

## CONNECTICUT CASE STUDIES

### Bridgeport

Bridgeport, Connecticut's largest city, experienced deep financial difficulties in the 1980s that culminated in takeover action by state authorities. When the Connecticut legislature first addressed the Bridgeport emergency in 1988, the city had a projected cumulative deficit of \$60 million, including an anticipated \$20 million shortfall for the current fiscal year, 1987-88. The deficit had accumulated over a decade, with the most immediate causes poor tax collections and overestimates of revenue. The laws which the Connecticut legislature passed were Special Acts 88-80, 89-23, 89-47, 90-31, 91-40. The various Bridgeport acts all amend SA 88-80.

The primary purpose of the various pieces of legislation was the creation of the Bridgeport Financial Review Board (BFRB). The BFRB borrowed from the credit markets sufficient amounts to remedy the short term financial problems of the city. Beyond borrowing, the BFRB efforts led to the reorganization of the city government, shedding of responsibilities, renegotiation and oversight of collective bargaining agreements, and some leadership in prompting redoubled economic development efforts. The BFRB voted itself out of existence in September 1995.

The BFRB had eleven members. These members included the State treasurer (ex officio chair), the secretary of the Connecticut Office of Policy and Management (ex officio), the mayor of Bridgeport (ex officio), two gubernatorial appointees, two mayoral appointees (one of whom was a city resident), two members of the public (one appointed jointly by the Connecticut House of Representatives speaker and Senate president pro tem and the other jointly by House and

Senate minority leaders), and two state treasurer appointees (one of whom was a city resident and the other a representative of organized labor).

The BFRB's most significant powers pertained to budgeting, taxes and financial planning. It could approve or reject the budget passed by the Council and adopt an interim budget or modify the budget after it was passed. These modifications included adding funds from unanticipated revenues to existing appropriations, approving all general and capital fund transfers before submission to Common Council, and further modifying the budget if the city ran another deficit or lost access to the credit markets.

In fact, the BFRB's primary purpose was the interim financing of the budget deficit. The legislation held that the Common (city) Council could authorize issuance of bonds and bond anticipation notes to cover up to 50% of the specified fiscal year deficits until eliminated. However, the City could not borrow money for other purposes during the emergency period. The Council could delegate to the mayor the power to set bond terms and conditions, subject to the BFRB's approval. The city could issue 20-year bonds and 12-month notes under terms and conditions set by mayor and approved by the BFRB. The legislation placed a property tax intercept in an indenture of trust with the bonds issued, effectively redirecting portions of the property taxes collected to insure repayment of bond principal and interest. In addition, the legislation provided for a state-backed special capital reserve fund (SCRF) for up to \$35 million as additional reserves to repay bond principal and interest. The legislation forced the city to affirm bondholders' rights and benefits and use bond proceeds to repay notes first before paying any other expenditures. In the event of default by the city, the state would advance funds appropriated to the city. The state also pledged not to limit or alter the legislation until the bonds were repaid unless bondholders were protected in some other way.

Regarding taxes, the Board approved the budget's annual tax collection rate percentage, and it could require certain tax rate levels to ensure a balanced budget. Regarding financial planning, the legislation required (no later than 45 days after the effective date of the Act and thereafter, no later than 125 days prior to the start of each fiscal year) the city to develop a three-year financial plan. Each plan would provide for the elimination of all deficits in the general fund; the restoration to all funds and accounts (including capital accounts) of any money from such funds and accounts that were used for purposes of these funds and accounts; balanced operating funds; the maintenance of current payments to all accounts, the estimate of the amount of bonds and notes needed to be issued by the city for emergency purposes; and the explication of all assumptions on which the city's managers based revenue and expenditure estimates. The BFRB could approve the plan, force modifications and approve them, certify revenue estimates and conduct compliance audits to ensure that the city followed the financial plan. If the plan did not remedy the deficit or led the city to lose credit market access, the BFRB could make additional modifications to the financial plan.

The BRFB also had authority over the city's borrowing. Its power over bonds and notes was complete. The Board approved bond issuance and reviewed bond ordinances and resolutions for issuances over \$250,000. The Board approved the delegation to the mayor of the Common Council's power to set terms and conditions on borrowing. The Board members approved terms and conditions for bond anticipation notes. Finally, the members approved the creation of a state credit reserve fund.

The BFRB's powers over collective bargaining were limited. The Board could identify proposed agreements' impact on budget and plan and could comment on the fiscal impact of

proposed agreements that were in binding arbitration. As for contracts other than those resulting from collective bargaining, the BFRB could review contracts for compliance with the financial plan. In the case of the city's running a deficit or its inability to obtain credit, the Board could reject proposed contracts if they were inconsistent with the plan. The Board approved all contracts if there was a financial deficiency or if the city lost access to credit markets during or after the emergency period.

The BFRB's impact on organization and management was not direct. Rather, the Board reported on the management efforts of city officials by "reviewing and reporting on operating, management efficiency and productivity." This review led to efforts to reorganize city government, and to renegotiate labor contracts, and to attempts to eliminate positions and lay off employees. Only through court action, through the state treasurer, for mandamus, could the BFRB order city officials and employees to carry out the board's orders.

As a review board, the BFRB had no direct responsibilities for planning or management. The city had to prepare a three-year financial plan each fiscal year, modifying it as needed from year to year to eliminate the deficit and address efficiency, staffing, and other related matters. In budgeting, the legislation required the city to prepare and submit budgets that included only sums the Board certified. The city had to forecast annual tax collection rate percentages based on the average annual rate for the 3 prior years. The city could not budget increases to appropriated amounts except as allowed by the Board.

On the revenue side, the city had to assess and levy property taxes needed to fund the budget without deficits. The legislation provided that revenue derived from the sales of assets and other nonrecurring sources had to be applied in specified ways to ensure repayment of bonds and to eliminate the deficit.

As for financial management, the city could not transfer operating funds to a bond funded capital project without increasing the amount authorized in bond ordinance. No transfers of funds were permitted by the legislation from bond funded projects. All contracts had to have the Board's prior approval.

The legislation provided that the Bridgeport Financial Review Board would go out of existence six months after the financial emergency ended, but would be reactivated if the deficit reoccurred while the bonds issued under act are still outstanding.

**Primary Elements of Connecticut Special Act 88-80 and Revisions in Special Acts 89-24, 89-47, AND 90-31**

- Takeover triggering mechanism

A financial emergency prevails from the date of the act (1988) until the BFRB determines that: (A) the operating funds of the city shall have been in balance for two consecutive years; (B) the city has presented a three-year financial plan that projects positive operating fund balances; and (C) the city has access to the public credit markets.

- Composition of board

The BFRB has eleven members. (In 1988, it had nine members; two were added in 1990). Three members are ex-officio: the mayor, the state treasurer and the secretary of the state office of policy and management. Two members are appointed by the mayor (at least one must be a city resident). One is appointed jointly by the speaker of the house and the president pro tempore of the senate, and one is appointed jointly by the minority leader of the house of representatives and the minority leader of the senate. Two members are appointed by the governor and, as of 1990, two members are appointed by the state treasurer (at least one must be a resident of the city and one a representative of organized labor). The state treasurer serves as chairman of the board. The two members appointed by the legislative leaders serve two-year terms; the other

non-ex-officio members serve four-year terms. The board acts by a majority vote of the entire board.

- Development of financial plan

The Act requires the city, no later than 45 days after the effective date of the Act and thereafter, no later than 125 days prior to the start of each fiscal year, to develop a three-year financial plan.

Each plan shall provide for (1) elimination of all deficits in the general fund; (2) restoration to all funds and accounts (including capital accounts) of any moneys from such funds and accounts that were used for purposes not within the purpose of such fund or accounts or borrowed from such funds and accounts; (3) balancing operating funds; (4) maintenance of current payments in all accounts; (5) estimation of the amount of bonds or notes to be issued by the city and debt service requirements; and (6) assumptions on which revenue and expenditure projections are based.

- Powers of BFRB

Not more than 30 days after submission of the plan by the city, the board determines whether the plan is complete and complies with the requirements, and approves or disapproves the plan. If the board disapproves the plan the board formulates and adopts a plan which is effective until the board approves a financial plan submitted by the city.

In addition, BFRB is granted a number of other powers:

- a. Consult with the city in the preparation of the annual budget and approve the budget and certify to the city general fund budget revenue estimates approved therein.
- b. Approve the terms of each proposed long and short-term borrowing by the city during the emergency period.
- c. Adopt regulations regarding its approval of city contracts during emergency period.

d. Review and analyze prior to their approval by the common (city) council, all collective bargaining agreements to determine their financial impact on the current budget and the three year financial plan.

e. With respect to labor contracts in binding arbitration, at the request of either party, present testimony to the arbitration panel on the impact of the proposed contract provisions on the current year budgets and the three year financial plan.

f. Review and analyze to determine compliance with the three year financial plan, all capital fund contracts and all bond ordinances and resolutions of the city involving amounts of over \$250,000 and all general fund contracts and water pollution control fund contracts including collective bargaining agreements, which anticipate the appropriation of money in a future budget year of over \$100,000 or include termination penalties of over \$100,000.

g. BFRB shall from time to time, as it deems necessary:

1. Review the efficiency and productivity of city operations and management and make reports to the finance director and mayor.

2. Audit compliance with the financial plan and for the annual budget.

3. Recommend to the city such measures relating to the efficiency and productivity of the city's management as the board deems appropriate to reduce costs and improves services. [footnote 2: In January 1991, the board ordered the city to lay off 100 employees unless the city can find other ways to balance its budget. New York Times, January 20, 1991]

4. Obtain information on the financial condition and needs of the city.

h. BFRB shall receive from the city and review such financial statements and projections budgetary data and information as deemed necessary.

i. Inspect, copy and audit books and records as deemed necessary.

j. Monitor monthly reports of the financial condition of the city, the status of the annual budget and progress of the financial plan.

k. Monitor, along with the finance director, the city's revenues and expenditures.

- Financing powers

The BFRB does not have any power to issue debt on behalf of Bridgeport. However, the state legislation authorized the city to issue bonds supported by intercept revenues (local taxes held by a trustee) for the purpose of funding budget deficits through the period ending June 1988. The legislation also provided a state guarantee for \$35 million of these deficit bonds and notes.

### **Jewett City**

The borough of Jewett City had run deficits for six of the seven fiscal years between 1985-86 and 1991-92. Its cumulative deficit in FY 1991-92 was \$80,000, which represented over 10% of its annual operating budget. Because the borough's books were in such terrible condition, no one was really certain of its financial condition, according to the Connecticut Office of Policy and Management. The legislation creating a receivership was passed in 1993 (Special Act 93-4). Jewett City's receivership ended in June 1996.

The first part of the legislation allowed the city to issue bonds to overcome its cumulative and operating deficit. The legislation, however, made the bond issue and dollar amount subject to borough voters' approval. The bonds carried a state guarantee of repayment as well as a provision for the intercept of property tax collections and a debt service fund if repayment of principal and interest did not take place. Further legal remedies for bondholders included a trustee's power, after written request by holders of 25% of principal of outstanding bonds, to seek mandamus to enforce bondholders' rights and an injunction to stop unlawful acts or acts that violate their rights, or bring action on the bonds.

The legislation also created the office of receiver. The governor appointed the receiver to a one-year term, renewable at the discretion of the secretary of the State Office of Policy and Management. The receiver's powers over the budget included approval and rejection of the borough-passed appropriation. He or she could adopt an interim budget if the borough failed to adopt a budget or the receiver disapproved it by the beginning of the fiscal year, and could modify the budget if borough officials failed to act on the receiver's demand. The receiver reviewed and approved all budget transfers.

The receiver established a tax rate if the borough failed to adopt the budget or if the receiver disapproved it by the beginning of the fiscal year. He or she was authorized to levy a supplement if the original tax rate was insufficient to cover current expenditures.

The receiver oversaw the borough's development of a three-year financial plan. The secretary of the Office of Policy and Management ultimately had to approve the financial plan, but the receiver could, in reviewing the plan, modify it if the borough officials failed to do as the receiver requested.

The receiver had the power to approve or reject all collective bargaining agreements or amendments, indicating specific provisions rejected. He or she could review entire contracts, not just negotiated elements, in making decisions. The receiver could approve or reject revised agreements after review, and could impose a new, binding agreement if the parties were unable to revise as directed or if the receiver rejected the revision. Furthermore, the receiver could impose binding arbitration after 75 days of negotiation and then act as the binding arbitration panel.

The receiver could review and approve all noncollective bargaining contracts, and could set aside contracts that were not authorized by state and local law. The receiver could purchase,

sell, or transfer real and personal property or other assets with the approval of the secretary of the Office of Policy and Management.

The receiver's powers of execution were broad. The receiver could order officials to implement the receiver's decisions. City employees and officials were personally liable when they spent more than the appropriated amounts. The receiver, however, was not personally liable for any decisions. The receiver could call for the attorney general's application for mandamus or injunction to require implementation of the receiver's decisions or of the property tax intercept, debt service fund, or state funded bond guarantee.

The receiver directly supervised borough employees, having the power to hire, fire, and set the terms of employment. The receiver could pursue legal action against any officer or employee for spending more than budgeted appropriation. The receiver could retain outside financial, legal, and other consultants, especially as it was the receiver's task to formulate a borough recovery plan

The receivership terminated, according to the legislation, on June 30, 1995, six months after retiring bonds authorized by the act, or after three years of balanced budgets and projection of three years of positive fund balances. The legislation permitted the reestablishment of the receivership if an audit found an annual operating deficit more than .5%.

### **Waterbury**

When Waterbury first asked for state assistance in 1993, it reported its \$32 million of outstanding debt, \$10 to \$12 million of which was in five-year instruments it had used to finance recurring deficits. When it asked for further assistance in 1996, the city was reporting a \$24.8 million operating deficit. As a result, the Connecticut legislature passed two pieces of

legislation, Special Acts 93-25 and 96-3. The legislature also passed Special Act 2001-1, signed by the governor on March 9, 2001, creating a new financial review board.

The original Budget Advisory Council had three members with municipal, accounting, financial, or government experience; the governor and mayor each appointed one member, and the Senate president pro tempore and House Speaker jointly appointed one member (96-3).

The primary purpose of the review board was oversight of interim financing as well as approval of budgets and financial management. The legislation required that the city aldermen and board approve refunding bonds up to \$29.6 million (93-25). In addition, the legislation required that the aldermen approve deficit financing bonds up to \$20 million (96-3). The mayor, comptroller, or city board of finance could set bond terms (93-25, 96-3), and the refunding bond proceeds could not be used for operating expenses (93-25). To assure lenders, the city created intercepts for property taxes and other revenues as well as debt service fund (93-25). The revenue intercept, either separately or in combination with 93-25, was a state controlled technique to intercept any revenues necessary to pay debt service on deficit bonds (96-3). The state pledged not to limit or alter legislation until the bonds were repaid, unless bondholders are protected (96-3) in some other way. The legislation provided that the bond trustee or bondholders could seek (1) mandamus to enforce their rights, (2) injunction to stop unlawful acts or acts that violate their rights, or (3) a special tax or taxes to meet debt service payments or fill debt service fund or bring action on repayment of the bonds (93-25).

The Finance Review Board (FRB) had broad financial powers. On budgets, the Board could approve or reject them or modify them if the city failed to do so within sixty days of a request to modify them. The Board had the power to force the creation of a three-year financial plan, to review and approve it, and to modify it if the city failed to do so within sixty days of an

order to modify it. The Board reviewed and approved the proposed terms of all deficit bond issues. The city had to submit monthly and quarterly cash flow reports to the Board as well as provide any reports, data, and audits the Board requested.

The legislation provided that the Board would go out of existence after the city balanced its budget for three consecutive years. However, on the basis of a finding that a financial emergency exists in Waterbury, the legislature created the Waterbury Financial Planning and Assistance Board on March 9, 2001. According to the Hartford Courant (February 21, 2001), the secretary of the State Office of Policy and Management estimated that the city's deficit was as much as \$62 million, although the Mayor of Waterbury argued that the deficit was not more than \$35 million.

The new Board consists of seven members. The board members are the secretary of the Connecticut Office of Policy and Management (chair), the state treasurer, the Waterbury mayor, and four members appointed by the governor, one of whom must be a Waterbury resident, one of whom must be affiliated with a Waterbury business, one of whom must have expertise in finance, and one of whom must be the Chief Executive Officer of a Waterbury municipal employee union jointly recommended by a majority of the CEOs of city unions.

The Board has considerable powers related to the collective bargaining agreements of the city. The Board approves or rejects all new and renewed agreements and all changes in existing agreements between the city or the board of education and their unions. If the Board rejects a new agreement or a provision of an existing agreement, the Board must say why and specify which provisions it objects to. If the Board chooses, it may also specify what costs or savings it find acceptable in a new or existing agreement. If the Board rejects any agreement or agreement provision, the parties have ten days to renegotiate it. If they fail to do so, or if the Board rejects

the renegotiated agreement, the Board specifies binding terms. The Board may consider and include in the terms of a new agreement matters the parties did not raise or negotiate.

The Board also serves as the arbitration panel for contracts subject to binding arbitration. The Board, moreover, replaces the existing arbitration panel for any contract already in arbitration. Like the Board's review generally, the Board, using its arbitration powers, may consider any matter, not just those raised or negotiated by the parties or embodied in their last best offers on issues in dispute.

The Board may ask the union representing a bargaining unit to reopen its existing contract and present a proposed revision to the union. If the union refuses to negotiate or does not respond, the Board presents its proposed revision to the union membership. If the union membership fails to vote to accept the proposed provision, the existing contract remains in effect.

According to the statute, the city may issue up to \$75 million in state-guaranteed, 20-year bonds and up to \$50 million in short-term interim repaid from current revenues. In fact, the city must issue debt to remove its deficit. The Board issues deficit financing if the city fails to act.

In addition, the Board:

- approves annual city budgets and annual three-year financial plans;
- raises taxes and user fees in mid-year to pay off all or part of a projected annual budget deficit if the city fails to do so;
- approves all noncollective bargaining city contracts costing more than \$50,000 a year and may set aside existing contracts;
- approves the terms and conditions of all city debt;
- approves the city's education budget by line-item;

- may override any decision, including personnel and administrative hiring decisions, taken by the mayor, the board of aldermen, or any city employee if the decision affects the city's economic viability in the Board's judgment; and
- enforces the legislative requirement that the city cut the total annual cost of its noncivil service managers, administrators, and contractual employees by at least ten per cent by October 1, 2001.

The Board authority exists until the city managers balance the budget for five consecutive years. The secretary of the Office of Policy and Management must reestablish the board after the five-year period when the city runs an annual deficit greater than 0.5% of its prior year's budget, fails to fund its pension funds, or fails to implement property revaluation.

### **West Haven**

West Haven faced a \$7 million actual and a \$10 million projected deficit in FY 1990-91, according to a February 1991 audit.

The West Haven Finance Review Board was composed of seven members. The secretary of the Connecticut Office of Policy and Management served as chair, with other members including the state treasurer, West Haven mayor, and four members appointed by the governor, at least one of whom represented organized labor. The board appointed an emergency financial manager – a receiver essentially -- to manage the city's financial affairs.

The first obligation of the board was overseeing the issuance of bonds to remedy the budget deficit. In doing so, the board implemented the legislative requirement that the city council authorize up \$35 million in state guaranteed bonds for the fiscal year 1991 and 1992 deficits. The bonds had a maximum term of ten years. The bonds were backed by a state

guarantee as well as a revenue intercept and debt service fund able to contribute principal and interest if the city defaulted.

The board's budget powers included review, approval and rejection. The board could adopt an interim budget and set an interim tax rate if members rejected any annual budget. Moreover, the board had to approve of the annual tax levy. If revenues failed to reach estimates, the board members could levy a supplementary tax or revenue. The board reviewed and approved budget transfers. Finally, the board oversaw the planning and execution of remedial action to improve operating results before the end of FY 1991-92.

The remedial action involved a financial plan. The board reviewed and approved an initial three-year financial plan and all subsequent modifications. Board members regularly examined the financial plan, and the city budget in the context of the plan, requiring the city to make modifications as necessary to continue following the plan.

The board's collective bargaining powers were broad. The board members approved or rejected all agreements or amendments, indicating specific provisions rejected. They reviewed entire contracts, not just negotiated elements in making approval and rejection decisions. They stipulated new, binding agreements if the parties were unable to revise them or the receiver board members rejected the revision. Finally, the board members imposed binding arbitration after 75 days of negotiation. In this regard, the board also acted as the binding arbitration panel.

On noncollective bargaining contracts, the board members reviewed and approved contracts worth more than \$50,000, setting aside contracts not authorized according to state and local law.

The board reviewed and approved the education budget on a line-item basis. Members also reviewed financial management decisions – transfers – as they did the city budget itself.

The legislation empowered board members to order city officials to implement their decisions. In fact, city officials and managers could be held personally liable if their decisions resulted in their spending more than appropriated amounts. The board members could also have the attorney general apply for mandamus on the board's behalf to carry out the board's orders. In addition, the board could pursue legal action against any city officer or employee for spending more than a budgeted appropriation.

The legislation called for the termination of the board when city budget operating funds had been balanced for two consecutive fiscal years and the board had approved positive operating budgets for three successive fiscal years. The secretary of the Office of Policy and Management could reactivate the board if, while state guaranteed borrowing was outstanding, the city incurred an annual general fund operating deficit of more than .5% on the most recently completed annual budget. The West Haven comptroller's office reported that the finance review board terminated in 1993. (This date may be inaccurate, however, since the 1992 special act creating the board (SA 92-5) called for its termination after the city budget had been balanced for two consecutive years and the board had approved positive operating budgets for three successive years.)

### **Philadelphia**

The law creating the Pennsylvania Intergovernmental Cooperation Authority (PICA) was the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Act of June 5, 1991, Public Law No. 6) Section 203. PICA has seven members, five voting and two ex-officio, non-voting. The five voting members are appointed, one each, by the governor, president of the Senate, minority leader of the Senate, speaker of the House and minority leader

of the House. The two ex-officio non-voting members are the state's budget director and the finance director of the City.

According to PICA officials, the organization has a narrowly defined scope, to issue bonds on behalf of the City and to make the proceeds available to the City. The bonds are called dedicated revenue bonds. The state statute permits the City Council to enact a separate PICA tax to repay the bonds. The Council decided to lower the existing wage tax on residents and businesses (essentially a profits tax) and replace that with a PICA tax of the same amount and type. The tax, however, is collected by the City and immediately forwarded to the state. The tax revenue stream supports bonds issued by PICA; the City never co-mingles the funds from this PICA tax with the City's other funds.

As a precondition for receiving PICA revenue and, thus, money from PICA bonds as well as other state grant funds, the City must create a five-year financial plan, updated each year. The plan must be approved by PICA. The plan is a detailed written description of the revenues and obligations of the City and contains proposed plans for cutting costs citywide and in each department, a section each on Personnel and the City Workforce, the Capital Budget, Debt and Management, and Productivity. Later plans also have included sections on economic development and enterprise funds, such as the Division of Aviation, Philadelphia Parking Authority, Philadelphia Gas Works, and the Water Department. Each of the various departments of the City has a detailed section that includes the mission statement, statements on the major accomplishments of the department during the previous year or years, and objectives and constraints, which focuses on the initiatives and objectives of the department during the five-year plan.

In an article in *Bond Buyer* on March 12, 1992, Steven Dickson wrote that the Authority in its original review of the first plan cited problems, and required changes, in items such as the following: 1) lack of a detailed explanation of the methods used to project revenues and deficits, 2) inconsistent estimates of the size and uses of the initial proposed Authority borrowings, 3) a proposed debt service reserve fund larger than the Internal Revenue Service allows, 4) a proposed \$119 million borrowing to refinance four bond issues from the 1970s that is not included in the plan's overall borrowing estimates, and 5) a mission report on the city's estimates of wage and benefit levels for municipal employees, which the Authority said it needed in order to review how labor agreements are incorporated into the plan.

According to Ronald G. Henry, PICA's first executive director (in an interview by Barbara Ettore in *Management Review*, April 1993, "When the City reports its performance on the plan, we examine the City's methodology and execution – how it is managing the plan. We see if the City is being honest with itself. The mayor and the City council provide a quarterly report [required] by statute within 45 days of the closing quarter. A line-by-line examination can be done. . . . There cannot be a variance of more than 1 percent on a net projected end-of-year basis."

According to the U. S. General Accounting Office (<http://ptg.djnr.com/ccroot/asp/publib/story.asp>, accessed April 19, 2001) in testimony before Congress on July 9, 1996 by Gregory M. Holloway, Director, Government-wide Audits, Accounting and Information Management Division, the crisis was substantial, fiscal in nature but caused by various factors all accumulating and felt in the early 1990s. According to Holloway, in fiscal year 1992 Philadelphia had an operating deficit of \$98.7 million and an accumulated deficit of \$153.6 million; however, by the end of the fiscal year, PICA had taken actions to

eliminate the operating and accumulated deficit. In PICA's first year, the Authority borrowed about \$475 million in Special Tax Revenue Bonds on behalf of the City of Philadelphia. The bond proceeds were used to fund the cumulative deficit, current year and subsequent year deficits, and certain capital projects and productivity enhancement initiatives.

A PICA "authority tax" was approved by the Philadelphia City council in June 1991. This is a 1.5 per cent tax on wages, salaries, commissions, and other compensation earned by residents of the City and on the net profits earned by businesses, professions, or other activities conducted by residents of the City of Philadelphia. This revenue goes into a Special Revenue Fund. A portion of the PICA tax is used to cover PICA debt service and other PICA expenses, with the remaining revenues going to the "City Account." The "City Account" is considered a trust fund for the exclusive benefit of Philadelphia, used to maintain the proceeds of taxes or other revenues pledged by the Authority to secure bonds.

In addition, Philadelphia imposed a one per cent sales tax, collected back taxes, and renegotiated labor agreements. As a result of the one per cent sales tax, revenues increased by \$52.3 million for fiscal year 1992. Delinquent tax collection increased by 10 per cent annually. The renegotiation with the labor unions led to a 33-month wage freeze, and extensive restructuring of health benefits agreements to achieve costs savings and reductions in paid holiday and sick leave. (In an article in *Forbes* by Robert Lenzner, November 9, 1992, p. 52 "the Philadelphia Story,": Another crucial victory for the taxpayer was the unions' concession on the archaic and bizarre work rules that bloated Philadelphia's work force and made it both inefficient and unproductive. Entry-level workers used to have 52 days off a year: 20 for sick leave, 10 for vacation, 14 paid holidays, 5 to attend funerals and 3 for personal leave. Today the number has been reduced to 43 days . . . . Under the old featherbedding rules, sludge that came

out of the City's water pipes was shoveled into trucks, then dumped on the ground and once again shoveled into another truck – all this to employ ten persons. This kind of obscene make-work practice has been prohibited. For the first time in its history Philadelphia can require overtime from workers when necessary to improve productivity, and assign workers to perform functions under lower-level job classifications. )

In 1992, Philadelphia began the process of updating its financial and information systems to enable operating departments to obtain more detailed management information on a daily basis. It also began contracting out custodial work in all of its central facilities, saving the City an estimated \$700,000 annually, in addition to improving the quality of services in City offices and transit concourse areas. Other productivity measures, which began in 1992, included a competitive contracting program and renegotiation of real estate leases resulting in savings of \$1 million for fiscal year 1993. Finally, Philadelphia achieved a balanced budget in fiscal year 1993, two years after its control board was established and has sustained it through the present.

An article by Marc Breslow in *Dollars & Sense*, July 17, 1997, “‘Miracle’ in Philadelphia: Can fiscal management really save the cities?” reported that PICA's accomplishments were remarkable. The author states that in 1991 Philadelphia was on the verge of bankruptcy. With hundreds of millions of dollars in accumulated budget deficits, Wall Street refused to buy the City's bonds (Credit rating agencies gave Philadelphia a credit rating below investment grade, making most bond buyers hesitant or resistant to the bonds the City might sell). City services were deteriorating, the City suspended payments to its pension fund, and there were weeks when it was unclear if the City would be able to pay its workers. Between 1950 and 1990, Philadelphia had lost 25% of its population and 27% (250,000) of its jobs. Between 1970 and 1990, median household income had dropped by 22% (adjusted for inflation),

from \$31,600 to \$24,600. These changes were caused by deindustrialization, the loss of tens of thousands of well-paying factory jobs, by white flight, and by changes in government policy such as the failure of the minimum wage to keep pace with inflation. As the population and economy declined, those working- and middle-class people who remained paid a high price for living in the City. Between 1981 and 1991 the City raised taxes 19 times. This included the City's wage tax, at 5% a large and highly regressive levy on workers. By 1994 the average state and local taxes paid by a family of four in Philadelphia, with a gross income of \$50,000, were \$5,927 a year – one of the highest rates among the nation's large cities.

Other social indicators also showed that life was tough for City residents. Crime rates in the City were two to three times those in the suburbs. Auto insurance rates, among the highest in the nation, were enough to cause huge numbers of residents to drive without insurance.

The primary result of PICA and the efforts of Mayor Edward Rendell was a budget balancing plan . . . to cut costs through tough bargaining with the City's municipal unions, AFSCME District Councils 33 (blue collar) and 47 (white collar). This they did, arguing that the City workers were paid more (an average of \$30,400 for blue-collar employees) and had better benefits than most people who lived in the City (average income per resident was \$19,700). Despite a brief strike, and a lawsuit before the state supreme court unsuccessfully challenging the creation of PICA, the City won new contracts that froze wages for almost three years and cut benefits. Paid holidays and sick days were reduced (from what many thought were excessive levels, such as 20 days per year of sick time), and City payments to health care plans run by the unions were sliced (the plan administered by District Council 33 had been widely criticized for excessive costs). The City estimated that it would save \$400 million over the following four years due to the new contract.

The City also eliminated close to 1,500 City jobs. “We did all the downsizing through attrition and redeployment,” resulting in few layoffs, argues Michael Mach, the City’s former budget director. Although social services (health care, homeless services, AIDS programs) have been the City’s fastest growing expenditures, and today are the largest fraction of the City’s budget, the state and federal governments pay two-thirds of their costs. Most locally collected tax revenues pay for “core services,” including police, fire protection, and trash collection. The City’s greatest efficiency success was to slash staff in the Streets Department (trash pickup) by 20% and “cut its trash disposal fees by over one-third, according to PICA. This slashing harmed municipal workers and the union, but it did help balance the budget, and there is evidence that collection operations had been overstaffed.

### **The Pennsylvania Act 47 Cities**

Several states, including New Jersey, have developed a process for assisting communities in financial “distress.” In particular, Pennsylvania has developed criteria for determining if a community is distressed, and the state legislature has provided a procedure for the state to work with financially distressed communities toward financial solvency. The formal process guiding the state is encompassed in Act 47 of the Pennsylvania state code, which is referred to as the “Municipalities Financial Recovery Act of 1987.”

Currently, the state of Pennsylvania has 13 municipalities that have been determined to be distressed and four municipalities have had their distress determination rescinded since the legislation took effect. Pennsylvania is also unique, in that the state constitution precludes the state from formally usurping local control of a municipality’s financial affairs.

In 1985, the Pennsylvania Local Government Commission authorized the formation of a state task force on municipal bankruptcy and distress. The task force was comprised of members

of the legislature, various municipal associations, research organizations, business interest groups, the university community, the U.S. Bankruptcy Court, and several state departments. The task force was asked to “study problems associated with distressed municipalities and to formulate a legislative proposal to alleviate these problems” (Municipal Fiscal Distress, Background and Remedy, 1987).

The final report issued by the task force describes municipal distress by stating that, “municipal fiscal distress can be cyclical or structural, short-term or long-term, and is the result of a complex array of economic, social and political factors that are often difficult to separate” (Municipal Fiscal Distress, Background and Remedy, 1987). In addition, the report laid out the blueprint for Pennsylvania’s Act 47, or “The Municipalities Financial Recovery Act,” one of the more comprehensive programs for assisting distressed communities in the country.

Act 47 empowers the Department of Community and Economic Development (DCED) to “declare certain municipalities as financially distressed; providing for the restructuring of debt of financially distressed municipalities; limiting the ability of financially distressed municipalities to obtain government funding; authorizing municipalities to participate in Federal debt adjustments actions and bankruptcy actions under certain circumstances; and providing for consolidation or merger of contiguous municipalities to relieve financial distress” (Municipalities Financial Recovery Act, 1987).

DCED has identified three key reasons why communities become distressed:

1. Long-term deterioration of tax base
2. An economic catastrophe or market failure
3. Financial mismanagement

In order for a community to receive a distress designation by the Secretary for Community and Economic Affairs, a community stakeholder must first petition the Secretary. Examples of community stakeholders could be concerned citizens, elected officials, community employees, or creditors. Once the Secretary receives the petition, a hearing is scheduled. Prior to the hearing the Secretary conducts a preliminary investigation into the community's financial affairs, and following the hearing the Secretary uses criteria outlined in Act 47 to determine if a community should be declared financially distressed.

Act 47 states that a valid indication of municipal financial distress is the presence of at least one of the factors established in the criteria listed below.

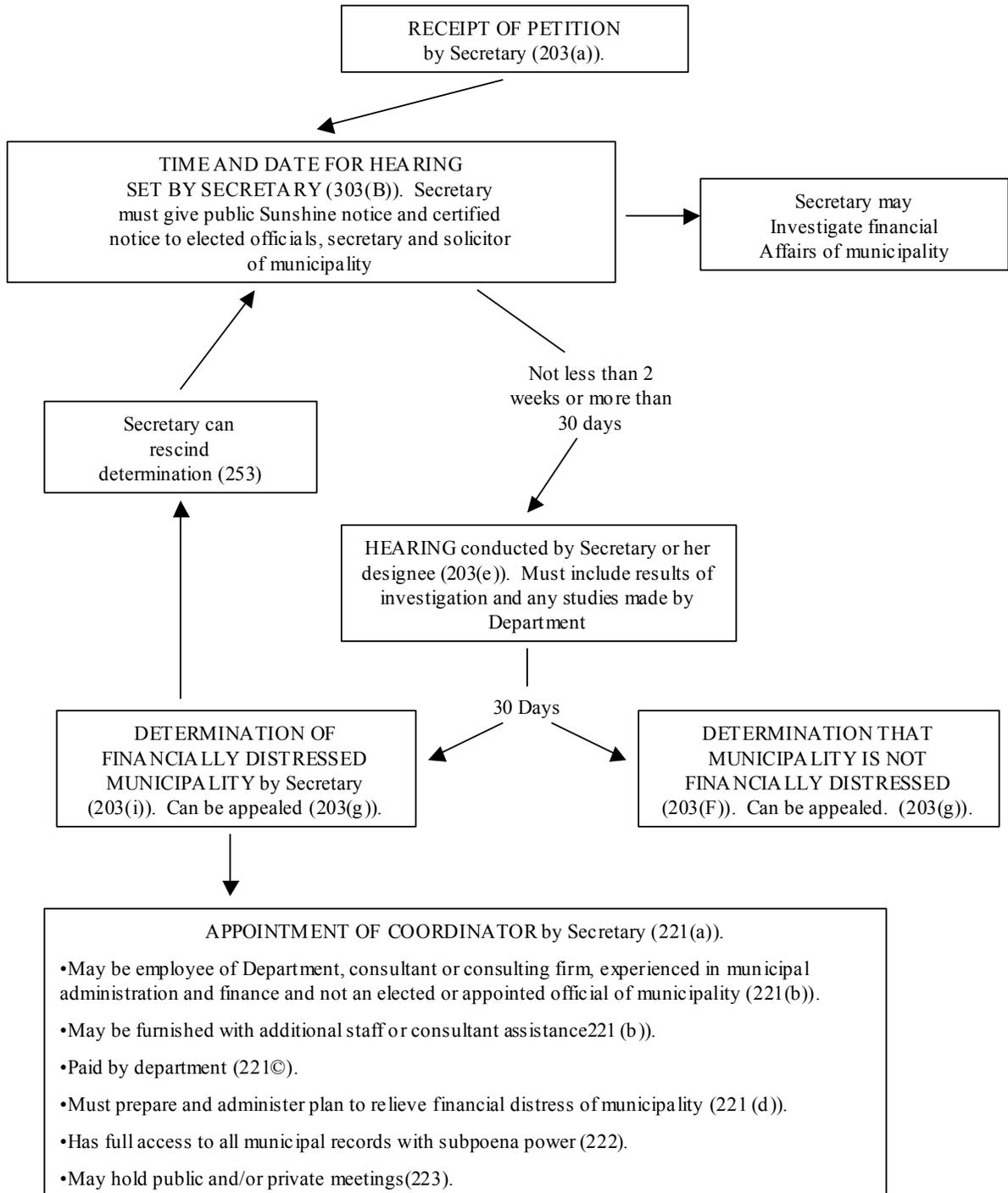
#### **Criteria for Distress Declaration**

1. The municipality has maintained a deficit over a three-year period, with a deficit of 1% or more in each of the previous fiscal years.
2. The municipality's expenditures have exceeded revenues for a period of three years or more.
3. The municipality has defaulted in payment of principal or interest on any of its bonds or notes or in payment of rentals due any authority.
4. The municipality has missed a payroll for 30 days.
5. The municipality has failed to make required payments to judgment creditors for 30 days beyond the date of the recording of the judgment.
6. The municipality, for a period of at least 30 days beyond the due date, has failed to forward taxes withheld on the income of employees or has failed to transfer employer or employee contributions for Social Security.
7. The municipality has accumulated and has operated for each of two successive years a deficit equal to 5% or more of its revenues.
8. The municipality has failed to make the budgeted payment of its minimum municipal obligation as required by section 302, 303 or 602 of the act of December 18, 1984 (P.L.1005, No.205), known as the Municipal Pension Plan Funding Standard and Recovery Act, with respect to a pension fund during the fiscal year for which the payment was budgeted and has failed to take action within that time period to make required payments.
9. A municipality has sought to negotiate resolution or adjustment of a claim in excess of 30% against a fund or budget and has failed to reach an agreement with creditors.
10. A municipality has filed a municipal debt readjustment plan pursuant to Chapter 9 of the Bankruptcy Code (11 U.S.C. 901 et seq.).
11. The municipality has experienced a decrease in a quantified level of municipal service from the preceding fiscal year, which has resulted from the municipality reaching its legal limit in levying real estate taxes for general purposes. For determining levels of municipal service for the year 1987, the department shall utilize annual statistical data since the year 1982 to determine a pattern of decrease in delivery of municipal services since 1982.

Once a community has been declared distressed, the Department of Community and Economic Affairs begins the process of appointing an “Act 47 Coordinator,” who is responsible for preparing a financial recovery plan for the municipality. While technically DCED or its representative may act as the coordinator, so far the department has contracted out all of the Act 47 Coordinator responsibilities to external agencies. To date only seven or eight consulting groups have had the technical expertise required to act as a coordinator, most notably the Eastern and Western divisions of the Pennsylvania Economy League.

Before selection of a coordinator, DCED develops a scope of work that is unique to the community in distress and solicits proposals. Proposals are reviewed, an Act 47 Coordinator is selected for the distressed community, and a contract is signed with the appropriate agency. The coordinator begins by working with local officials and DCED to develop a financial recovery plan for the community. Ultimately, the coordinator is also responsible for monitoring the recovery plan to ensure that it is being followed. The procedure for appointing an Act 47 Coordinator is outlined in Table 1 below.

Table 1. Procedure for Appointing Coordinator to relieve Financial Distress of a Municipality Under Act 47 of 1987

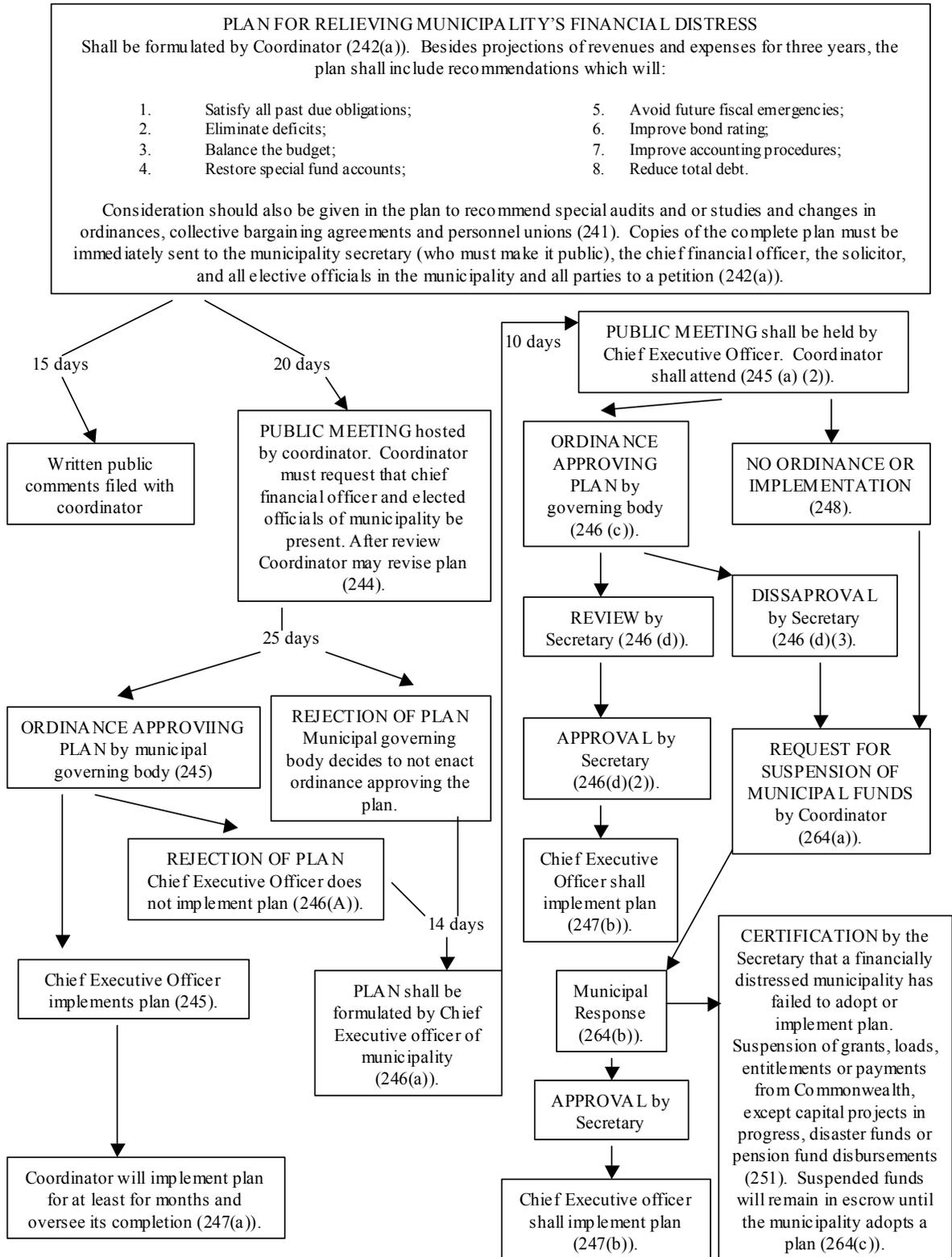


Once an Act 47 coordinator has been appointed, a financial recovery plan is drafted with input from the community and local officials. The financial recovery plan represents a road map to correct the inadequacies that led to the community's fiscal problems. Act 47 stipulates that all recovery plans include the following components:

- Financial Management
- Overall Management
- Public Safety (Police and Fire)
- Public works
- Economic and Community Development
- Collective Bargaining
- Intergovernmental Cooperation (typically with other local governments)

Act 47 also allows for local governments that have been declared distressed to either accept the plan developed by the coordinator, or develop their own plan (which is subject to the approval of DCED). Act 47 stipulates that, once a community accepts a financial recovery plan under Act 47, an ordinance accepting the plan must be passed. To date, no community has rejected a recovery plan; however, in one case, the mayor of Scranton refused to sign the plan even though it had been approved by the city council. Ultimately, the courts became involved in the Scranton situation and the mayor was forced to sign the plan. The procedure for implementing a financial recovery plan under Act 47 is illustrated in Table 2 below:

**Table 2.**



Act 47 has been challenged several times in state court, and the authority of DCED and the coordinator has been upheld in each case. For example, several communities challenged the state's legal authority to raise local taxes above statutory limits to raise additional revenue under Act 47. In addition, several communities have resisted the state's ability to limit future contracts with collective bargaining units.

Less controversial aspects of Act 47 enable the state to target state resources from other state agencies and give Act 47 communities priority for state funding.

Act 47 also provides distressed communities with technical assistance (the recovery plans) and financial assistance, such as no interest loans and grants that are awarded to the communities to allow implementation of new management strategies. However, because the state constitution forbids DCED from taking over a community's municipal functions, Act 47's final recourse in communities that have failed to adopt or implement a plan is to suspend grants, loans, entitlements or payments from the Commonwealth (except capital projects in progress, disaster funds or pension fund disbursements). Other strategies of the state Department of Community Economic Development include the utilization of councils of government whereby other local communities provide assistance to distressed municipalities.

Once a community is designated as distressed under Act 47 and develops a financial recovery plan in conjunction with its state appointed coordinator, the community begins the recovery process. During the recovery process the community works with the coordinator to implement strategies outlined in the recovery plan. The Act 47 coordinator works closely with DCED by giving the department periodic status reports and a formal status report annually. The recovery process has concluded in as soon as three years, and it may continue for more than five years. In fact, the first community designated as distressed in Pennsylvania, the City of Farrell,

is still on the distressed list due to long-term economic problems and an erosion of the tax base in the community.

A formal review is typically conducted every three years by the coordinator and submitted to the Department of Community and Economic Affairs. Municipalities can request that the distressed declaration be rescinded; however, they must prove that they have met the criteria established in the financial recovery plan. In order to have the distress declaration rescinded, a hearing must be conducted to establish the municipality's fiscal stability and ensure that it is abiding by the exit strategy or recommendations set forth by the coordinator.

### **Lessons Learned and Successes**

#### **Farrell**

The city of Farrell represents a case where a distressed municipality has become dependent on the Department of Community and Economic Development because of the assistance that Act 47 provides. According to representatives from the Department of Community and Economic Development, assistance provided under Act 47 has become a form of municipal welfare in Farrell. In fact, the first few communities to receive the distressed determinations (Farrell, Aliquippa, and Clairton) are still on the distressed list. In cases like Farrell, long-term deterioration of the tax base and/or economic catastrophes such as the bankruptcy of a local steel plant, have left the community needing long-term financial assistance. Unfortunately, the economic conditions in the area surrounding Farrell have not improved and the process to redevelop the steel plant has not progressed as quickly as the state or community had anticipated. Subsequently, Farrell has become dependent upon the state for technical assistance.

Local officials in Farrell have actually resisted efforts to reduce the city's dependence on the state for assistance and they do not want the distress declaration to be rescinded. Since Act 47 was not meant to provide permanent assistance, the state has been working with local officials to explore the possibility of making boundary changes. However, DCED, and the Act 47 Coordinator do not have final authority regarding boundary changes because the Pennsylvania state constitution requires a majority vote by the communities involved. In addition, the state has been actively encouraging Farrell to share services with other municipalities, but since the economic conditions that lead to Farrell's distress designation have not improved, the city will most likely continue to struggle financially in the near future.

### **Johnstown**

Act 47 also has its success stories, where communities that were once in fiscal crisis are now flourishing. In Johnston, despite economic conditions that were worse than in many other distressed communities, the community has significantly improved its fiscal outlook under Act 47. For example, an economic development partnership has been developed between the city and local development corporations. This has allowed the local redevelopment authority to sign a memorandum of understanding with private sector organizations, such as the local Chamber of Commerce and The Global Mall Development Corporation. This partnership brought together local business interests, along with municipal officials, and has led to a renaissance in downtown Johnstown. In addition, Act 47 efforts have allowed the community to bring an agenda to the state with one voice. This has been a very successful strategy for Johnstown and as a result the city will probably have its distress declaration rescinded within the next two or three years.

## **Scranton**

In some cases, a distress declaration under Act 47 has helped a community; however, in some cases, the distress declaration was met with conflict and communities have actually regressed. This is the case with Scranton, where financial mismanagement caused the condition that led to a distress declaration. Specifically, the Department of Community and Economic Development claims that Scranton's problems stem from public officials' unwillingness to make hard decisions particularly regarding labor issues with city employees.

Initially, Scranton's financial outlook improved when it was first designated as distressed under Act 47, and it then gained the ability to raise local taxes above statutory limits. However, the city recently disregarded its Act 47 financial recovery plan in several collective bargaining agreements and the action forced DCED to impose economic sanctions against the city, thus affecting all state funding.

Cases such as Scranton have provided DCED with feedback for suggesting changes to legislation that will allow the state to work with similar communities in the future. As a result, the state is in the process of making legislative changes that would allow DCED to create a financial control board if its current processes do not adequately correct a community's financial management problems. In addition, the DCED is working with the Pennsylvania state legislature to amending Act 47 by requiring more interaction between distressed municipalities and their school districts. A report by the Pennsylvania Economy League suggests amending Act 47 in the following ways:

- Adding recovery plan time frames and consequences.
- Enabling DCED to establish a fiscal recovery board with authority to exercise all rights, powers, privileges, prerogatives and duties of municipal governing boards.

- Distinguishing between managerial distress (e.g. Scranton) and structural distress (e.g. Farrell and Johnstown).
- Recognizing and coordinating recommendations within “distressed regions.”
- DCED should consider developing a new economic development program which would provide new funding for identifying at risk municipalities, developing local/regional economic recovery plans, funding administrative oversight of local/regional plan implementation and follow-up evaluation of regional implementation plan.
- Distressed municipalities and their school districts should work together more closely to alleviate conditions of distress.
- Municipalities that are sliding toward distress or already meet the criteria should be identified and provided assistance as early as possible.
- A policy should be developed to encourage healthy municipalities to develop cooperative agreements with distressed municipalities.
- DCED loans to distressed municipalities should accrue interest that would be refundable if all plan recommendations have been implemented within five years.
- There is a need to allow the citizenry of distressed municipalities to initiate unilateral dissolution procedures when they have completed 15 years in recovery plans and show no marked improvement in their financial conditions.

(Municipalities Financial Recovery Act Review, January 1999).

### **Municipal Distress and Schools**

In addition to Act 47, which deals with financially distressed municipalities, Pennsylvania also has legislation to address school districts that are both academically and financially distressed. In 1949, the Pennsylvania Legislature established Section 24 of the school code to assist financially distressed school districts, and in 2000 Pennsylvania established a program for academically distressed schools called, “the Education Empowerment Act (2000)”. Both Acts establish criteria for determining if a school district is academically or financially distressed. By comparing the various communities that have been declared distressed for their municipal finances, school finances, or school performance, a clear link is evident.

**Table 3. Distressed Communities**

<b>Town</b>	<b>Financially Distressed Municipality</b>	<b>Academically Distressed School District</b>	<b>Financially Distressed School District</b>
Clairton (City of)	X	X	X
Duquesne (Borough of)	X	X	X
Aliquippa (City of)	X	X	
Chester (City of)	X	X	
Wilkinsburg (Borough of)	Rescinded	X	
Braddock (Borough of)	X		
Farrell (City of)	X		
Franklin (Borough of)	X		
Homestead (Borough of)	X		
Johnstown (City of)	X		
Millbourne (Borough of)	X		
North Braddock (Borough of)	X		
Rankin (Borough of)	X		
Scranton (City of)	X		
Ambridge (Borough of)	Rescinded		
East Pittsburgh (Borough of)	Rescinded		
Shenandoah (Borough of)	Rescinded		
Harrisburg (City of)			
Lancaster		X	
Philadelphia		X	
Steelton-Highspire			
Sto-Rox		X	
Wilkinsburg		X	
York City		X	

Table 3 lists all Pennsylvania communities that have been declared a financially distressed municipality or whose schools have been declared academically or financially distressed. The table clearly illustrates that there is a link between municipal management and school management/performance. The table shows that of ten school districts that have been identified as academically distressed, five are located in municipalities that are financially distressed. In addition, the table illustrates that, currently, there are two school districts that have been declared financially distressed, and not coincidentally, those districts are also academically distressed and reside in municipalities that are fiscally distressed.

It would be irresponsible to suggest that that poor academic performance causes poor municipal management, or that poor management practices by a municipality cause school children to test lower. However, it is reasonable to state that the social, economic, and political factors that lead to municipal fiscal distress also effect the management and performance of schools. Furthermore, management strategies that have been developed to assist municipalities in distress are also relevant to school districts.

Table 4 below compares the legislative criteria for establishing fiscal distress in municipalities and academic/fiscal distress in schools. The table shows that while the criteria for establishing a school that is academically distressed are based on student achievement, there is considerable overlap between the distress criteria in municipalities and school districts. For example both criteria center around financial thresholds such as operating under a financial deficit, failure to pay employees, failure to make payments to a retirement system, failure to make a bond payment, or defaulting on a contract. While most of these thresholds are financial

in nature – the following section will show that remedies to financial distress can address financial as well as non-financial or managerial changes.

In addition, the review of Act 47 by the Pennsylvania Municipal League concludes that “while school district concerns are generally not dealt within general municipal distress legislation, there is precedent for municipality/school district interaction in Nevada where notice must be given to overlapping jurisdictions that a municipality is in a state of distress” (Municipalities Financial Recovery Act Review, 1999). The report goes on to state that in Massachusetts some boards of control established for municipal financial distress have jurisdiction over school district operation. In addition the report suggests that the state empower DCED to create control boards similar to the “special control board” that are currently allowed under Pennsylvania’s financially distressed school legislation.

**Table 4.**

	<p align="center"><b>Municipal Financial Distress Act 47 (1987)</b></p>	<p align="center"><b>Education Empowerment Act (2000) (Academic Distress)</b></p>	<p align="center"><b>Financially Distressed School Districts 24 PS</b></p>
<p>Criteria for distressed Declaration</p>	<ol style="list-style-type: none"> <li>1. The municipality has maintained a deficit over a three-year period with a deficit of 1% or more in each of the pervious fiscal years.</li> <li>2. The municipality’s expenditures have exceeded revenues for a period of three years or more.</li> <li>3. The municipality has defaulted in payment of principal or interest on any of its bonds or notes or in payment of rentals due any authority.</li> <li>4. The municipality has missed a payroll for 30 days.</li> <li>5. The municipality has failed to make required payments to judgment creditors for 30 days beyond the date of the recording of the judgment.</li> <li>6. The municipality for a period of at least 30 days beyond the due date has failed to forward taxes withheld on income of employees or has failed to transfer employer to employee contributions for social security.</li> <li>7. The municipality has accumulated and has operated for each of two successive years a deficit equal to 5% or more of its revenues.</li> <li>8. The municipality has failed to make the budgeted payment of its minimum municipal obligation as required by the Municipal Pension Plan Funding Standard and Recovery act, with respect to a pension fund during the fiscal year for which the payment was budgeted and has failed to take action within that time period to make required payments.</li> <li>9. A municipality has sought to negotiate resolution or adjustment of a claim in excess of 30% gains a fund or budget and has failed to reach an agreement with creditors.</li> <li>10. A municipality has filed a municipal debt readjustment plan pursuant to Chapter 9 of the Bankruptcy Code.</li> <li>11. The municipality has experienced a decrease in a quantified level of municipal service from the preceding fiscal year, which has resulted from the municipality reaching its legal limiting levying real estate taxes for general purposes. For determining levels of municipal services for the year 1987, the department shall utilize annual statistical data since the year 1982 to determine a pattern of decreasing delivery of municipal services since 1982.</li> </ol>	<p>Any school district where the percentage of students failing state assessments in reading and mathematics for two consecutive years exceeds 50%.</p>	<p>A. A school district is distress when one of the following circumstances arises and the Secretary of education has issued a certificate declaring a district in financial distress. Criteria:</p> <ul style="list-style-type: none"> <li>• The salaries of any teachers of other employees have remained unpaid for a period of ninety days.</li> <li>• The tuition due another school district remains unpaid on and after January first of the year following the school year it was due and there is no disputer regarding the validity or amount of the claim.</li> <li>• Any amount dues any joint board of school directo4rs under a joint board agreement remains unpaid for a period of ninety calendar days beyond the due date specified in the joint board’s articles of agreement.</li> <li>• The school district has defaulted in payment of its bonds or interest on such bonds or in payment of rentals due any authority for a period of ninety calendar days and no action has been initiated within the period of time to make payment.</li> <li>• The school district has contracted any loan not authorized by law.</li> <li>• The school district has accumulated and has operated with a deficit equal to two percent or more of the assessed valuation of the taxable real estate within the district fore two successive years.</li> <li>• A new merged or union school district has been formed and one or more of the former school districts, which compose the merged or union school district, was a distressed school district at the time of the formation of the merged or union school district.</li> </ul> <p>The Secretary of Education can also declare a school district to be distressed if it is determined that:</p> <ol style="list-style-type: none"> <li>1. The school district of the first class has failed to adopt or to comply with a valid budget to operate the school district for a minimum instructional year.</li> <li>2. The school district of the first class failed to allocate or transfer revenues to ensure that funds are suffi9ent to provide a minimum instructional school year.</li> <li>3. The school district of the first class failed to transfer revenue to the school district consistent with the current budget or</li> <li>4. The school district of the first class has failed or will fail to provide an educational program in compliance with the provisions of the state board of education or standards of the Secretary of Education.</li> </ol>

<p>Process for termination of distressed status</p>	<p>A. Determination by secretary. Following a duly advertised public hearing with notices given as provided in section 203 the secretary may issue a determination that the conditions which led to the earlier determination of municipal financial distress are no longer present. The determination shall rescind the status of municipal financial distress and shall include a statement of facts as part of the final order.</p> <p>B. Determination upon petition by a municipality. A financially distressed municipality may petition the secretary to make a determination that the conditions, which led to the earlier determination of municipal financial distress, are no longer present. Upon receiving the petition the secretary may issue a determination to rescind following a duly advertised public hearing with notices given as provided in section 203.</p> <p>C. Factors to consider. In determining whether the conditions which led to earlier determination of municipal financial distress are no longer present, the secretary shall consider that:</p> <ul style="list-style-type: none"> <li>➤ Monthly reports submitted by the coordinator to the department indicate that termination of the status of municipal financial distress is appropriate.</li> <li>➤ Accrued deficits in the municipality have been eliminated</li> <li>➤ Obligations issued to finance all or part of the municipality's deficit has been retired.</li> <li>➤ The municipality has operated for a period of at least one year under a positive current operating fund balance or equity as evidenced by the municipality's audited financial statements prepared in accordance with generally accepted accounting principles.</li> </ul>	<p>A school district will be decertified as an Education Empowerment district or be removed from the education empowerment list when it no longer has a history of low-test performance AND has reached the goals set forth in the Improvement plan.</p> <p>Once these criteria have been met, all school board powers and duties are fully restored.</p>	<p>Upon the recommendation of the chief executive officer and with the concurrence of a majority of the school Reform commission, may issue a declaration to dissolve the commission and terminate the services of the chief executive officer. The dissolution declaration shall be effective ninety days after issuance by the secretary of education.</p>
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The table above also lists the processes for terminating a community's distress status. There are important differences in implementing legislative remedies for financially distressed schools and municipalities. For example, while a formal takeover of municipal activities is prohibited under the state constitution, the state can take over financially or academically distressed schools. Typically, the Pennsylvania Superintendent of Public Instruction declares a school financially distressed based on the criteria listed in the table below.

Once a school district is designated as financially distressed, the Superintendent appoints a "Chief Executive Officer" who is a representative of the state department of education, and "two citizens who shall be qualified electors and tax payers in the county in which the school district is located." The CEO and two citizens constitute a "special board of control," which "assume(s) control of the affairs of the district and operates it in the place of the school directors during the period necessary to reestablish a sound financial structure in the district" (PA School Code of 1949, 24 PS 6-692).

Special boards of control for financially distressed schools have similar authorities compared to financially distressed municipalities, such as the ability to increase taxes and to sign labor agreements. However, unlike financially distressed municipalities, which are required to prepare a financial recovery plan that contains achievable financial goals improvement strategies, special boards of control are not required to develop a recovery plan. In financially distressed municipalities, the recovery plan is used to determine if the distress status should be rescinded.

Factors to consider in termination of distressed status:

- A report from the coordinator that indicates termination of the distress status is appropriate, based on a determination that condition which led to the distress determination are no longer present.

- Accrued deficits have been eliminated.
- Obligations issued to finance a municipality's deficit have been retired.
- The municipality has operated for one year under a positive operating fund balance or equity as evidenced by audited financial statements.

The table above also compares the process for termination of distressed status. Specifically, it illustrates that there are two ways a municipality can have its financial distress status rescinded – first by determination by the secretary, and second by determination by the secretary upon receipt of a petition by a municipality to rescind the distress recommendation.

In addition, Act 47 stipulates that there are three factors that should be considered before a community's distress status is rescinded – one of which is a status report by the Act 47 Coordinator regarding the community's progress toward goals and strategies established in the recovery plan. Because Pennsylvania's legislation for financially distressed school districts does not require a financial recovery plan, much more discretion is given to the special board of control and little guidance is given to them regarding the process for terminating a school districts' distressed status.

## **MANAGEMENT STRATEGIES:**

Based on nearly 15 years of experience in helping communities in financial distress, the Pennsylvania Department of Community and Economic Development has developed management strategies in the following eight areas:

- Organization Management Administration
- Personnel
- Financial Management
- Revenue Enhancement
- Expenditure Control
- Service/Facility/Productivity
- Community and Economic Development
- Intergovernmental Cooperation

It should be noted that while most of the criteria for declaring municipalities distressed are financial in nature, the management strategies listed below are not exclusively financial. Many of the non-financial strategies represent measurable management objectives that can be used to evaluate a community's general practices and establish an exit strategy for the state. In addition, although all of the strategies listed below have been developed for use with municipalities in financial distress, many of them are applicable in other areas.

**Organization Management Administration:**

- Initiate Home Rule Charter study process.
- Hire professional manager - commit to council manager/administrator form of government.
- Share municipal manager with another municipality.
- Revise ordinances, charter to effect needed organizational changes. Develop/adopt administrative code.
- Reorganize departments and activities, consolidation of positions and duties, creation of new positions as appropriate.
- Development of new management and supervisory structures. Reorganize/reduce size of council - proportional to population.
- Remove elected officials from direct supervisory and management roles. Capacity building - Training in management, supervision, elected officials' roles and responsibilities, financial management, code enforcement, economic/community development, etc.
- Create or terminate municipal authorities and transfer functions to/from municipality (generally terminate or transfer).
- Codify municipal ordinances and laws.
- Commit to work cooperatively towards community recovery.

**Personnel:**

- Develop job descriptions/pay plans.
- Adopt personnel ordinance, develop personnel manual and policies that establish merit recruitment/selection process and provide standards for promotions and evaluations.
- Establish labor/management committees.
- Define and protect management rights in collective bargaining agreements. Establish bottom lines for future contracts based on parameters of plan. Eliminate contractual job guarantees/provide flexibility to contract out. Adopt ethics ordinance - financial disclosure.

**Financial Management:**

- Hire professional finance director.
- Consolidate financial management activities.
- Develop, adopt and implement sound accounting, budgeting, financial reporting and auditing procedures.
- Develop multi-year capital improvement program, plan and budget that integrate into yearly budget. Identify funding sources for capital needs. Upgrade from single entry cash to modified accrual basis of accounting. Install computerized financial management operation that integrates into one system.
- Hire CPA and have independent audit performed.
- Implement recommendations from prior audits and management letters. Establish centralized purchasing system.
- Develop accurate monthly financial reports for management and elected officials for cost monitoring and budget decision-making.
- Provide training to elected officials, management and staff on new financial management procedures.
- Work with area banks and rating agencies to restore credit and future borrowing capabilities.
- Establish inventory of equipment and infrastructure.
- Review insurance coverage, obtain proposals on package coverage and explore insurance pools.
- Establish comprehensive risk management program.
- Address pension liabilities, complete actuarial reports on timely basis, fund based on Act 205 requirements and address audit findings.

**Revenue Enhancement:**

- Raise selected taxes (EIT, Real Estate) specific amounts possibly earmarked for specific purposes.
- Apply to Court for permission to increase RE/EIT beyond legal limit. Apply EIT to residents/non-residents.
- Determine actual costs of fee based services - raise selected fees to cover actual costs (water, sewer, refuse, permits, inspections, parking, recreation). Transfer refuse/sewer cost from tax to fee based charge.
- Improve tax/fee collection systems - aggressively pursue delinquencies. Improve investment practices.
- Consider sale of municipal properties, equipment and other assets.
- Review status of tax-exempt properties, reevaluate on yearly basis, appeal as necessary and obtain in-lieu-of tax payments.
- Lease space in municipal building.
- Seek private funding through unfunded debt borrowing.
- Obtain Act 47 emergency loan or long term loan to deal with immediate cash crisis and maintain basic services.

**Expenditure Control:**

- Limit future salary/fringe benefit costs in collective bargaining agreements based on overall plan budget.
- Reduce manpower needs in specific areas - Immediate layoffs or attrition over time.
- Strengthen management control of purchases.
- Review streetlight needs - reduce, resize, remove.
- Close certain costly/unnecessary facilities/services (fire stations, swimming pools, etc.).
- Establish volunteer based programs to reduce municipal costs for certain services (recreation, libraries)
- Limit overtime.
- Hire temporary/part-time employees.
- Reduce employee workweek.
- Transfer responsibility for certain road/bridge maintenance.
- Institute controls on gas/fuel/utility use.
- Consider leased vs. owned vehicles.
- Review fire hydrant costs - revise fees.

**Service/Facility/Productivity:**

- Conduct police management/operations study.
- Conduct staffing studies for select functions - Implement results.
- Restore funding to key operations, cut funding from non-essential services. Establish networked computer systems.
- Transfer clerical functions in police department to non-uniformed employees to place officers on street.
- Transfer fire service from paid to partial or all volunteer.
- Transfer dispatch system to county 9-1-1.
- Combine inspection functions.
- Improve road maintenance operations/use LTAP as resource.
- Cost out key services - Determine whether they can be done more efficiently in-house or on contract basis.
- Contract out selective services - tax collection, code enforcement, dispatch, and police services.
- Have fire department conduct fire inspections, code enforcement activities. Revise shift alignments in police/fire departments.

### **Community and Economic Development:**

- Review and upgrade comprehensive plan, zoning and subdivision ordinances and building codes.
- Develop capital program, seek state/federal/county/ private resources to implement.
- Develop/update community/economic development plans.
- Develop partnerships with Chamber of Commerce and other non-profits on CD/ED initiatives.
- Identify/Pursue grant funding for CD/ED projects.
- Develop Community Economic Revitalization Plan with Department of Commerce funding.
- Utilize DCA Enterprise Zone, Housing and Development, RIRA, SPAG, select Department of Commerce and other state programs (PENNVEST, DER) for ED/CD and infrastructure improvements.
- Work with County CD Departments on ED/CD activities.
- Review, develop and/or revise housing strategy, undertake rehab, vacant housing, home ownership, targeted neighborhood revitalization, code enforcement and other housing programs.

### **Intergovernmental Cooperation:**

- Join/participate in or create COG.
- Have COG serve as service bureau - financial management, utility billing, payroll, purchasing functions.
- Develop regional police force, regional lockup facility.
- Participate in county 9-1-1 communications system.
- Develop regional public works program.
- Participate in regional code enforcement program.
- Participate in joint purchasing program.
- Pursue cooperative efforts with school district - tax collection, joint use of facilities.
- Enter into mutual aid agreements for police and fire.
- Work with county on planning, zoning, codes and economic and community development activities.





# Municipal Takeover Finance Criteria for Distress and Requirements for State Exit

## I. Budget formulation and execution

### Distress declaration

Specific distress indicators (used or specifically stated in Pennsylvania or New York):

- Property tax collection rates below 90% and decreasing
- More than one-half of assessed value is tax-exempt property
- Missed payroll for 30 days or more
- Failure to make timely payment within 30 days or more to creditors with legal judgments
- Failure to file fiscal reports or audits with state authority
- Failure to adhere to fiscal mandates
- Failure to forward taxes (payroll, federal income tax, state income tax, social security, unemployment compensation, and disability) to appropriate taxing agencies
- Failure to pay creditors
- Failure to pay retirement obligations
- Tax collection rate decline
- Year-end budget deficit (1% or more for two years); budget deficits accumulating
- Net equity (assets minus liabilities) declined to a negative net equity
- Per capita income falling rapidly
- Having filed for bankruptcy
- Management fraud (intentional misstatements or omissions in financial statements)

General budgetary problems:

- The staff collectively does not

### Requirements for State Exit

Specific distress indicators reversed or actions taken to address underlying problems, as below, in Pennsylvania, New York, Connecticut:

- Hire professional finance director and finance staff members.
- Consolidate and integrate budgeting and all financial management activities.
- Develop, adopt, and implement sound accounting, budgeting, financial reporting, and auditing procedures.
- Develop multi-year capital improvement program, plan, and budget that integrate into yearly operating budget.
- Upgrade from single entry cash to modified accrual basis of accounting. Fully adopt and implement generally accepted accounting procedures
- Install computerized financial management operation that integrates into one system.
- Hire CPA and have independent audit performed.
- Implement recommendations from prior audits and management letters.
- Establish centralized purchasing system.
- Develop accurate monthly financial reports for management and elected officials for cost monitoring and

- possess adequate professional proficiency in performing their duties.
- Internal control performance reviews are not compared with budgets, and forecasts to determine variances.
  - Failure to properly evaluate current investments in terms of the present value of future cash returns from the investments.
  - Standard costs, which are target costs that should be attainable under efficient conditions, are not used to aid in the budget process and performance evaluation.
  - The budget is not prepared in a way to coordinate the functional activities of the organization and to provide a basis for control of these activities.
  - Failure to implement a proper flexible budget which is used to help analyze actual results by comparing actual results with a flexible budget for the level of activity achieved in the period.
- budget decision-making.
- Provide training to elected officials, management, and staff on sound financial management procedures.
  - Establish inventory of equipment and infrastructure.
  - Establish a comprehensive risk management program. Review insurance coverage, obtain proposals on package coverage, and explore insurance pools.
  - Address pension liabilities, complete actuarial reports on timely basis, fund requirements, and address audit findings.
  - Pay in full all obligations when due
  - Develop budget priorities through means such as zero-based budgeting
  - Place limits on capital spending
  - Eliminate fund deficits
  - Repay funds improperly transferred
  - Balance budget
  - Prepare fiscal plan projections for a multiyear period

## II. Internal Control

### Distress declaration

- Failure to implement an accounting system that provides a basis for appropriate budgetary control.
- Failure to safeguard assets
- Failure to establish and maintain an adequate system of internal control, which can provide a reasonable assurance that financial statements, may be free from material misstatements.
- Tests of internal control are not documented.
- Failure to separate authorization, record keeping, and custody functions within the organization.
- No physical, mechanical, and electronic controls in operation to safeguard assets and cash storage.
- No routine bank reconciliation performed independently in order to reconcile the balance per books and balance per bank to their adjusted cash balances.
- Petty cash fund not often replenished to pay relatively small amount expenditures.

### Financial Statement Analysis Indicators (used in New York):

- The current ratio expresses the relationship of current assets to current liabilities. It is a widely used measure for evaluating an organization's liquidity and short-term debt paying ability.  $\text{Current ratio} = \text{current assets} \div \text{current liabilities}$ .
- The acid test ratio (quick) ratio measures the ability to pay current liabilities from cash and near cash instruments.  $\text{The acid test ratio} = \frac{\text{cash} + \text{marketable securities} + \text{net receivables}}{\text{current}}$

### Requirements for State Exit

- Establishment of responsibility so that control is made effective.
- Implement a plan for segregation of duties: the work of one employee should provide a reliable basis for evaluating the work of another employee.
- Documents should provide evidence that transactions and events have occurred.
- Bond employees who handle cash, rotate employee's duties, and require employees to take vacations.
- Computer facilities should be equipped with passwords.
- Establish an internal verification of operating transactions.
- Only designated personnel should be authorized to handle or have access to cash receipts.
- Prenumbered checks should be used and checks should be supported by invoice.

liabilities.

- The debt to total assets ratio measures the percentage of total assets provided by creditors. Debt to total assets = total debt divided by total assets.

Financial statement analysis is applied:

To identify trends in revenues, recurring revenues, expenditures and the resulting surpluses or deficits.

To identify trends in a local government's fund balance, specifically unreserved fund balance divided by gross expenditures.

To identify trends in a local government's year-end cash balances, specifically the amount of cash on hand at the end of the year in relation to the amount of liabilities or cash and investments divided by current liabilities.

To identify the amount of cash on hand at the end of the year in relation to average monthly expenditures, specifically, cash and investments divided by gross expenditures which themselves are divided by twelve.

### III. Revenue enhancement

#### Distress declaration

Specific indicators used in Pennsylvania:

- Taxes at legal limits
- Ratio of personal income to full property value
- Relationship between per capita income and full property value declining
- Among highest 5% of all municipalities in aggregate taxes and highest 5% in terms of per capita tax yield
- Assessed value of top ten tax payers increasing as a proportion of the total
- Failure of one or more of the top ten tax payers
- Ratio of tax levy to full property value increasing rapidly.
- Violations of laws or government regulations having a material effect on financial statements amounts.
- Violations of tax laws or accrued revenue based on governmental contracts.

Additional, general indicators of distress:

- Failures to acquire, protect, and use resources economically and efficiently.
- Illegal payments to individuals or business entities, or foreign officials to secure business.
- Inability to determine costs and thereby defer revenue recognition.
- Level of uncertainty with respect to collection of receivables precluded recognition of revenues before cash is

#### Requirements for State Exit

Exit permitted when specific indicators were reversed based on the following actions:

- Raise selected taxes specific amounts possibly earmarked for specific purposes.
- Apply for permission to increase taxes temporarily beyond legal limits.
- Determine actual costs of fee-based services and raise selected fees to cover actual costs (such as water, sewer, refuse, permits, inspections, parking, and recreation).
- Transfer refuse and sewer costs from taxes to fee based charges.
- Improve tax and fee collection systems by aggressively pursuing delinquencies.
- Improve investment practices in terms of appropriate laws and sound practices.
- Consider sale of municipal properties, equipment, and other assets.
- Review status of tax-exempt properties, reevaluate on yearly basis, appeal as necessary and obtain in-lieu-of tax payments.
- Lease space in municipal building.
- Seek private funding for capital improvements rather than borrowing.
- Obtain emergency loan or long term loan to deal with immediate cash crisis and maintain basic services.
- Identify funding sources for capital

- received.
- Absence of a reasonable basis for estimating revenue.
  - Difficulty of determining cash inflows.
  - Future benefits from long-term service contracts cannot be measured.

- needs as these needs enter the capital improvement plan.
- Prohibit financing of services from non-recurring revenue sources

#### IV. Expenditure control

##### Distress declaration

- Failure to have acceptable audit.
- Significant decrease in assets or increase in liabilities during a period of delivery of services.
- Using cash advance loans to meet short-term liabilities.
- Failure to recognize unearned revenues related to services not yet performed (cash received in advance of future services).
- Failure to distinguish between capital expenditures and revenue expenditures.
- Exclusion of a number of operating expenses in order to overstate revenue.
- Failure to perform analytical procedures that compare documented authorized expenditures to the entity's budget and forecast.
- Failure to follow the terms of borrowing arrangements with the lender.
- No independent verifications of the supporting documentation for purchase orders and receiving reports for paid vouchers.
- Failure to reconcile daily cash outflows with supporting authorized documentation.
- Undertaking an aggressive plan of action to raise revenue to cover current expenditures.
- Insufficient working capital.
- Slow collection of receivable thereby inability to cover current expenses.
- Lack of concern over efficiency programs.
- The entity lacks a formal plan to reduce the organization operating costs.

##### Requirements for State Exit

- Institute expenditure/encumbrance controls
- Develop ways to avoid future deficits
- Limit future salary/fringe benefit costs in collective bargaining agreements based on overall plan budget.
- Reduce manpower needs in specific areas; initiate immediate layoffs or provide for attrition over time.
- Strengthen management control of purchases.
- Review service delivery needs; reduce, resize, and remove where possible.
- Close certain costly or unnecessary facilities or services (such as fire stations and swimming pools).
- Establish volunteer based programs to reduce municipal costs for certain services (such as recreation and libraries)
- Limit overtime, and introduce system of oversight for approving overtime.
- Hire temporary or part-time employees.
- Reduce employee workweek.
- Transfer responsibility for certain road and bridge maintenance to other governments.
- Institute controls on gas/fuel/utility use.
- Consider leasing rather than purchasing vehicles.
- Review fire hydrant costs and revise fees.

## V. Debt control

### Distress declaration

- Default
- Excessive borrowing
- Failure to abide by bond law
- Excessive debt service payments
- Lack of timely debt service payments
- Debt at legal limits
- Debt growing as a proportion of assessed valuation
- Debt growing as a proportion of full valuation
- Unfunded pension obligations growing
- Vacation and sick pay contingent liabilities growing

### Requirements for State Exit

- Develop ways to restore access to credit markets
- Require adherence to all bond and borrowing laws
- Work with area banks and rating agencies to restore credit and future borrowing capabilities.

## Takeover Project Management Strategies

<b>Strategy</b>	
<b>General Management</b>	Recommend special audits/studies.
	Hire professional manager – commit to council manager / administrator form of government.
	Reorganization of departments and activities, consolidation of positions and duties, creation of new positions as appropriate.
	Development of new management and supervisory structures.
	Capacity building. Conduct training in management, supervision, elected officials roles and responsibilities, financial management, code enforcement, economic/community development, etc.
	Changes in ordinances/rules.
	Conduct management/operations studies.
	Establish networked computer systems.
	Improve road maintenance operations/use regional and state agencies as a resource.
	Examine feasibility of job shifting–e.g. have fire department conduct fire inspections, and code enforcement activities.
	Revise shift alignments in police/fire departments.
	Comply with a consent decree.
	Have an acceptable financial and management audit.
	Enhance central controls.
	Improve communication within the agency and between line agencies.
	Keep convenience of clientele in mind.
	Discourage petty and not-so-petty graft.
	Adapt successful technologies.
<b>Personnel and Labor</b>	Place restrictions on hiring.
	Hire professional finance personnel.
	Explore possible changes in collective bargaining agreements.
	Removal of elected officials from direct supervisory and management roles.
	Capacity building–Training in management, supervision, elected officials roles and responsibilities, financial management, code enforcement, economic/community development, etc.
	Develop job descriptions/pay plans.
	Adopt personnel ordinance, develop personnel manual and policies that establish merit recruitment/selection process and provide standards for promotions and evaluation.
	Define and protect management rights in collective bargaining agreements.
	Establish bottom lines for future contracts based on the parameters of a plan.

	Eliminate contractual job guarantees/provide flexibility to contract out.
	Adopt ethics ordinance and appropriate financial disclosures.
	Conduct staffing studies for select functions–implement results.
	Transfer clerical functions to other employees to disburse administrative functions.
	Comply with retirement laws.
	Pay retirement obligations.
	Meet payroll.
	Make adjustments to claims.
<b>Reform and Policy Changes</b>	Require elimination of distress conditions.
	Initiate home rule charter study process.
	Revise ordinances, charter to effect needed organizational changes.
	Develop/adopt administrative code.
	Create or terminate municipal authorities and transfer functions to/from municipality (generally terminate or transfer).
	Codify Municipal ordinances and laws.
	Review and upgrade comprehensive plan, zoning and subdivision ordinances and building codes.
	Develop/update community/economic development plans.
	Review, develop and/or revise housing strategy, undertake rehab, vacant housing, home ownership, targeted neighborhood revitalization, code enforcement, and other housing programs.
	Reorganize/reduce size of council–proportional to population.
	Restore funding to key operations, cut funding from non-essential services.
	Transfer services from paid employees to partial or all volunteer.
	Combine inspection functions.
	Cost out key services – determine whether they can be done more efficiently in-house or on contract basis.
<b>Productivity and Reinvention</b>	Conduct privatization/consolidation studies.
	Share municipal manager with another municipality.
	Commitment to work cooperatively toward community recovery.
	Establish labor/management committees.
	Contract out selective services–tax collection, code enforcement, dispatch, and police services.
	Develop capital program, seek state/federal/county/ private resources to implement.
	Develop partnerships with Chamber of Commerce and other non-profits on CD/ED initiatives.
	Identify/pursue grant funding for CD/ED project.

	Develop Community economic revitalization plan with department of commerce funding.
	Utilize DCA Enterprise Zone, Housing and Development. RIRA, SPAG, State Department of Commerce, and other state programs for ED/CD improvements.
<b>Partnership</b>	Work with county CD Departments on ED/CD activities.
	Join/participate in or create a regional “Council of Government” (COG).
	Have COG act as a service bureau – financial management utility billing, payroll, purchasing functions.
	Develop regional police force, regional lockup facility.
	Participate in county 911 communications system.
	Develop regional public works program.
	Participate in regional code enforcement program.
	Participate in joint purchasing program.
	Pursue cooperative efforts with school district – tax collection, joint use of facilities.
	Enter into mutual aid agreements for police and fire.
	Work with county on planning, zoning, codes and economic community development activities.

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## **Appendix: Terms used in the literature and web search for cases of state takeovers of municipalities**

Note that searches used both the term municipal and city and multiple combinations of key words

Bankruptcies AND city AND municipal  
Broken government  
Budget imbalance  
Budgets  
Crisis  
Debt  
Default  
Dillon's rule and home rule  
Distress declaration  
Distress termination  
Distressed communities  
Economic distress  
Financial management  
Financial plans  
Fiscal challenges  
Fiscal emergencies  
Fiscal failures  
Fiscal federalism  
Fiscal mismanagement  
Fiscal problems and cities  
Fiscal stress  
Fiscal stress  
Governmental failure  
Multi-jurisdictional distress  
Municipal management problems  
Municipal performance  
Receivership  
Retrenchment  
State intervention  
State oversight  
State regulation  
State fiscal responsibility  
State regulation of cities  
State takeover  
State/local relations  
Takeovers

Searches were also conducted with the names of cities in which states intervened as well as by state and city names:

Maricopa County, Arizona  
Orange County, California  
Bridgeport, Connecticut  
Jewett City, Connecticut  
West Haven, Connecticut  
East St. Louis, Illinois  
Chelsea, Massachusetts  
River Rogue, Michigan  
Hamtrack, Minnesota  
Camden, New Jersey  
East Orange, New Jersey  
Nassau County, New York  
New York City, New York  
Newburgh, New York  
Troy, New York  
Yonkers, New York  
Cleveland, Ohio  
Philadelphia, Pennsylvania  
Wilkesburg, Pennsylvania  
Central Falls, Rhode Island  
Washington, DC