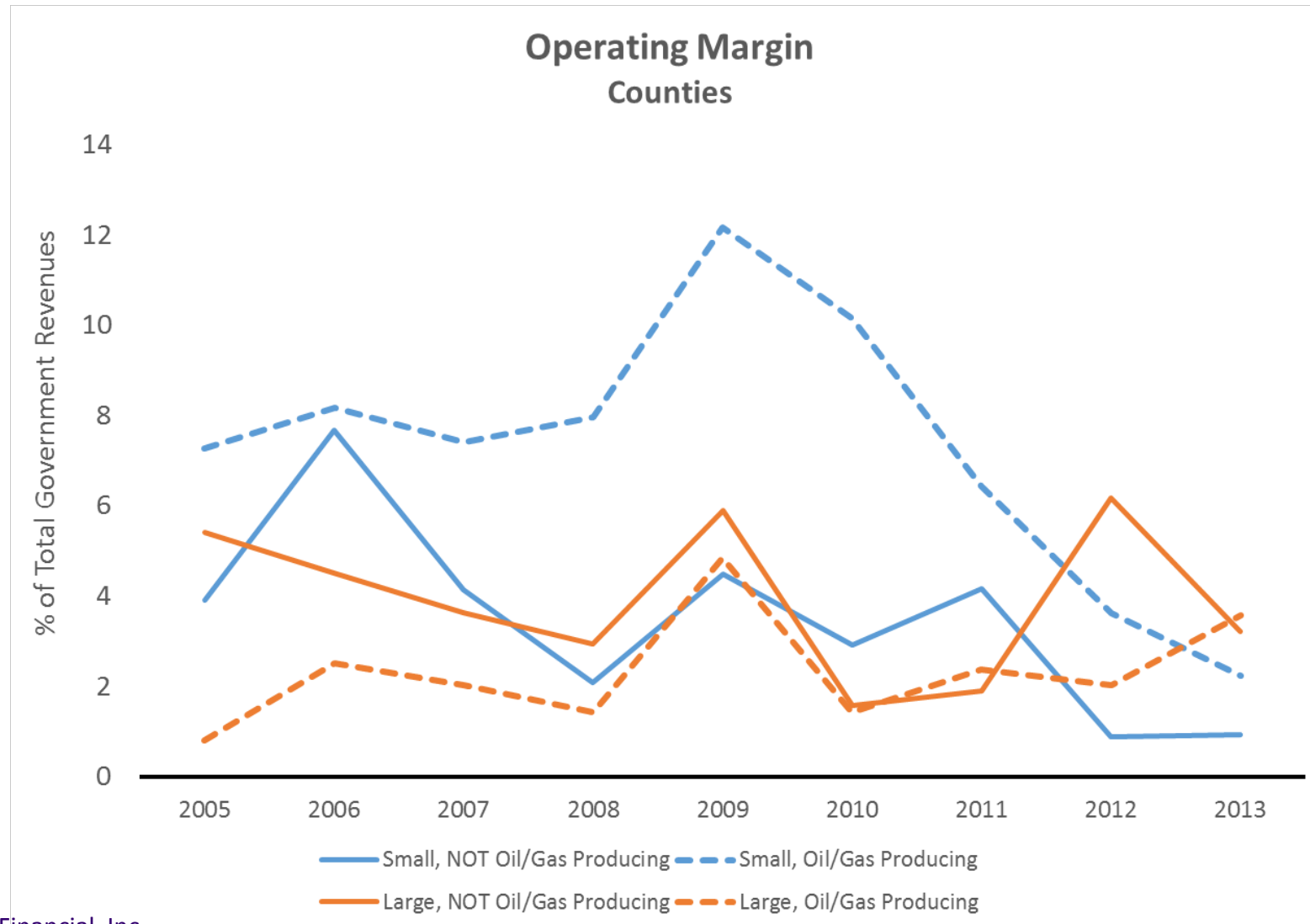


Stronger Financial Position for Oil/Gas Producing Cities



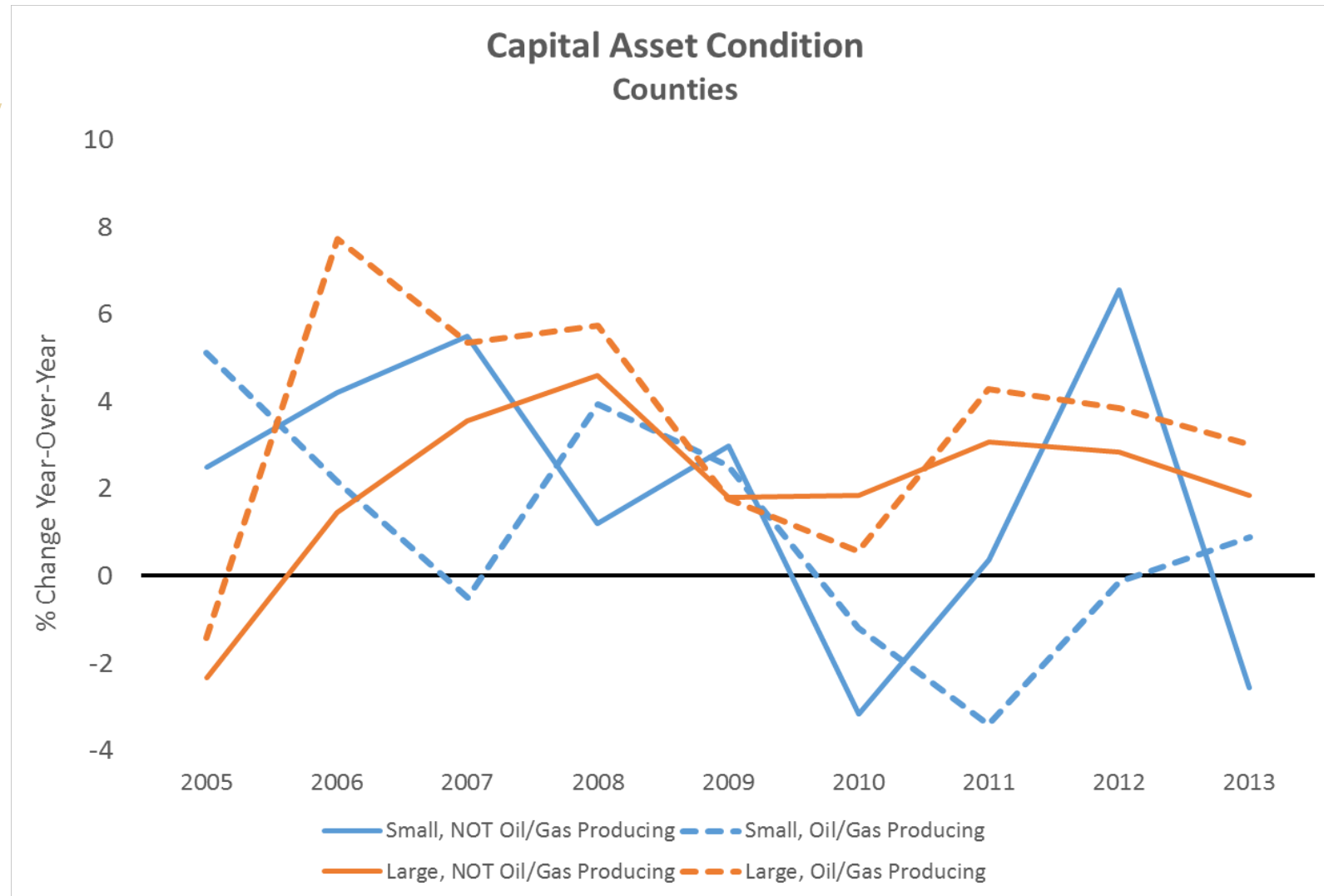
Source: Author calculations; Merritt Financial, Inc.
Note: Small cities have population < 50,000

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