



Community Economics

A Newsletter from the Center for Community Economic Development; Department of Agricultural and Applied Economics; Community, Natural Resource and Economic Development Programs, and University of Wisconsin-Extension, Cooperative Extension Service

No. 328

Community Economics Newsletter

February 2004

Fiscal Health and Community Economic Development ¹

by
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The fiscal health and well-being of local governments is important. Above all, it is an indication of the ability of local governments to provide adequate and uninterrupted services to local residents and businesses. While fiscal health may not be the ultimate measure of success for local governments, a fiscally unhealthy local government will not be able to provide the level and quality of public services that are required for a high quality of life and an effectively functioning government.

When the library reduces hours of service, the roads are full of potholes, emergency services are slow to respond, or water treatment facilities are at capacity and there are no funds for expansion, local residents and businesses will perceive a problem. Trying to identify and deal with fiscal problems before they get out of hand is vastly better than trying to cope with a full-blown crisis. In this light attending to local fiscal health is akin to taking an ounce of preventive medicine to avoid taking a pound of cure.

Understanding the fiscal health of individual local governments is important to local officials, taxpayers, businesses, potential investors and other concerned parties with a stake in the services and finances of the community. Local officials must be able to understand and effectively communicate their jurisdiction's fiscal condition to people who do not necessarily have a public finance background. Whether they are trying to explain a proposal to raise taxes, cut services, charge fees for services, or issue new debt, it is helpful for local officials to be able to articulate the financial rationale for their actions.

Local Government fiscal health is important not only because it has to do with the jurisdictions to finance needed services. There are additional reasons why local leaders should want to improve their jurisdictions fiscal health. There are compelling reasons for local government officials to strive for better fiscal health, not the least of which is to get reelected by the voters. Other reasons for maintaining fiscal health include the fiscal health influences on homeowner location decision, business location decisions and economic development, local government organizational flexibility and human resources quality, local government competitiveness, service provision quality and variation in services provided, long-term credit worthiness and tax costs to local residents and businesses.

In short, current research on economic development and growth consistently documents that local services play an increasingly important role. Historically the view has been that local governments should provide basic core services at the lowest possible cost to the taxpayer. While keeping downward pressure on taxes is still important, current research indicates that higher levels of services and overall quality of life are becoming more important. Items once considered luxuries such as quality parks and recreation programs, libraries and adult learning services, and a broad range of extra-curriculum programs offered by public schools are now

¹ This essay draws on the work of Beth Walter Honadle, James Costa and Beverly Cigler, *Fiscal Health for Local Governments: An Introduction to Concepts, Practical Analysis and Strategies*. New York: Elsevier. 2004.

expected in vibrant and growing communities. Research has shown that as we become richer as a society, we demand more from our local governments. Still, we prefer someone else to pay for these services.

What are some strategies that local officials can think about to when considering options to create an environment for a stronger fiscal health position? Eight broad based strategies include:

1. Be more efficient in the production of services;
2. Expand the tax base;
3. Reduce the demand for services;
4. Shift costs to non-residents;
5. Secure new sources of revenue;
6. Increase spending flexibility;
7. Improve management of existing resources; and
8. Diversify revenue sources.

Note that none of these can be described as “quick fixes,” rather these are long term strategies for long term fiscal health. Short-term quick fixes such as across the board reductions in expenditures or deferment of capital improvements or maintenance or exacerbates the long term viability of local governments. For example, for smaller more rural community expenditures on local roads is often the single largest expenditure category. A common fiscal crisis “solution” is to delay maintenance expenditures. Engineering studies have consistently documented that such strategies lead to a deterioration of roads and larger costs long term.

Vibrant communities that are socially and economically dynamic know that there are no quick fixes or simple solutions to complex problems. During times of fiscal stress, these same communities must look to long term solutions and seek opportunities to implement sound long term fiscal planning and fiscal health strategies. The interplay between the public and private sectors of the local economy are becoming more blurred as opposed to distinguished and well defined.

Local officials and concerned citizens should look upon the current fiscal situation as an opportunity for change rather than a crisis that requires quick answers. Political historians have documented that “radical” long term changes that have proven to be the foundation of sound public policy come out of time of crisis. It is almost human nature to be reactive to crisis then proactive, particularly in a political setting. Perhaps the current fiscal crisis is a window of opportunity for innovative communities to make significant strides forward. The future of the local economy may depend upon it.

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Issued in furtherance of Cooperative Extension work, Acts of May 8, and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Arlen Leholm, Cooperative Extension, University of Wisconsin-Extension.

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