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The Imperfect Art of Tracking Local Government Financial Stress.

California is the latest state to launch a program to shed light on the financial conditions in localities. Systems like this can have benefits, but also limitations.

When the California auditor's office recently rolled out a new online system that tracks and ranks local governments based on their levels of financial risk, David Dale, the city manager in Calexico, was caught somewhat off-guard when he found his town listed as fifth worst-off.

The city of 40,000 about 100 miles east of San Diego has certainly had its share of problems.

Its police department was raided by the FBI back in 2014 amid allegations of various criminal conduct by officers and other city staff. Just a couple years later, Dale said poor financial management led the city to the brink of bankruptcy.

"The city was a complete mess politically, financially," Dale said. "It was bad all around." Lately, however, he said that things within Calexico's city government are improving. "We've made a lot of strides and sacrifices," Dale said. "People are doing two jobs, pay cuts."

Calexico's designation as financially at risk appeared on a list along with the release of California's new "local government high-risk dashboard," a system that is designed to provide a snapshot of how 471 cities around the state are doing financially.

Information for it is pulled from publicly available, audited financial statements, which cover past years. The dashboard currently shows where cities stood as of June 30, 2017—part of the reason the progress Dale touts in Calexico isn't necessarily reflected in the rankings.

"When this came out in the news," he said, "they painted the picture that the city was currently in a financial debacle."

California is the latest state to develop a public facing program that provides a way to monitor the finances of local governments statewide. New York has had a system like this for about six years now and Michigan has done similar work since before the Great Recession.

"It definitely is a trend," said Justin Marlowe, a professor who specializes in public finance at the Daniel J. Evans School of Public Policy and Governance at the University of Washington, and who advised California on its program.

"You've seen, I think, a big uptick in interest," he added.

There are a number of ways that the systems can prove useful. But they also have limitations, including issues like Dale keyed in on concerning the timeliness of the data.

Dale explained that during the bad years Calexico's general fund was $4 million in the hole and the

city borrowed $3.5 million from its own wastewater account to backfill it.

He said the city is now on track to pay back the loan about a year early and ended the last fiscal year with a roughly $1 million surplus. The city's total general fund budget is about $16 million annually.

"We've gotten so far," Dale said, which is why he says it was frustrating to unexpectedly see the city in the No. 5 spot on a list of the state's most fiscally distressed municipalities.

Marlowe agreed that a dashboard like California's is going to fail to capture all information. "The perfect system does not exist," he said.

California's dashboard was built as part of the high-risk local government audit program within the state auditor's office. That team is responsible for identifying local governments that may have troubled finances, and in some cases auditing them.

"We thought it was important to do a comprehensive analysis of all the cities as opposed to looking at a subset," said Mike Tilden, a deputy state auditor who was involved in the project.

The dashboard and the rankings it presents rely on a set of 10 "financial indicators" meant to assess how well a city can cover its near-term and long-term costs. Some indicators include a city's cash position, debt burden, financial reserves and revenue trends.

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NOVEMBER 7, 2019

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