THE RESPONSE OF GEORGIA MUNICIPALITIES TO FISCAL DISTRESS CAUSED BY THE GREAT RECESSION

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PRELIMINARY REVIEW

285 Georgia Municipalities Reviewed

- Avg. Revenue Growth Rate Pre-Recession - 8.62%
- Avg. Revenue Growth Rate After Recession - .34%
- Revenue losses immediately after the technical end of the recession were significantly greater than during the recession

Implication – Cities are still struggling even though the recession is over

LITERATURE

Research covering the impact on several specific large cities nationwide

Symposiums

- Public Budgeting and Finance
- Municipal Finance Journal
- Journal of Public Budgeting, Accounting, and Financial Management

Nothing directly addressing the impact on small- to medium-sized municipalities

PROJECT INTRODUCTION

Divided the Georgia Municipalities into tiers

- Tier 1 > 100,000 population – 5
- Tier 2 > 50,000 but < 100,000 - 11
- Tier 3 > 25,000 but < 50,000 – 19
- Tier 4 > 15,000 but < 25,000 - 26
- Tier 5 > 10,000 but < 15,000 - 23
- Tier 6 > 5,000 but < 10,000 - 44
- Tier 7 > 2,500 but < 5,000 - 82
- Tier 8 > 1,000 but < 2,500 - 93
- Tier 9 <1,000 - 234
- Tier 10 – Missing Population Information - 12

EVALUATION OF THE IMPACT

Level of distress realized

Differences by size of city

Differences by revenue sources

Strategies used in dealing with the distress

Involves both quantitative and qualitative analysis

PROJECT GOALS

Understanding the impact of great recession

Understanding the strategies used to address fiscal distress

Identification of innovative approaches

Development of new methodology for measuring and predicting distress in smaller municipalities

Development of permanent financial database to aid research statewide

CURRENT PHASE

Evaluation of existing methodologies

- Brown’s Ten Point Scale
- The Advisory Commission on Intergovernmental Relations
- The Brookings Institution
- The Congressional Budget Office
- The U.S. Department of the Treasury
- The Municipal Finance Officers Association

CURRENT PHASE

Issues with current methods

- Too much data needed and data availability
- Too many variables and exclusion of key variables
- Comparisons may yield faulty results
- Differing interpretations of variables
- Relative rather than absolute
- Unable to focus on one locality
- Alternative methods reliant on simple distribution comparisons including means and standard deviations

CURRENT PHASE

The literature points out the need for benchmark utilization, which is the approach we want to develop!

Need to have a representative population of small mid-size municipalities data

Need to attempt to predict financial distress by understanding revenue streams and riskiness of forecast realizations

NEXT PHASE - TESTING

3 main questions that need to be answered moving forward

- How many benchmarks will we need?
- What types of benchmarks would be important in determining fiscal health?
- How to determine which benchmarks to use?

CONCLUSION

It is clear that current methodologies measuring financial distress are inadequate for all size municipalities

In order to improve upon previous studies and create a system to support smaller cities, a database must be built that will permit reasonable comparisons

A methodology using benchmarking must be developed to assist smaller municipalities to understand their risk of financial distress and strategies for recovery