



Abigail Spanberger  
Governor

Carrie Cheney  
Secretary of  
Commerce and Trade

# COMMONWEALTH of VIRGINIA

Tamarah Holmes, PhD  
Director

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

July 2, 2026

### MEMORANDUM

**TO:** Members of the Commission on Local Government

**FROM:** DHCD Staff

**SUBJECT:** Commission on Local Government Meeting – July 10, 2026

Dear Commissioners,

Enclosed is the draft agenda and information package for the Commission on Local Government regular meeting to be held on **Friday, July 10, at 1:00 p.m.** The Commission meeting will be held at the Virginia Housing Center, Glen Allen, Virginia. Lunch will be provided prior to the meeting.

Please find enclosed the following:

1. Draft Agenda for the July Regular Meeting
2. Draft Minutes of the May 8<sup>th</sup> Regular Meeting
3. Dr. Gorina's Research on Fiscal Distress
4. Town of Tangier's Letter Requesting Additional Support
5. Town of Tangier Performance Plan (*approved 5/8/26*)

Please contact DHCD staff if you have any questions or require additional information. We can be reached at [alan.jones@dhcd.virginia.gov](mailto:alan.jones@dhcd.virginia.gov) or at 804-944-0645. We look forward to seeing you in person on July 10<sup>th</sup>.

Enclosure





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# COMMONWEALTH of VIRGINIA

Tamarah Holmes, PhD  
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## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

### **AGENDA**

Commission on Local Government

Regular Meeting

July 10, 2026

1:00 PM

Virginia Housing Center

4224 Cox Road

Glen Allen, VA 23060

### **Electronic Meeting Access Information**

Microsoft Teams Joining Information: [Click here to join the meeting](#)

Meeting ID: 285 753 493 797 | Passcode: DU99Az7Y

Call in (audio only) +1 434-230-0065 | Phone Conference ID: 139 001 180#

1. Please contact Alan Jones ([alan.jones@dhcd.virginia.gov](mailto:alan.jones@dhcd.virginia.gov)) for additional information on how to connect to the meeting electronically.
2. The Public Comment portion of the meeting will be limited to thirty (30) minutes. Each person wishing to provide comments before the Commission should limit their comments to three (3) minutes. These rules are subject to change without notice by the Commission Chair. It is encouraged to pre-register for public comment by contacting Alan Jones ([alan.jones@dhcd.virginia.gov](mailto:alan.jones@dhcd.virginia.gov)) in advance of the meeting.
3. Members of the public viewing the meeting through the Microsoft Teams option are required to mute themselves during the meeting unless called upon by the Commission Chair to speak. The Commission reserves the right to remove from its virtual meetings anyone who does not abide by these rules.
4. Access to meeting materials for members of the public is available on the corresponding meeting page of the [Virginia Regulatory Town Hall website](#) and on [Commonwealth Calendar](#).



Commission on Local Government  
Regular Meeting – July 10, 2026

- |   |            |
|---|------------|
| <b>I. <u>Call to Order</u></b>                            | Chair      |
| <b>II. <u>Administration</u></b>                          |            |
| a. Approval of the Draft Agenda                           | Chair      |
| b. Approval of the Minutes: May 8, 2026                   | Chair      |
| c. Public Comment Period                                  | Chair      |
| d. Staff's Report   | Staff      |
| <b>III. <u>Fiscal Stress Methodology Review</u></b>       |            |
| a. Fiscal Stress Review                                   | Staff      |
| b. Presentation by Dr. Eugenia Gorina                     | Dr. Gorina |
| <b>IV. <u>Local Fiscal Distress – Town of Tangier</u></b> |            |
| a. Update of Town of Tangier Progress                     | Staff      |
| <b>V. <u>Other Business</u></b>                           | Chair      |
| <b>VI. <u>Adjournment</u></b>                             | Chair      |

*The next regular meeting of the Commission on Local Government is currently scheduled for September 4, 2026.*



**Minutes of the  
COMMISSION ON LOCAL GOVERNMENT**

**May 8, 2026**

**1:00 pm**

**Virginia Housing Center**

**4224 Cox Road**

**Glen Allen, VA 23440**

Members Present

Heather Cordasco, Vice Chair

Robert Lauterberg

Terry Payne, Chair

Edwin Rosado

Beck Stanley

Members Absent

*None*

Department of Housing and Community Development (DHCD) staff present for all or part of the meeting:

Kenrick Cameron, Jr., Policy Analyst

Joseph Dennie, Policy Analyst

Tamarah Holmes, PH.D., Director DHCD

Alan Jones, Sr. Public Finance Analyst

Trisha Lindsey, Policy and Legislative Services Director

Chase Sawyer, Policy and Legislative Services Manager

Call to Order

Commissioner Payne, Chair of the Commission on Local Government, called the regular meeting to order at 1:05 p.m.

Roll Call

The roll was called by Mr. Jones. Mr. Jones reported that a quorum was present.

Approval of Draft Agenda

A motion was made by Commissioner Cordasco and seconded by Commissioner Lauterberg to approve the draft agenda. The motion passed on a unanimous voice vote (YEAS: Cordasco, Lauterberg, Payne, Rosado, Stanley; NAYS: None).

Introduction of Executive Director

Mr. Jones gave a brief introduction to Dr. Tamarah Holmes, DHCD Director. Dr. Tamarah Holmes spoke to her over 20 years of service in the public sector in the field of community and economic development. Dr. Holmes commented that she is excited to assume the role of Executive Director of the Commission and looks forward to supporting the Commission's statutory responsibilities, strengthening its engagement with local government partners, and ensuring that its work continues to provide impartial, well-grounded analysis that benefits communities across the Commonwealth.

New Commissioner Welcome

Commissioner Payne welcomed the newest commissioner, Commissioner Beck Stanley. Commissioner Stanley provided a brief introduction on his occupation and interest in serving the Commonwealth in this capacity.

Approval of Minutes

A motion was made by Commissioner Lauterberg and seconded by Commissioner Cordasco to approve the minutes of the March 26, 2026, regular meeting of the Commission. The motion passed on a unanimous voice vote (YEAS: Cordasco, Lauterberg, Payne, Rosado, Stanley; NAYS: None).

Public Comment

Commissioner Payne opened the floor for public comment.

After seeing no speakers, Commissioner Payne closed public comment.

Staff's Report

Mr. Jones informed the Commission that the Virginia General Assembly adjourned the 2026 Regular Session on March 14, 2026. Mr. Jones provided information on the bills referred to the Commission for review, 24 of which had local fiscal impact statements attached.

Mr. Jones also informed Commissioners of the Conflict of Interest Act (COIA) statement forms provided to Commissioners prior to the meeting to document if an action on the meeting agenda may create a conflict. Mr. Jones added that the statement forms will be provided to Commissioners at each meeting as a matter of record.

Fiscal Stress Index Methodology Review

Mr. Jones updated the Commission on staff efforts to coordinate a presentation and conversation with the Weldon Cooper Center to review the Fiscal Stress Index methodology. The Weldon Cooper Center informed Commission staff that they could not assist with the review of the methodology at this time due to staffing turnover.

Commissioner Lauterberg reminded the Commission that when the subcommittee first began looking into the fiscal stress methodology, Dr. Scorsone had recommended Dr. Eugenia Gorina from the University of Texas at Dallas as an expert in the field. Commissioner Lauterberg added that Dr. Gorina has published research on how to measure and predict fiscal distress. Commissioner Lauterberg referenced Dr. Gorina's study on three items (revenue capacity, fund

balance, and debt) that governments have control over as being prominent in contributing to Radford’s fiscal distress designation. Commissioner Lauterberg stated that Dr. Gorina may be able to assist with revisions to the Fiscal Stress Index methodology, for a nominal fee, and that he could connect staff with Dr. Gorina to coordinate a future presentation to the Commission.

Mr. Jones clarified that the Fiscal Stress Index methodology is separate from fiscal distress, which is a relatively new authority in State Code and managed by the Auditor of Public Accounts. Ms. Lindsey noted that the current Fiscal Stress Index is cited multiple times in State Code and that the Auditor of Public Accounts has statutory responsibility for the early warning system associated with fiscal distress in State Code.

Mr. Sawyer stated that staff would attempt to coordinate a presentation for the Commission by Dr. Gorina at the Commission’s July meeting, pending Dr. Gorina’s interest and availability.

#### Catalog of Mandates on Local Governments

Mr. Dennie provided an overview of the mandates catalog process and presented to the Commission the 2025 updates to the Catalog of State and Federal Mandates on Local Government.

A motion was made by Commissioner Cordasco and seconded by Commissioner Stanley to approve the 2025 Catalog of Mandates. The motion passed on a unanimous voice vote (YEAS: Cordasco, Lauterberg, Payne, Rosado, Stanley; NAYS: None).

#### Assessment of Mandates Schedule

Mr. Cameron provided an overview of the mandates assessment process and presented to the Commission the FY2027 Schedule of Assessment of State and Federal Mandates on Local Government. Commissioners asked clarifying questions regarding the mandates assessment process.

A motion was made by Commissioner Cordasco and seconded by Commissioner Rosado to approve the FY2027 Mandates Assessment Schedule. The motion passed on a unanimous voice vote (YEAS: Cordasco, Lauterberg, Payne, Rosado, Stanley; NAYS: None).

Cash Proffer Survey Instrument

Mr. Jones provided an overview of cash proffers and presented to the Commission the cash proffer survey instrument.

A motion was made by Commissioner Rosado and seconded by Commissioner Cordasco to approve the survey instrument. The motion passed on a unanimous voice vote (YEAS: Cordasco, Lauterberg, Payne, Rosado, Stanley; NAYS: None).

Local Fiscal Distress – Town of Tangier

Mr. Jones provided an overview of the local fiscal distress process outlined in State Code and presented the Town of Tangier Performance Plan to the Commission.

Commissioner Lauterberg raised concern over whether one year is ample time for the Town to rectify the identified issues. Commissioner Cordasco echoed this concern over the Town's access to financial records. Commissioners discussed the importance of the Town hiring a town manager or obtaining similar services.

Commissioner Payne offered Tangier Town Councilmember Anna Pruitt Parks, who was attending the meeting virtually, the opportunity to comment on the proposed performance plan. Councilwoman Parks asked about additional assistance for the Town, specifically who can help lead the effort in searching for an interim Town Manager, as well as if anyone could provide Town Council with the training and expertise required to meet the deliverables of the performance plan.

Dr. Holmes reminded the Commission that the local fiscal distress mandate is specific in that the Commission's involvement and capacity is strictly oversight. Dr. Holmes suggested that the Town of Tangier submit an official letter requesting additional assistance in responding to the items outlined in the performance plan.

Mr. Sawyer and Mr. Jones clarified that the performance plan can be amended at any time and serves as an outline to measure progress for the Town. Commissioners discussed providing more time for the Town of Tangier to implement the items outlined in the performance plan. Mr. Jones spoke to additional resources and contacts that DHCD staff have gathered to assist the Town.

A motion was made by Commissioner Cordasco and seconded by Commissioner Lauterberg to approve the proposed Town of Tangier Performance Plan with an amendment to the start date, moving the start date back to July 1, 2026, with the exception of the hiring of an interim town manager which should begin immediately. The motion passed on a unanimous voice vote (YEAS: Cordasco, Lauterberg, Payne, Rosado, Stanley; NAYS: None).

Local Fiscal Distress – City of Radford

Mr. Jones provided an update that the City of Radford was recently designated in fiscal distress by the Auditor of Public Accounts and that the City has issued a press release responding to the recent designation. Mr. Jones noted that the Commission currently has no actions to take until the Governor has appointed a state intervention team and notified the Commission of its oversight authority. Commissioner Rosado applauded the City of Radford for taking early action to address the auditors' concerns.

Adjournment

A motion was made by Commissioner Rosado and seconded by Commissioner Stanley to adjourn the meeting of the Commission. The motion passed on a unanimous voice vote (YEAS: Cordasco, Lauterberg, Payne, Rosado, Stanley; NAYS: None). The meeting adjourned at 2:41 p.m.



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# COMMONWEALTH of VIRGINIA

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## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

### **Memorandum**

**To:** Commission on Local Government

**From:** DHCD Staff

**Subject:** Fiscal Stress Methodology Review – Dr. Gorina Presentation

**Date:** July 2, 2026

The Commission on Local Government annually publishes the Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia’s Cities and Counties (Fiscal Stress Report). The report contains a relative index (fiscal stress index) that illustrates a locality’s ability to generate additional local revenues from its current tax base relative to the rest of the Commonwealth. The index is used as a means to distribute state aid to the cities and counties of the Commonwealth.

Since 2023, the Commission has been evaluating the current methodology used to calculate the fiscal stress index. At the Commission’s meeting on May 8, 2026, the Commission requested that staff contact and attempt to coordinate a presentation by Dr. Eugenia Gorina at the Commission’s July 2026 meeting regarding potential revisions to the fiscal stress index methodology.

Enclosed is Dr. Gorina’s Mercatus Center “Measuring and Modeling Determinants of Fiscal Distress in US Municipalities” research and research summary.

No action is required by the Commission at this time.

Enclosures





## MEASURING AND MODELING DETERMINANTS OF FISCAL DISTRESS IN US MUNICIPALITIES

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The recession of 2007–2009 negatively affected many cities and counties across the United States, causing them to resort to extreme fiscal practices in order to respond to new budget pressures. Many localities were forced to declare fiscal emergencies, lay off or furlough workers, and sometimes even default on debt. Extreme cases of fiscal stress took place at the local level in California, Michigan, and Pennsylvania. Researchers can learn from these states' responses about what causes fiscal stress and how policymakers can better respond in order to meet financial obligations.

In “[Measuring and Modeling Determinants of Fiscal Stress in US Municipalities](#),” Evgenia Gorina and Craig Maher propose a new way of measuring municipal fiscal distress and developing a deeper understanding of the different factors that lead to it. Results indicate that higher debt, lower reserves, and an underreliance on property taxes are all associated with higher fiscal stress.

### STUDY DESIGN

This study takes a novel approach to the measurement and prediction of fiscal condition, meaning the ability to meet financial obligations. Rather than trying to define fiscal stress through a set of fiscal and environmental indicators, it looks at actions taken by governmental officials that signal their inability to meet operating needs and service requirements. Examples of poor financial practices include reducing public-employee salaries, deferring pension payments, cutting services, and declaring bankruptcy.

Local government officials that make harmful fiscal decisions are usually under pressure from a variety of factors including a worsening cash position, insufficient revenues, growing debt, or a combination of these. The study examines how each of these factors affects fiscal stress, and it breaks them down into the following categories:

- *Cash solvency.* Higher cash reserves can allow for more liquidity for a government to meet its short-term obligations.

For more information, contact  
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- *Budget solvency.* Raising enough revenues to cover its expenses can allow a government to meet its annual obligations.
- *Long-term solvency.* Keeping debt low and maintaining annual contributions to pension plans can ensure a government's ability to meet obligations over the long term.
- *Revenue structure.* How much a local government relies on various sources of revenue, including taxes on income, sales, or property, can significantly impact its fiscal health.

## FINDINGS

Of the 300 city and county governments examined between 2007 and 2012, 32 percent experienced fiscal distress—which, on its own, sheds light on the magnitude of the Great Recession. The empirical models developed in this study show a relatively more pronounced role of fiscal reserves, debt, and revenue structure in the prediction of local fiscal stress than do previous studies. After controlling for government type, population, and socioeconomic factors, the main results indicate that local officials can take specific actions to decrease the likelihood of experiencing fiscal distress in their area.

- *Increasing reserves.* Local governments with higher general fund balances as a percentage of general expenditures are less likely to experience fiscal distress.
- *Lowering debt.* Local governments with lower levels of debt as a share of total revenue are less likely to experience fiscal distress.
- *Reliance on property tax revenues.* Increasing reliance on property tax revenues can decrease the likelihood of fiscal distress. During the Great Recession, local governments that relied on property taxes weathered the recession better than governments that relied on other revenue sources.

## CONCLUSION

This study highlights the importance of local fiscal policy that builds and uses adequate reserves to weather fiscal shocks. Increasing revenues, managing debt, and moving toward a reliance on property taxes can decrease the likelihood of experiencing fiscal stress. This latter policy is even more salient today than in previous decades because of the state-level initiatives to limit local taxing authority. This is especially so for property taxes like California's Proposition 13 and efforts to impose limits on revenue growth in the vein of Colorado's Taxpayer Bill of Rights, which by definition limit a community's ability to grow reserves.

There are tradeoffs to weigh when choosing how to structure tax systems, but when diversification is paired with sound fiscal management of reserves, local officials can improve their government's fiscal condition. This can help prevent worst-case scenarios, and policymakers will not have to make such difficult choices in times of fiscal stress.

# Measuring and Modeling Determinants of Fiscal Stress in US Municipalities

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Evgenia Gorina and Craig Maher

*November 2016*

MERCATUS WORKING PAPER



3434 Washington Blvd., 4th Floor, Arlington, Virginia 22201  
[www.mercatus.org](http://www.mercatus.org)

*Evgenia Gorina and Craig Maher. "Measuring and Modeling Determinants of Fiscal Stress in US Municipalities." Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, November 2016.*

## **Abstract**

The Great Recession produced a wave of fiscal crises in cities and counties throughout the United States. In addition to high-profile bankruptcy filings in Detroit, Michigan, and Harrisburg, Pennsylvania, many local governments declared fiscal emergencies, cut spending, and laid off or furloughed workers. Yet some municipalities weathered the recession without such actions. In this paper, we explore the factors that help predict the likelihood of local fiscal distress. We construct a measure of fiscal distress using annual financial reports, budgets, and media coverage, and we then use this measure as a dependent variable to model fiscal distress as a function of past financial performance, real estate prices, and socioeconomic environment. This work adds to the existing literature in several ways. First, the proposed measure of fiscal distress is based on government actions and therefore has greater external validity than measures based on financial indicators. Second, we add to the literature that goes beyond the measurement of fiscal distress and focuses on its prediction. Finally, we offer policy-relevant conclusions by showing the relative importance of fiscal reserves, revenue composition, and real estate pricing in predicting local fiscal distress.

*JEL* codes: H71

Keywords: government finance, municipalities, fiscal crisis, fiscal distress, fiscal emergency, budget, debt burden, revenue structure, fiscal reserves

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# **Measuring and Modeling Determinants of Fiscal Stress in US Municipalities**

Evgenia Gorina and Craig Maher

## **Introduction**

In the past decade, a wave of fiscal crises has hit cities and counties throughout the United States. In California, Vallejo, Stockton, and San Bernardino have filed for bankruptcy. Michigan has declared financial emergencies in Detroit, Flint, and several smaller cities (Convery and Indieke 2015; Scorsone 2014). Like Michigan, Pennsylvania has stepped in to manage financial crises in a number of cities and boroughs, including Scranton, Altoona, and Harrisburg. In addition to these exceptional cases of fiscal distress, the 2007–09 recession negatively affected many other cities and counties (Hoene and Pagano 2009), forcing some of them to declare fiscal emergencies, default on debt, or lay off and furlough workers. In this paper, we propose an evidence-based measure of fiscal distress and examine which of the theoretically relevant factors can be used to effectively predict fiscal distress before it hits crisis stage.

## **Background**

The attention to local government fiscal condition and fiscal distress is not new. Scholars and practitioners have been trying to resolve measurement and prediction questions related to government fiscal condition for decades. Ever since the near-meltdown of New York's finances in the 1970s, public finance researchers, governments, and professional organizations have sought to provide analytical tools for measuring fiscal condition to prevent a repeat. A pioneer in this area was the Advisory Commission on Intergovernmental Relations (ACIR), which produced a series of studies focusing on state and local government fiscal capacity throughout the 1970s and 1980s (ACIR 1971, 1979, 1981, 1988, 1989). In the 1980s, work by Levine,

Rubin, and Wolohojian (1981), Rubin (1982), Berne and Schramm (1986), Groves and Valente (1986), Pammer (1990), and others laid out comprehensive theoretical frameworks for examining local fiscal condition and developed a broad theoretical understanding of various dimensions of government fiscal health. By the 1990s, academic interest in fiscal health slightly waned, as evidenced by the lower number of publications during the decade. Some of these publications, however, became highly influential, including the second edition of “Evaluating Financial Condition: A Handbook for Local Government” by Groves and Valente (1994), also known as the financial trends monitoring system (FTMS). Interest in local government fiscal health recovered after 2000. By 2003, the International City/County Managers Association’s (ICMA) FTMS was in its fourth edition (Nollenberger, Groves, and Valente 2003).

Since the 1990s, with the exception of ICMA’s FTMS, most innovative empirical research on fiscal condition has appeared in journals or edited volumes (e.g., Brown 1993; Chaney, Mead, and Schermann 2002; Hendrick 2004; Chaney 2005; Kloha, Weissert, and Kleine 2005; Frank 2006; Mead 2006; Kravchuk and Stone 2010; Rivenbark, Roenigk, and Allison 2010; Clark 2015). In 2013, the diversity of approaches to the analysis and management of fiscal condition was reflected in the *Handbook of Local Government Fiscal Health*, edited by Levine, Justice, and Scorsone (2013), which brought together a cohort of leading fiscal health researchers. The edited volume demonstrates that while there is some agreement on fiscal health as a theoretical concept, there is still little consensus on how to measure, predict, and manage a decline in fiscal health (Justice and Scorsone 2013). Importantly, empirically based studies that would test the external validity of the proposed measures of fiscal health are particularly lacking, although some of this work has been started by Clark (2015) and Stone et al. (2015).

Often guided by academic research, a number of states have adopted fiscal condition monitoring systems for their local governments over the past two decades, including New York (Office of the State Comptroller 2015), North Carolina (Coe 2007), Michigan (Kloha, Weissert, and Kleine 2005; Crosby and Robbins 2013), Ohio (Clark 2015), and Pennsylvania (Pennsylvania Department of Community and Economic Development 2011). The fiscal condition monitoring system proposed by Kloha et al. (2005), a blueprint for the Michigan state monitoring system, is an example of a relatively efficient fiscal health assessment for a large number of communities. It is based on the analysis of population changes, trends in real taxable property values, general fund expenditures, general fund operating position, and general long-term debt. Though the system does provide a useful assessment of the relative fiscal health of Michigan communities, the efficiency of the system comes at the expense of its accuracy. Since it uses absolute benchmarks to create binary scores (0 or 1) for various indicators of a government's performance which it then sums into a cumulative score, the system is prone to measurement error (Crosby and Robbins 2013). Besides, like its predecessor, Brown's 10-point test of municipal financial condition (Brown 1993), the Kloha et al. system focuses on municipalities' general fund, excludes enterprise funds, and ignores such long-term liabilities as pension obligations and other post-employment benefits (Crosby and Robbins 2013; Justice and Scorsone 2013; Plerhoples and Scorsone 2011).

We build on the existing body of literature to select indicators of fiscal distress that would effectively capture key measurable dimensions of local fiscal health. In contrast to the dominant empirical literature, we determine the fiscal distress status of a government based on its behavior, which often manifests as politically difficult fiscal decisions to address fiscal distress. In this respect, we offer an alternative approach to conducting empirical research on the

prediction of fiscal distress. The “behavioral” measure of fiscal distress becomes our dependent variable, and the fiscal and socioeconomic indicators work as predictors.

The structure of this paper is as follows. The next section offers an overview of the literature that guided us toward the choice of fiscal health predictors. We then present the *Conceptual Framework* used in this study. The *Data and Method* section describes the dependent variable, the independent variables, and the empirical models. In *Results*, we present and interpret the findings. The *Discussion and Conclusion* section highlights the paper’s implications for the theory of fiscal health research and offers two suggestions for the practice of fiscal management.

## **Literature Overview**

### ***What Is Fiscal Condition?***

Fiscal condition is typically understood as a position on a spectrum of financial “wellness” commonly referred to as fiscal health. Many local government researchers agree that “[a] host of factors affect local government finances, and no single metric is able to fully account for the various components of financial condition” (Jacob and Hendrick 2013, 11). It is often suggested that fiscal condition is shaped by local decisions and the external environment (Honadle, Costa, and Cigler 2004; Hendrick 2011; Nollenberger, Groves, and Valente 2003). As a result, an analysis of local fiscal condition or fiscal health often involves an analysis of the government’s environment, its fiscal structure, and the balance of fiscal structure with the environment (Hendrick 2004, 2011). From this perspective, the key to fiscal health is to adapt fiscal decisions to the environment (Hendrick 2011). The environment may be viewed broadly and may include a variety of factors, from immediate economic resources to political culture (Clark and Ferguson

1983). Conceptually, whenever fiscal decisions and available resources are misaligned, a government experiences fiscal stress (Chapman 2008).

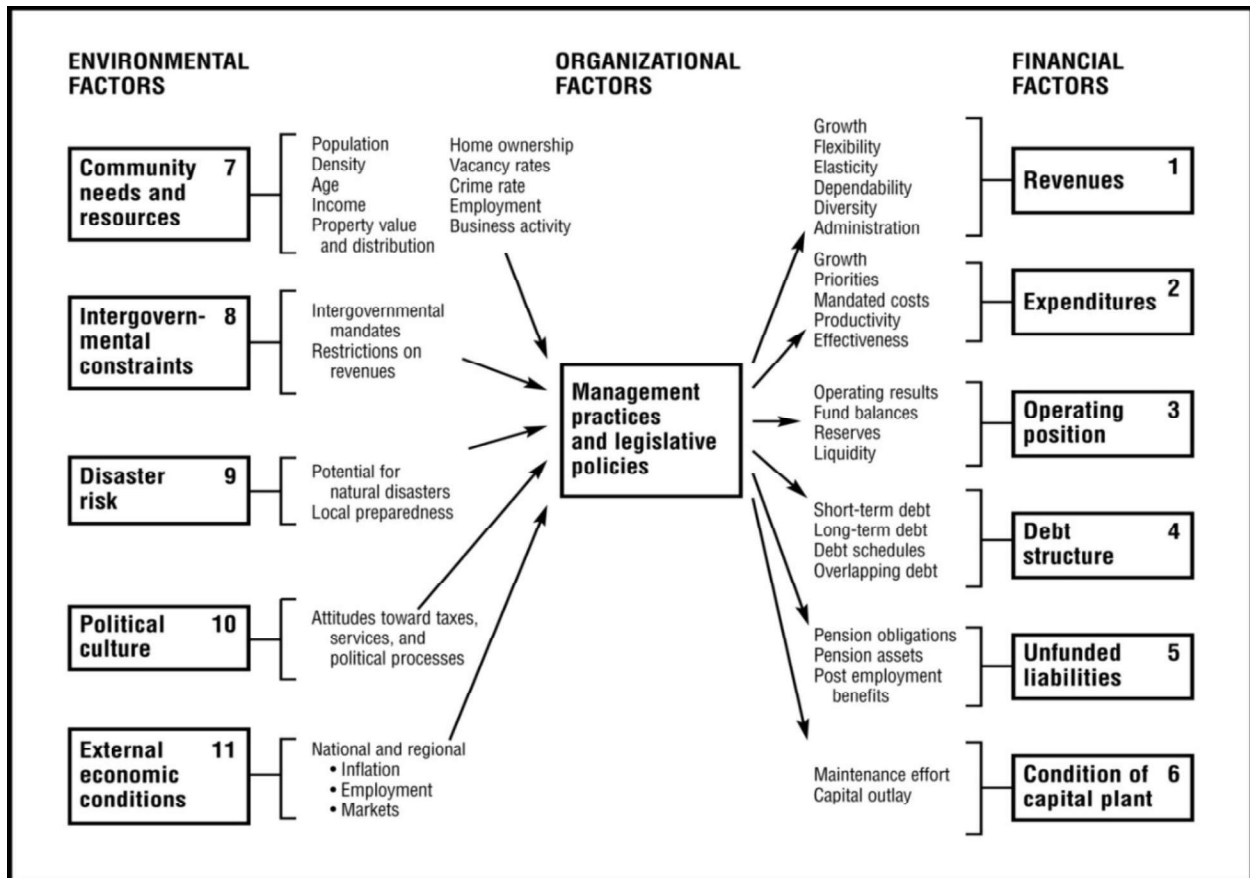
### *Fiscal Condition Metrics*

Perhaps the most comprehensive practitioner-oriented framework for fiscal condition monitoring was developed by the ICMA (Groves and Valente 1983, 1994; Nollenberger, Groves, and Valente 2003). The FTMS framework distinguishes among three types of factors that influence fiscal health: environmental, organizational, and financial. Environmental factors consist of those over which the community has little or no control: the external economy, intergovernmental constraints, community socioeconomic characteristics, disaster risk, and political culture. Organizational factors involve government practices and policies and largely remain a black box in the framework. Financial factors are the outcomes of organizational decisions with regard to available environmental resources and opportunities. Financial factors manifest as measures of revenues, expenditures, operating position, long-term liabilities, and asset maintenance. The environmental factors are predicted to affect government practices and policies, which in turn are predicted to affect the entity's financial condition.

The ICMA framework offers 48 potentially useful indicators of fiscal condition that characterize four dimensions of local fiscal condition: cash solvency, budgetary solvency, long-term solvency, and service solvency. Since local financial arrangements vary, the ICMA framework suggests that governments should choose the metrics they deem important and track them over time. Then, based on the direction of the trends, communities can determine whether their financial condition is improving, declining, or staying the same. There is no benchmarking relative to other entities and—given the complexity and breadth of the measures—no expectation

that a community will be able to monitor each of the identified metrics. This, of course, means that there is a lack of consistency in the use of metrics across communities.

**Figure 1: ICMA Fiscal Condition Monitoring System**



Source: K. Nollenberger, S. M. Groves, and M. G. Valente, *Evaluating Financial Condition: A Handbook for Local Government*, 4th ed. (Washington, DC: International City/County Management Association, 2003), 5. Reproduced with the permission of the ICMA.

Academic approaches to measuring fiscal condition are extensive—there are as many empirical fiscal condition metrics as there are studies. That being said, fiscal condition seems to be generally accepted as the ability of a government to meet its obligations. This conceptual definition is consistent with the definitions of fiscal health by Hendrick (2004) as the “ability of government to meet its financial and service obligations” (79), and by Berne and Schramm

(1986) as “the probability that a government will meet its financial obligations” (71). This study uses the notions of fiscal health and fiscal condition synonymously.

The empirical frameworks of fiscal condition tend to incorporate measures of revenues and expenditures, operating position, and fiscal flexibility (Berne and Schramm 1986; Hendrick 2004; Kloha, Weissert, and Kleine 2005). Measures of revenue and expenditure capacity have also received attention. For example, some scholars have combined revenue capacity and spending needs to create a measure of “need-capacity gap” (Ladd and Yinger 1989) or “standardized fiscal health” (Chernick and Reschovsky 2006; Skidmore and Scorsone 2010). Hendrick (2004) measured revenue capacity as own-source revenues relative to city wealth (tax base, personal income, and sales receipts). Maher and Nollenberger (2009) created a proxy for revenue capacity using general-fund revenues per capita, intergovernmental revenues as a percentage of total revenues, and own-source tax revenues as a percentage of general-fund revenues.

### ***Financial Reporting Effects***

As the measurement of fiscal condition has evolved, so has financial reporting. The most important change in financial reporting was GASB 34, which was adopted in 1999 and required governments to produce accrual-based government-wide financial statements. Chaney (2005) and Chaney, Mead, and Schermann (2002) offered some of the first fiscal condition metrics based on government-wide statements. This work was followed by Wang, Dennis, and Tu (2007), who assessed the validity of government-wide ratios; Rivenbark, Roenigk, and Allison (2010), who offered a practical approach for local officials to collect data and explain financial condition using government-wide ratios; and Arnett (2012), whose dissertation focused on state-level financial condition analysis using government-wide statements. The purpose of the

measures using government-wide statements remained the same—to capture changes in four commonly identified dimensions of fiscal health: cash solvency, budgetary solvency, long-run solvency, and service-level solvency. The benefits of government-wide statements over fund statements include an opportunity to capture long-term liabilities such as pension obligations and an opportunity to uniformly report on government assets and liabilities beyond the general fund (Mead 2013). More recent fiscal condition ratios include a combination of fund and government-wide statements (Mead 2013; Maher 2013). Despite efforts to demonstrate the validity of the ratios based on government-wide statements (particularly by Wang, Dennis, and Tu 2007), government-wide measures have recently been challenged by Clark (2015).

### ***Evaluating Fiscal Condition***

In addition to a variety of possible indicators of fiscal condition, several approaches have been developed to combine the indicators into a single measure of fiscal condition. Brown (1993) offered a cumulative score of fiscal condition based on a community's quartile ranking on each of the 10 indicators. Kloha, Weissert, and Kleine (2005) came up with relative benchmarks for each indicator, assigned the score of 1 to governments that met a benchmark and 0 otherwise, and then summed the scores for each indicator into a single aggregate score. Mead (2006) revised Brown's test to include indicators of pension funding. Yet Hendrick (2004) asserted that fiscal health is too complicated to combine into one single score and that "measures of [different] dimensions should be constructed separately and assessed in relation to one another to produce a complete and more accurate picture of fiscal conditions" (85). In this respect, rating agency credit ratings offer a compromise between a single score and a vast variety of indicators. A credit rating consolidates all relevant information about a government into a single metric, while

allowing for a categorical differentiation of fiscal conditions through rating grades. Importantly, when credit rating agency analysts construct a rating, they analyze both quantitative and qualitative information. However, since the investor community takes changes in government credit ratings seriously, changes in rating tend to be made conservatively (when a critical mass of evidence is collected) and may lag behind an actual change in fiscal condition.

### ***Where Are We Now?***

Despite the extent of the academic and professional literature and the increasingly widespread use of metrics of fiscal condition in modern management practices (for a review, see Stone et al. 2015), fiscal condition measurement issues are yet to be resolved, and empirical methodologies for predicting fiscal distress are yet to be perfected. Importantly, there is a growing understanding that indicators of fiscal condition need to be validated against some objective reality of whether a government is experiencing fiscal prosperity or distress (Clark 2015; Stone et al. 2015). Clark offers a full-fledged criticism of research that relies on a single composite indicator or arbitrarily picks indicators as measures of fiscal condition. Following Rivenbark, Roenigk, and Allison (2010), Clark (2015) recognizes that “aggregate scores may hide a particular area of weakness shown by an individual indicator” (73) and that some indicators may not be valid measures of fiscal condition when compared against actual government performance. Echoing Clark’s concerns, Stone et al. (2015) attempt to validate existing metrics of financial condition by focusing on a single case study of Detroit. They offer a descriptive analysis of a variety of Detroit’s fiscal indicators over a decade, including the indicators proposed by Kloha, Weissert, and Kleine (2005). The authors view the city’s bankruptcy as an unequivocal expression of a poor fiscal condition and show that asset and liability ratios,

operating solvency, and business-type activity ratios are the most useful predictors of its distress. Because a single case study cannot be generalized, more empirical work is needed to validate existing indicators of financial condition against actual government performance and to identify indicators that can be used as predictors of fiscal crises.

### **Conceptual Framework**

This study scales up and further develops the empirically based approach to the analysis of predictors of fiscal distress pioneered by Stone et al. (2015). We work with a sample of close to 300 city and county governments over the period from 2007 to 2012. First, we propose a new measure of fiscal distress based on the information from Comprehensive Annual Financial Reports (CAFRs), local budgets, and news media. We then explore which of the theoretically plausible fiscal and socioeconomic indicators act as statistically significant predictors of fiscal distress.

This paper defines fiscal distress as the condition of local finances in which the government cannot provide public services and meet its own operating needs to the extent that it previously did. To create the dependent variable, we draw from the literature on strategies that governments use to address fiscal distress. Building on the works by Levine, Rubin, and Wolohojian (1981) and Hendrick (2011), who propose typologies of such strategies, we compiled a list of actions that we view as indicators of fiscal distress. Then, if a CAFR, budget, or news source revealed that a government took one of the listed actions in a given fiscal year, we designated that government as fiscally distressed. Though many governments provide meaningful insight into what happened during the fiscal year in their CAFRs and budgets, some governments provide only a pro forma “Management and Discussion” section in their CAFRs and sketchy descriptions in their budgets. For example, a city or county may lay off or furlough

workers without it being mentioned in the CAFR or the budget. Therefore, we supplemented the analysis of CAFRs and budgets with web news content analysis, and we ran Google queries on each city and county for each year of analysis where we included the name of the government and keywords for actions associated with fiscal distress. Based on the query results, we examined the news media coverage to determine if a government was fiscally distressed. As a result, a city or county that (for example) did not mention layoffs or furloughs in its CAFR or budget is coded as fiscally distressed if it received media coverage that any of these actions did, in fact, occur.<sup>1</sup> A comprehensive listing of the actions that signal fiscal distress is provided in the *Data and Method* section and includes personnel layoffs, furloughs, and failures to make full pension contributions or payments to vendors. Just like Detroit's bankruptcy, used as a measure of distress by Stone et al. (2015), our measure of fiscal distress is characterized by high external validity because it reflects actual government behavior that attempts to address fiscal distress.

To select independent variables that would gauge key dimensions of government fiscal health, we build on the ICMA analytical framework (Nollenberger, Groves, and Valente 2003). In defining financial condition, the ICMA distinguishes among four dimensions of fiscal health: cash solvency, budgetary solvency, long-term solvency, and service-level solvency. Cash solvency suggests that a government has enough liquidity to meet its short-term obligations. Budgetary solvency means that a government can draw on sufficient revenues to cover its expenses on an annual basis and maintain a balance between its revenues and expenditures. Long-term solvency is present when a government can successfully meet its obligations over the long term. And service-level solvency suggests that a government is able to provide the level and quality of services desired by the local community. Our models include measures of cash

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<sup>1</sup> See Hendrick (2011) for another example of using local media sources to capture local fiscal actions during periods of distress.

solvency, budgetary solvency, and long-term solvency, which are detailed in the *Data and Method* section. We exclude service-level solvency because it tends to be compromised every time the government experiences fiscal distress, as we define it. In addition, service-level solvency would be particularly difficult to measure empirically (Ladd and Yinger 1989).

Besides solvency, our models include measures of revenue structure, government type, size, and local economic indicators. Revenue structure may be an important determinant of fiscal health because of its effects on revenue collections. Governments with diversified revenues may have higher revenue collections in times of economic growth but also higher revenue volatility in economic recessions (Carroll 2009; Oates 1988; Yan 2011). Though the net effect of revenue diversification on fiscal distress is difficult to predict, we posit that an increase in revenue volatility that is associated with diversification is likely to affect fiscal health negatively. Revenue volatility increases uncertainty of revenue collections and increases the probability of misalignment between fiscal decisions and available resources.

Based on the above conceptualizations, our empirical model is as follows:

$$\begin{aligned}
 \text{Fiscal Distress}_{it} = & \beta_0 + \beta_{1-2} \text{Cash Solvency}_{it} + \beta_{3-4} \text{Budgetary Solvency}_{it} + \\
 & \beta_{4-5} \text{Long-term Solvency}_{it} + \beta_6 \text{Revenue Structure}_{it} + \beta_{7-9} \text{Local Economy}_{it} + \\
 & \beta_{10-11} \text{Government type and size}_{it} + \beta_{12-14} \text{State effects}_s + \beta_{15-20} \text{Year effects}_t + \varepsilon_{it},
 \end{aligned}$$

where *Fiscal Distress* is a dichotomous measure. To capture *Cash Solvency*, we use the quick ratio and general fund balance. For *Budgetary Solvency*, we use the operating ratio and total local revenues per capita. We do not include a measure of solvency for business-type activities because many governments in the sample do not run business-type activities. In addition, these

operations are typically self-funding and are unlikely to cause fiscal distress for a general government. *Long-term Solvency* is measured as the level of debt and annual contributions to the pension plans. *Revenue Structure* captures a share of own-source revenues coming from the property tax. The models also control for government type and size and for local economic factors such as the change in income, the change in housing prices, and the change in population. To study the determinants of fiscal distress, we run binary logistic regression models with state and year fixed effects. Since the observation period is only six years and the sample of governments is relatively small, we focus on the models with heteroscedasticity-robust standard errors clustered by city or county. We prefer these models to government fixed-effect models that would involve the loss of multiple degrees of freedom and statistical power.

### **Data and Method**

The variables for the analysis come from the following data sources: Comprehensive Annual Financial Reports, budgets, news coverage, the US Census Bureau Annual Survey of Government Finances, and Zillow, an online real-estate database company. Initially, we collected CAFR data for 300 city and county governments from California, Pennsylvania, and Michigan over the years 2007–2012, producing a panel of 1,800 observations. The sample decreased to 1,767 observations after it was merged with the data from the US Census Bureau Annual Survey of Government Finances. Our concern at the beginning of the project was that we might not find enough cases of fiscal distress to run statistical models. We therefore selected three states known for having high-profile cases of municipal fiscal distress (Stockton, California; San Bernardino, California; Detroit, Michigan; Flint, Michigan; Harrisburg, Pennsylvania; and Scranton, Pennsylvania).

As mentioned previously, we created the dependent variable through the analysis of comprehensive annual financial reports, budgets, and news coverage. We operationalized fiscal distress as actions, often disruptive and politically unpopular, that a government takes because it is unable to meet its fundamental operating needs and service requirements. We coded a government as fiscally distressed in a given year if its financial management was characterized by at least one of the following: a blanket prohibition of overtime, a blanket reduction of employee salaries, personnel furloughs or layoffs, deferral of payments to vendors and other payees, large across-the-board budget cuts or cuts in key services, budget enactment later than two months after the beginning of the fiscal year, pension contributions less than 75 percent of annual required contributions, unusually large interfund transfers, unusual tax rate or fee increases, declaration of fiscal emergency, default on municipal debt, credit rating downgrade, bankruptcy, auditor doubts that the entity may continue to be a “going concern,” or a takeover by the state or significant state financial assistance (bailout). Table 1 provides frequencies of the episodes of fiscal distress by state.

The explanatory variables are measured and scaled as follows:

- *Cash solvency*. The quick ratio consists of cash and cash equivalents divided by current liabilities. The general fund balance is measured as a percentage of total general fund expenditures.
- *Budgetary solvency*. The operating ratio is the ratio of total governmental funds revenues to total governmental funds expenditures, expressed as a percentage. Total revenues per capita are measured in thousands of dollars and adjusted for inflation using the Consumer Price Index with 2012 as the base year.

- *Long-term solvency.* To measure local debt burden, we use total debt as a percentage of total revenues and annual required pension contributions as a percentage of total revenues.
- *Revenue structure.* We measure revenue structure as a percentage of total own-source revenue coming from the property tax.

**Table 1. Frequency of Fiscal Distress Episodes by State in the 2007–2012 Period**

Episode type	CA	MI	PA	Total
Blanket prohibition of overtime	1	0	0	1
Blanket reduction in employee salaries	79	3	2	84
Considerable layoffs or furloughs	7	13	4	24
Deferred capital projects	9	1	0	10
Deferred payments to vendors and other payees	2	0	4	6
Large across-the-board budget cuts, cuts in services	256	50	6	312
Late budget enactment (> 2 months after FY began)	2	3	0	5
Pension contributions less than 75% of annual required contributions	0	5	9	14
Unusually large interfund transfers	15	2	5	22
Unusual tax rate or fee increases	21	14	33	68
Declaration of fiscal emergency	7	0	2	9
Default on municipal debt, credit rating downgrade	2	2	2	6
Bankruptcy or auditor “going concern” doubts	1	0	1	2
Takeover by the state or state financial bailout	0	1	0	0
Number of episodes	402	94	68	564
Total number of government-years	1,198	281	288	1,767

Note: Data were collected by the authors from CAFRs, budgets, and news media.

The control variables were measured as follows. Changes in population, income, and home prices are expressed as annual percent change. Besides modeling the effects of population changes, the study also controls for the effects of government type and size. Counties are coded to be different from cities. Governments with population less than 50,000 are coded as small; governments with population between 50,000 and 150,000 are coded as medium; and governments with population over 150,000 are coded as large.

## Results

### *Descriptive Statistics*

Table 2 presents the descriptive statistics and data sources for each variable. The dependent variable suggests that 32 percent of the sample experienced fiscal distress between 2007 and 2012. The average general fund balance was 46 percent of the general fund expenditures, and it ranged from a negative 126 percent to a positive 219 percent, with a standard deviation of 41 percent.

The average operating ratio was 96 percent, with a range of 55–134 percent and with a standard deviation of 9.94 percent. The proximity of the average operating ratio to 100 percent during a period of economic slowdown may reflect the effectiveness of local balanced-budget requirements.

The average total revenue per capita was \$1,665, with a wide variation from \$171 to \$6,685 and a standard deviation of \$994. The average debt burden of a government was 96 percent of its total revenues, ranging from 0.48 percent to 484 percent with a standard deviation of 66 percent. The average annual required contribution to pension plans amounted to 6.63 percent of total revenues, ranging from zero to 28 percent with a standard deviation of 3.99 percent. Property tax as a share of total revenue averaged 25 percent, ranging from 2.54 percent to 58 percent with a standard deviation of 9.20 percent. The average population change in a given year was less than one percent but ranged from -6.92 percent to +9.49 percent, with a standard deviation of 1.46 percent. Changes in housing prices for the period of analysis averaged -6.55 percent, ranging from -41.5 to + 32.4 percent, with a standard deviation of 8.2 percent.

**Table 2. Descriptive Statistics and Data Sources**

Variable	Mean	SD	Min.	Max.	Source
Fiscal distress (dichotomous)	31.91	—	0	1	CAFR
Year					
2007 (%)	16.85	—	0	1	—
2008 (%)	16.79	—	0	1	—
2009 (%)	16.62	—	0	1	—
2010 (%)	16.09	—	0	1	—
2011 (%)	16.85	—	0	1	—
2012 (%)	16.79	—	0	1	—
Cash solvency					
Quick ratio (cash/current liabilities)	3.24	4.33	-0.70	54.22	CAFR
General fund balance (% of total expenditures)	45.82	40.81	-126.16	219.46	CAFR
Budgetary solvency					
Operating balance (total revenues/total expenditures as %)	95.65	9.94	55.44	133.79	Census
Total revenues per capita (in \$ thousands)	1,665	994.97	171.31	6,685.27	Census
Long-term solvency					
Total debt (% of total revenues)	95.87	66.63	0.48	484.19	CAFR
ARC (% of total revenues)	6.64	3.99	0.00	28.05	CAFR
Revenue structure					
Property tax (% of own-source revenues)	25.05	9.21	2.54	58.21	Census
Socioeconomic environment					
Change in income (%)	0.02	0.03	-0.13	0.09	Census
Change in house prices (%)	-6.55	8.22	-41.52	32.37	Zillow
Change in population (%)	0.77	1.46	-6.92	9.49	Census
Government type and size					
County government	30.02	—	0	1	CAFR
Big city/county (> 150,000)	31.49	—	0	1	Census
Medium city/county (> 50,000 and < 150,000)	55.56	—	0	1	Census
Small city/county (< 50,000)	12.94	—	0	1	Census
California	67.87	—	0	1	—
Michigan	14.34	—	0	1	—
Pennsylvania	16.79	—	0	1	—
Number of governments	295				
Number of government-year observations	1,767				

Sources: US Census Bureau (2007–2012), Annual Surveys of Government Finances, <http://www.census.gov/govs/local/>; Zillow (2006–2012), “Zillow Home Value Data,” <http://www.zillow.com/research/data/>; aggregate data from 300 CAFRs.

Governments with population less than 50,000 made up 12.9 percent of the sample; governments with population over 50,000 but less than 150,000 made up 55.5 percent of the sample; and the remaining 31.4 percent were governments with population over 150,000. Thirty

percent of the sample were counties. Over two-thirds of the cities and counties were in California, roughly 14 percent were in Michigan, and the remaining 16 percent were in Pennsylvania.

We considered using municipal-level fixed-effect models, but those models result in the loss of a third of the sample due to the lack of variation within a city or county in some variables. These models also involve the loss of multiple degrees of freedom and statistical power. Instead of giving up statistical power, we run models with standard errors clustered by city or county. Similar to fixed-effect models, these models address the issue of observational nonindependence across time.

### ***Multivariate Results***

Tables 3 and 4 present the parameter estimates for the odds of fiscal distress. In table 3, Model 1 includes solvency variables of interest, plus year fixed effects and state fixed effects. Model 2 of table 3 adds socioeconomic controls and measures of government type and size. Table 4 presents two models that have the same predictors as in table 3 but that lag all the time-varying predictors by one year.

As expected, all the models demonstrate the negative effects of the Great Recession on local fiscal conditions. The likelihood of a fiscal distress event is highest in 2009 and 2010. In addition to the year effects, three other strong and statistically significant predictors of fiscal distress are the general fund balance, debt obligations, and property taxes. In Model 2 of table 3, after controlling for the effects of the economic cycle, every percentage point increase in the general fund balance as a percentage of general expenditures is associated with a 1.3 percent decrease in the odds of fiscal distress. The effect is robust following the inclusion of socioeconomic controls and government type and size.

**Table 3. Logistic Regression Parameter Estimates with State and Year Fixed Effects, Predicted Log Odds of Fiscal Distress**

Covariate	Model 1			Model 2		
	Estimate	SE		Estimate	SE	
Intercept	-0.232	0.841		0.134	0.895	
Fiscal year						
[2007]						
2008	1.375	0.180	**	1.261	0.218	**
2009	1.804	0.198	**	1.629	0.325	**
2010	1.667	0.200	**	1.723	0.221	**
2011	1.559	0.199	**	1.660	0.214	**
2012	1.141	0.196	**	1.263	0.210	**
Cash solvency						
Quick ratio (cash/current liabilities)	-0.031	0.028		-0.044	0.029	
General fund balance (% of total expenditures)	-0.011	0.002	**	-0.013	0.002	**
Budgetary solvency						
Operating balance (total revenues/total expenditures as %)	-0.006	0.007		0.005	0.007	
Total revenues per capita (in \$ thousands)	-0.164	0.000	*	-0.160	0.000	*
Long-term solvency						
Total debt (% of total revenues)	0.005	0.001	**	0.004	0.002	**
ARC (% of total revenues)	0.001	0.025		-0.022	0.027	
Revenue structure						
Property tax (% of own-source revenues)	-0.024	0.010	*	-0.032	0.010	**
Socioeconomic environment						
Change in income (%)				-0.019	0.330	
Change in housing prices (%)				-0.010	0.011	
Change in population (%)				-0.004	0.027	
Government type and size						
County				-0.396	0.272	
[Big city/county (> 150,000)]						
Medium city/county (> 50,000 and < 150,000)				0.409	0.336	
Small city/county (< 50,000)				0.567	0.325	*
California	0.123	0.224		0.083	0.228	
[Michigan]						
Pennsylvania	-0.289	0.259		-0.153	0.261	
Number of government-years		1,767			1,767	
Model chi-square   -2 log likelihood		156   -1,053			159   -1,043	

Notes: Reference categories are in brackets. Robust standard errors are clustered by city or county. Significance levels are as follows: \*\*  $p < 0.01$ , \*  $p < 0.05$ , +  $p < 0.1$ .

Source: Calculations are by the authors.

In contrast, one percentage point increase in debt-to-revenue ratio increases the odds of distress by 0.4 percent. Model 2 also suggests that a percentage point increase in the government

reliance on property tax is associated with a 3.2 percent decrease in the odds of fiscal distress, controlling for the effects of time and other predictors. In addition, the models in table 3 show a statistically significant negative effect of total revenue per capita on fiscal distress. The effect, however, is significant only at the 0.05 level and is substantively small: a thousand-dollar increase in total revenue per capita reduces the odds of fiscal distress by only 16 percent.

Table 4 offers models with predictors lagged by one year. The key predictor variables remain statistically significant, and the magnitudes change only slightly. In addition to these effects, the models show a statistically significant effect of changes in home prices on the likelihood of fiscal distress. A percentage point increase in home prices decreases the odds of fiscal distress by 3.5 percent in the following year.

The effects of most other predictor variables are noteworthy even though they do not reach the level of statistical significance. As expected, the quick ratio and the operating ratio reduce the odds of distress. Increases in population and income affect fiscal distress negatively. Controlling for other factors, counties and large governments are less likely to experience fiscal distress than cities and smaller governments.

**Table 4. Logistic Regression Parameter Estimates with State and Year Fixed Effects, Predicted Log Odds of Fiscal Distress, with Explanatory Variables Lagged by One Year**

Covariate	Model 1			Model 2		
	Estimate	SE		Estimate	SE	
Intercept	-0.921	0.978		-0.711	1.072	
Fiscal year						
[2008]						
2009	0.654	0.168	**	0.652	0.173	**
2010	0.429	0.182	*	0.320	0.188	+
2011	0.319	0.194		0.245	0.198	
Cash solvency						
Quick ratio (cash/current liabilities)	-0.028	0.028		-0.041	0.029	
General fund balance (% of total expenditure)	-0.008	0.003	**	-0.010	0.003	**
Budgetary solvency						
Operating balance (total revenues/total expenditures as %)	0.014	0.009	+	0.012	0.009	
Total revenues per capita (in \$ thousands)	-0.204	0.095	*	-0.186	0.101	+
Long-term solvency						
Total debt (% of total revenues)	0.007	0.001	**	0.005	0.002	**
ARC (% of total revenues)	0.016	0.028		0.004	0.030	
Revenue structure						
Property tax (% of own-source revenues)	-0.031	0.013	**	-0.036	0.013	**
Socioeconomic environment						
Change in income (%)				-0.694	1.877	
Change in housing prices (%)				-0.033	0.011	**
Change in population (%)				-0.069	0.044	
Government type and size						
County				-0.333	0.314	
[Big city/county (> 150,000)]						
Medium city/county (> 50,000 and < 150,000)				0.240	0.247	
Small city/county (< 50,000)				0.513	0.386	
California	0.029	0.252		0.076	0.259	
[Michigan]						
Pennsylvania	-0.518	0.293	+	-0.164	0.311	
Number of government-years		883			883	
Model chi-square   -2 log likelihood		59   -563			73   -551	

Notes: Reference categories are in brackets. Robust standard errors are clustered by city or county. Significance levels are as follows: \*\*  $p < 0.01$ , \*  $p < 0.05$ , +  $p < 0.1$ .

Source: Calculations are by the authors.

## Discussion and Conclusion

As stated earlier, 32 percent of the communities across the three states in our sample experienced fiscal distress, which, on its own, sheds light on the magnitude of the 2007–2009 recession.

Understanding the determinants of those incidents has been the focus of a number of scholars for more than 40 years. This study has taken a novel approach to the measurement and prediction of fiscal condition. Rather than trying to define fiscal stress through a set of fiscal and environmental indicators (e.g., Brown 1993; Kloha, Weissert, and Kleine 2005; Mead 2006), we identified local fiscal distress based on the analysis of governmental actions that indicated difficulties in maintaining a healthy fiscal path. We then tested theoretically grounded parsimonious models to best predict the incidents of fiscal distress.

While not offering the explanatory power we would have preferred (pseudo  $R^2$  range from 0.05 to 0.12), our models do offer insights into factors that are associated with fiscal distress in communities. We conclude that a reduction in the level of local fiscal reserves is a strong predictor of fiscal trouble and that an increase in debt as a share of total revenue increases the odds of fiscal distress. The findings, while not novel, highlight the importance of basic budgeting principles and should generate policy conversations at the local level about the appropriate size of fund balance and appropriate debt levels.

Importantly, local reliance on property tax revenues is negatively associated with fiscal distress. This finding suggests that communities that are relatively more reliant on non-property tax revenues expose themselves to a higher likelihood of fiscal distress in a recession than governments that are more reliant on the property tax. Interestingly, due to its unique nature—the housing bubble and burst—the 2007–2009 recession had dramatic effects on property taxes. The models show that local governments reliant on property taxes managed to weather the recession

better than governments reliant on other revenue sources. Importantly, given the lagged effects of the recession on property assessment values, decreases in property tax collection happened only after the recession had passed. By the time property assessments caught up with the declines in home market values, local sales taxes as well as fees and charges, which had been hit hard by economic contraction, had already begun to rebound. Even though the regression results caution governments against a heavy reliance on income-elastic revenue sources, governments need not necessarily scale down their revenue diversification strategies. Instead, after recognizing the risk that diversification poses to local fiscal health over the economic cycle, local officials could look for ways to guard against this additional risk—for example, by holding higher fiscal reserves or by arranging with other governments or the private sector for quick access to cash in a recessionary period.

We present additional models in table 5. Before running the models, we conducted diagnostics of all independent variables to make sure that their distributions were appropriate for running the models. We tried removing outliers and using logarithms for all the variables with non-normal distributions as part of the robustness testing. The results did not change much, and we decided to keep the independent variables consistent. All of them are expressed as percentages.

**Table 5. Robustness Checks of the Models Presented in Table 3: Logistic Regression Parameter Estimates with State and Year Fixed Effects, Predicted Log Odds of Fiscal Distress**

Covariate	Model 1		Model 2		Model 3		Model 4	
	Estimate	SE	Estimate	SE	Estimate	SE	Estimate	SE
Intercept	-1.257	0.248 **	0.692	0.740	-0.878	0.780	-0.232	0.841
Fiscal year [2007]								
2008	1.388	0.177 **	1.327	0.178 **	1.364	0.180 **	1.379	0.181 **
2009	1.850	0.191 **	1.734	0.195 **	1.773	0.197 **	1.803	0.198 **
2010	1.745	0.191 **	1.607	0.195 **	1.631	0.198 **	1.664	0.200 **
2011	1.642	0.192 **	1.564	0.194 **	1.532	0.197 **	1.563	0.199 **
2012	1.134	0.178 **	1.063	0.177 **	1.106	0.191 **	1.151	0.195 **
Cash solvency								
Quick ratio (cash/current liabilities)	-0.045	0.030	-0.044	0.030	-0.038	0.028	-0.031	0.028
General fund balance (% of total expenditures)	-0.011	0.003 **	-0.012	0.003 **	-0.011	0.003 **	-0.101	0.003 **
Budgetary solvency								
Operating balance (total revenues/total expenditures as %)			-0.018	0.007 *	0.006	0.007	-0.006	0.007
Total revenues per capita (in \$ thousands)			-0.067	0.065	-0.115	0.062 *	-0.180	0.074 *
Long-term solvency								
Total debt (% of total revenues)					0.005	0.001 **	0.005	0.001 **
ARC (% of total revenues)					0.011	0.025	0.002	0.024
Revenue structure								
Property tax (% of own-source revenues)							-0.022	0.011 *
Socioeconomic environment								
Change in income (%)								
Change in housing prices (%)								
Change in population (%)								
Government type and size								
County								
[Big city/county (> 150,000)]								

Medium city/county (> 50,000 and < 150,000)									
Small city/county (< 50,000)									
California	0.288	0.210	0.298	0.216	0.177	0.222	0.145	0.226	
[Michigan]									
Pennsylvania	-0.116	0.256	-0.182	0.259	-0.249	0.257	-0.309	0.258	
Number of government-years	1767	1767	1767	1767	1767	1767	1767	1767	
Model chi-square   -2 log likelihood	143   -1079	146   -1073	158   -1057	160   -1051					

Notes: Reference categories are in brackets. Robust standard errors are clustered by city or county. Significance levels are as follows: \*\* p < 0.01, \* p < 0.05, + p < 0.1.

Source: Calculations are by the authors.

In summary, our models show a relatively pronounced role of fiscal reserves, debt, and revenue structure in the prediction of local fiscal distress. This study highlights the importance of local fiscal policy that focuses on building and using adequate fiscal reserves to weather fiscal shocks. This policy is even more salient today than in previous decades because of the state-level initiatives to limit local taxing authority, especially property taxes in the vein of California's Proposition 13 and efforts to impose limits on revenue growth in the vein of Colorado's Taxpayer Bill of Rights, which by definition limit a community's ability to grow reserves. In addition, revenue diversification also calls for a responsible fiscal reserves policy because, while generally positive, it also means that governments need to be better prepared for fiscal shocks as their revenue structures become more vulnerable.

Lastly, these findings may be generalized only with caution. As previously stated, the Great Recession was unlike any other recession seen in the recent past. The housing bubble-burst resulted in a unique level of fiscal distress. Similarly, many local governments, especially in California and Michigan, were hit particularly hard during the recession for different reasons—housing bubble-burst in California and long-term fiscal distress in Michigan—meaning that the generalizability of the results to local governments throughout the United States is limited until the research can be expanded beyond these two states. Since the predictive power of individual measures of solvency and revenue structure is relatively modest, future research should consider exploring interactions between these individual measures of solvency as predictors of fiscal distress.

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Abigail Spanberger  
Governor

Carrie Chenery  
Secretary of  
Commerce and Trade

# COMMONWEALTH of VIRGINIA

Tamarah Holmes, PhD  
Director

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

### **Memorandum**

**To:** Commission on Local Government

**From:** DHCD Staff

**Subject:** Town of Tangier Fiscal Distress Update

**Date:** July 2, 2026

The Virginia Acts of Assembly and Code of Virginia direct the Commission on Local Government to serve in an oversight capacity to the state-appointed intervention staff (fiscal turnaround specialist) for a locality deemed in fiscal distress (§15-2512.1). On January 9, 2026, the Commission on Local Government began its oversight of the fiscal turnaround specialist for the Town of Tangier.

At its May 8, 2026, meeting, the Commission approved the Town of Tangier Performance Plan. The performance plan was scheduled to start July 1, 2026, with the exception of the hiring of an interim town manager, which was to begin immediately. Enclosed is the Town of Tangier Performance plan as approved by the Commission on May 8, 2026.

To date, the Town has not been able to hire a town manager or equivalent position. Enclosed is a letter from the Town of Tangier requesting additional support from the Commonwealth to implement the recommendations from the fiscal turnaround specialist.

Enclosures



# *Town of Tangier*

*4443 Janders Road, PO Box 244*

*Tangier, Virginia 23440*

*757-891-2438*

*Mayor: James Eskridge*

*Vice Mayor: Elizabeth P. Thomas*

*Council Members:*

*William T. Eskridge, III*

*Anna Pruitt-Parks*

*Kelly Wheatley*

*Tracy Pruitt*

*Normand St. Pierre*

June 8, 2026

Dr. Tamarah Holmes  
Virginia Department of Housing and Community Development (DHCD)

Dear Dr. Holmes:

On behalf of the Mayor and Town Council of the Town of Tangier, we would like to express our sincere appreciation for the assistance, guidance, and support that the Virginia Department of Housing and Community Development has provided throughout the Distressed Locality Program and the Fiscal Turnaround Process. We are grateful for the time, expertise, and commitment that DHCD, the Commission on Local Government, and other Commonwealth partners have devoted to helping our community address its significant financial challenges.

As you know, the Town of Tangier participated in the Distressed Locality Program and was subsequently determined to be experiencing severe financial distress. Since taking office on January 1, 2025, the newly elected Town Council has worked diligently to understand the full scope of the Town's financial condition and to begin implementing corrective measures. Unfortunately, as additional information has come to light, it has become clear that the financial challenges facing the Town are even more severe than originally understood.

The Town is fully committed to completing the Fiscal Turnaround Process and implementing the recommendations provided by DHCD and the Commission on Local Government. However, we must be candid in stating that accomplishing these objectives without significant financial and technical assistance from DHCD and other state resources will be nearly impossible given our current circumstances.

At present, the Town is facing several immediate and substantial financial threats. We have been notified that our insurance coverage through VRSA is at risk of cancellation unless approximately \$42,000 is paid by June 26, 2026. The Town currently does not have the funds available to satisfy this obligation. Additionally, we have recently learned that the Town's tax liability to the Internal Revenue Service may exceed \$150,000. As the necessary filings are completed and the full extent of those obligations is determined, we anticipate significant collection efforts by the IRS. These liabilities continue to compound an already dire financial situation and place additional strain on the Town's limited resources.

Simply put, the financial hole continues to deepen with no realistic means for the Town to address these obligations on its own. While we remain committed to implementing the Fiscal Turnaround Plan, the Town lacks the financial capacity necessary to satisfy many of the requirements outlined by DHCD and the Commission on Local Government. For example, one recommendation is the immediate hiring of an experienced part-time Town Manager. We fully recognize the value and necessity of this position and would welcome the opportunity to bring such expertise to Tangier. However, the Town is currently struggling to maintain payroll for its existing employees, making the addition of another staff position financially unattainable without outside assistance.

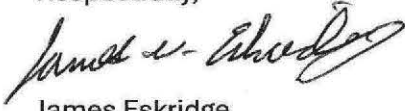
The Town's financial condition is beyond dire. We are approaching a point where the weight of these obligations threatens the Town's ability to continue providing essential services and maintaining basic governmental operations. If Tangier is to be successfully stabilized and placed on a path toward long-term fiscal sustainability, substantial financial assistance, technical support, and other state resources will be required.

Tangier is not simply another municipality facing financial hardship. It is one of Virginia's most unique and historically significant communities. For generations, Tangier has served as a living symbol of the Commonwealth's maritime heritage, culture, and resilience. The Town is recognized throughout Virginia and across the nation for its history, traditions, watermen, and enduring way of life. Preserving Tangier is important not only for its residents but also for the Commonwealth as a whole. The loss or continued decline of this community would represent the loss of an irreplaceable part of Virginia's cultural and historical identity.

Despite the challenges before us, the Mayor and Town Council remain committed to doing the difficult work necessary to restore fiscal stability and ensure a prosperous future for our community. We stand ready to partner with DHCD, the Commission on Local Government, and other state agencies in every way possible to achieve a successful turnaround. However, we respectfully ask that the Commonwealth recognize the extraordinary nature of Tangier's circumstances and consider allocating the significant resources necessary to make the Fiscal Turnaround Process a reality.

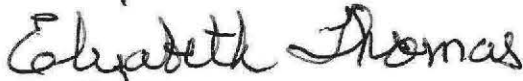
Thank you again for your continued assistance, guidance, and dedication to the Town of Tangier. We greatly appreciate everything that has been done thus far and look forward to continuing our partnership in the months ahead. We remain hopeful that, working together, we can preserve this unique Virginia community and establish a fiscally sound and sustainable future for generations to come.

Respectfully,



James Eskridge

Mayor, Town of Tangier



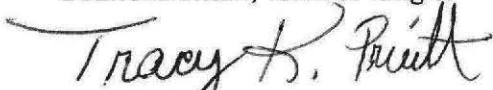
Elizabeth Thomas

Vice-Mayor/Councilwoman, Town of Tangier



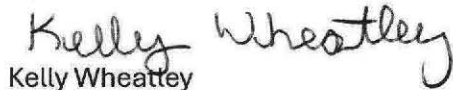
Anna Pruitt-Parks

Councilwoman, Town of Tangier



Tracy Pruitt

Councilwoman, Town of Tangier



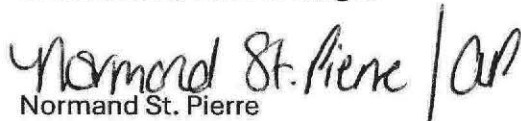
Kelly Wheatley

Councilwoman, Town of Tangier



William T. Eskridge, III

Councilman, Town of Tangier



Normand St. Pierre

Councilman, Town of Tangier

# Town of Tangier Performance Plan

## Executive Summary

Effective municipal governance requires adherence to established best practices that promote transparency, accountability, and responsible stewardship of public resources. While smaller localities often operate with limited staffing and financial capacity, they remain subject to the same fiduciary and operational standards as larger jurisdictions. In many cases—including the Town of Tangier—financial challenges are closely linked with organizational and leadership issues. Addressing both dimensions is essential for achieving long-term stability and recovery.

The Town of Tangier is currently facing a combination of financial, administrative, and structural vulnerabilities that threaten its ability to function effectively as a municipal entity. To support the Town Council and staff in navigating these challenges, the financial turnaround plan prepared by the Berkley Group (*Town of Tangier Fiscal Distress Report, March 2026*) outlines a focused set of implementation strategies designed to stabilize operations and lay the groundwork for sustainable recovery. These strategies concentrate on three core areas: **general government management, legal support, and financial stability**. Together, they form an actionable roadmap that prioritizes immediate needs while acknowledging the necessity of long-term planning.

The purpose of the performance plan is to assist the Commission on Local Government in its oversight capacity and serve as a guide for the Commission to determine whether the locality has taken appropriate action to address the issues that led to the locality's fiscal distress designation. Adherence to the performance plan will ensure immediate remediation of high-risk issues, implementation of foundational management and financial controls, and the development of sustainable practices to support ongoing organizational effectiveness. The Tangier Performance Plan is organized across the same three primary focus areas: Government Management, Legal Support, and Financial Stability.

**Government Management** priorities center on establishing core administrative capacity and governance structures. Initial actions include completion of an emergency checklist, development of written financial policies, and engagement of a part-time Town Manager. Additional requirements include providing budget assistance, developing standard operating procedures for core functions, and delivering council and staff training. These efforts are intended to restore basic operational functionality and accountability. Longer-term objectives include development of a Capital Improvement Plan to support strategic planning and infrastructure investment.

**Legal Support** actions are designed to mitigate immediate legal and compliance risks. Required measures include implementing legal holds on accounts, authorizing emergency procurement processes, conducting attorney contract review, and coordinating with financial institutions through formal communications. These steps are necessary to ensure legal compliance, protect organizational interests, and support financial recovery efforts.

**Financial Stability** represents the most critical component of this plan and requires immediate and sustained attention. Initial actions include securing bank access and freezing discretionary spending to prevent further financial risk. This is followed by a forensic audit, monthly account reconciliations, and stabilization of payroll administration, including potential outsourcing. Additional requirements include completion of an emergency budget amendment, implementation of cash flow forecasting, and procurement of an appropriate accounting system. Longer-term actions focus on restoring audit cadence, reconciling water billing systems, and ensuring ongoing financial transparency and accountability.

The Tangier Performance Plan will be implemented according to the following phased timeline:

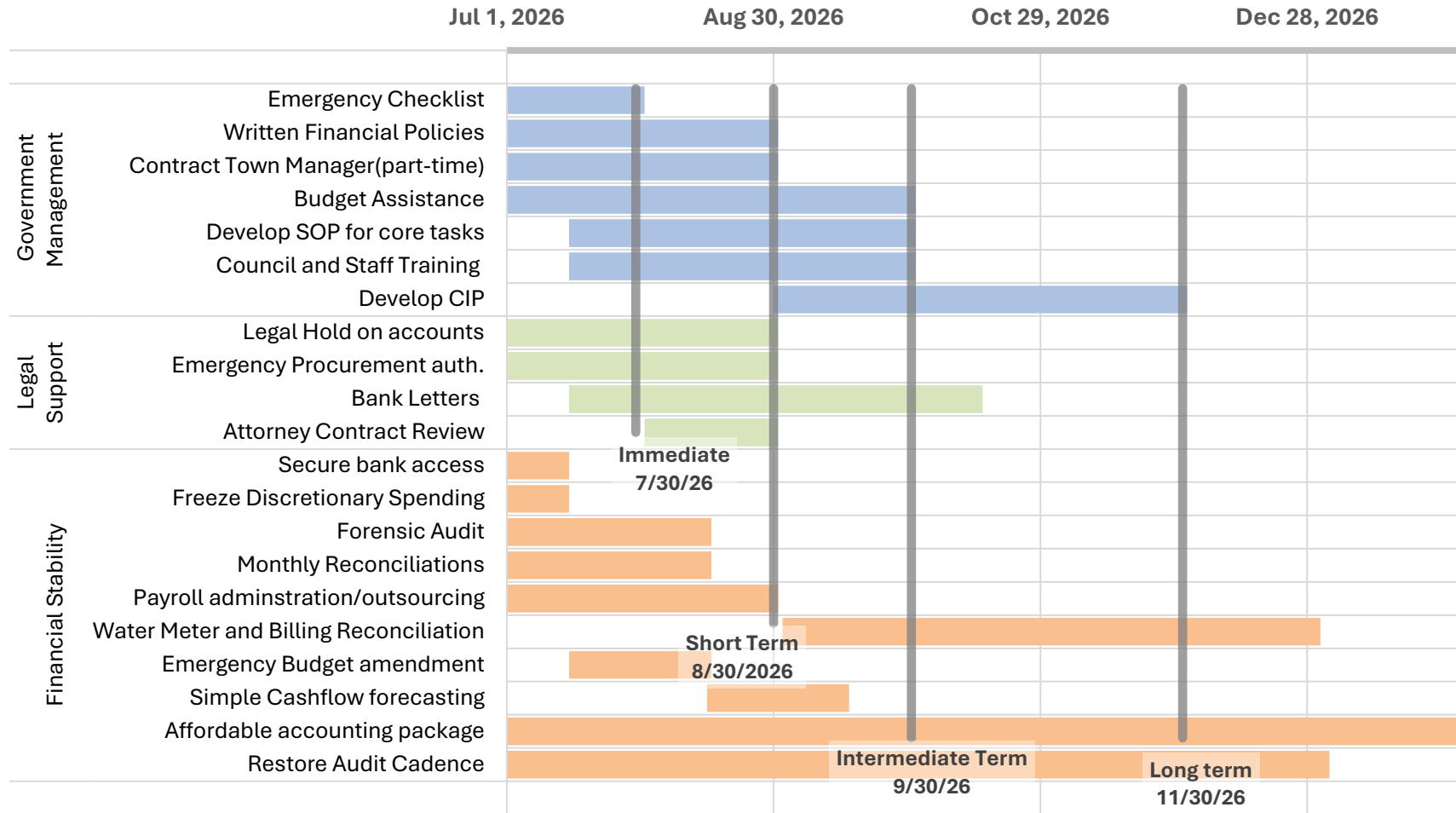
- **Immediate Phase (through July 30, 2026):** Execution of urgent stabilization actions, including financial controls, legal safeguards, and emergency management measures
- **Short-Term Phase (through August 30, 2026):** Establishment of foundational policies, contracts, and administrative support structures
- **Intermediate Phase (through September 30, 2026):** Implementation of operational improvements, including procedures, training, and financial systems
- **Long-Term Phase (through November 30, 2026 and beyond):** Achievement of sustained operational and financial stability through strategic planning, system optimization, and audit restoration

Progress will be monitored through regular reviews aligned with these milestones. Demonstrated improvement will be measured by the timely completion of assigned tasks, adherence to established policies, and the successful implementation of financial and administrative controls, as evidenced by surveys provided to the Town.

DHCD has provided initial technical support through connecting with Accomack County, the Auditor of Public Accounts, and additional stakeholders to facilitate the successful completion of this performance plan. Achieving financial recovery will require sustained commitment and ongoing vigilance. The action items identified in this performance plan represent the critical first steps toward restoring stability. However, as identified in the Berkley Group's report, the Town does not currently possess the financial or human resources necessary to complete these tasks independently. Additional external support—through technical assistance, contracted expertise, or intergovernmental partnerships—will be essential to implementing these recommendations and securing Tangier's long-term success

Successful completion of the Tangier Performance Plan will require consistent execution, accountability, and measurable progress across all identified focus areas. Continued adherence to these standards will be expected beyond the performance plan's conclusion to ensure long-term organizational stability.

# Performance Plan Timeline



## Town of Tangier - Performance Plan

	<i>Task</i>	<i>Priority</i>	<i>Time frame</i>	<i>Length</i>
<b>General Government</b>				
1.1	Issue emergency governance checklist & calendar (monthly reviews, budget calendar, public reporting)	High	Immediate	0-30 days
1.2	Adopt simple written financial policies: procurement thresholds, emergency spending limits, approval matrix	High	Short term	30-60 days
1.3	Contract with professional part-time Town Manager	High	Short term	30-60 days
1.4	Hire outside assistance to develop FY27 budget template and guide Town through process	High	Short term	30-60 days
1.5	Document critical processes & create one-page SOPs for core tasks (bank recs, deposits, payroll run, vendor payment)	High	Short term	30-60 days
1.6	Council and staff training offered through VML.	High	Short term	30-60 days
1.7	Develop and adopt Capital Improvement Program	Medium	Intermediate term	60-90 days
<b>Legal Support</b>				
2.1	Issue legal hold and secure forensic copies of former manager files and key systems	High	Immediate	0-30 days
2.2	Have part-time Town Attorney review high-risk contracts & leases and prepare standard contract template	High	Short term	30-60 days
2.3	Draft emergency procurement authorization language and advise Council on emergency spending limits	High	Short term	30-60 days
2.4	Assist in preparation of demand/confirmation letters to banks and lenders if needed	Medium	Intermediate term	60-90 days
<b>Financial Stability</b>				
3.1	Secure bank access: change online credentials, remove ex-signatories, request bank confirmations	High	Immediate	0-30 days
3.2	Freeze discretionary project spending on grant-impacted items; require pre-approval for draws	High	Immediate	0-30 days
3.3	Engage External CPA (short contract) to perform a) forensic bank reconciliation, b) rebuild basic trial balance, and c) prioritize audit backlog	High	Short term	30-60 days
3.4	Start monthly bank reconciliations with independent reviewer and simple journal entry approval log	High	Short term	30-60 days
3.5	Validate payroll roster and implement direct deposit and payee verification; consider outsourcing payroll	Medium	Short term	30-60 days
3.6	Recommission meters and begin a phased meter-reading & billing reconciliation program	Medium	Intermediate term	60-90 days
3.7	Adopt emergency budget amendments to accurately separate funds and identify restricted grant revenues	High	Short term	30-60 days
3.8	Implement simple cash-flow forecasting (monthly); 90-day rolling projections; link to payment calendar for debt services	High	Short term	30-60 days
3.9	Plan for medium-term: select affordable accounting package or stable outsourced processing (3–12-month plan)	Medium	Intermediate term	60-90 days
3.1	Restore audit cadence: engage auditor for FY2026 and backlog years as feasible	High	Long term	90-180 days