

Understanding Municipal Financial Health: A Model for Local Governments in the USA

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Maher, C. S., Park, S., McDonald, B. D., & Deller, S. C. (2023). *Understanding municipal financial health: A model for local governments in the USA*. Routledge, 350 pp., \$49.59 (paperback), ISBN: 978-1-0320-5542-8.

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Understanding Municipal Financial Health: A Model for Local Governments in the USA by Maher et al. (2023) is a much-needed, long overdue, well-written, scholarly treatment of analyzing municipal financial conditions practically and comprehensively. Though the data analysis is limited to cities, the general analytical framework can be applied, with the appropriate level of nuance, of course, to all sub-state levels of general government (towns, cities, counties, etc.).

In Chapter 1, the authors describe their systems view of municipal financial health. Their systems approach to financial condition analysis is insightful and comprehensive. They model an open system with inputs (socioeconomic conditions, institutional settings, external pressures, and internal structures), outputs (expenditures, revenues, and debt), policy decisions, outcomes (fiscal health measures), and a necessary feedback loop. It is not a closed system, only meant for a limited understanding of a particular problem from a particular stakeholder's perspective. The open systems approach is valuable for scholars, government officials, and students. This approach should be taught to the next generation of scholars and practitioners in colleges and universities.

The open systems approach gives the reader an appreciation for the complexity of how the entire system is supposed to work – compared to how it actually works. It requires one to understand and appreciate the complex interrelationship between inputs, including constraints and resources provided by higher levels of government, policy actions, stakeholder demands, outputs, and outcomes. The authors explore these interrelationships in Chapters 2-8.

In Chapter 2, the authors point to the traditional importance of evaluating the system based on effectiveness and efficiency. However, they miss the opportunity to add equity to the

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analytical framework and, therefore, the insights that could be gained from using an equity lens to analyze each aspect of the system throughout the book.

While the title of the book highlights “fiscal health,” a substantial portion covers “fiscal stress,” especially how governments have dealt with external shocks – like the Great Recession and the COVID-19 pandemic. These, I believe, are the most interesting parts of the book. They make a convincing argument for distinguishing fiscal stress from fiscal health and establishing it as a key financial condition analysis area. Stress is short-term liquidity focused – can the government pay its annual bills; whereas fiscal health is longer-term. They use Detroit as an example where the distinction mattered. The book's title could have included the phrase “fiscal stress,” and I do not believe any reader would have complained about being misled.

Unlike the usual larger city targets of fiscal crisis analysis, the authors provide detailed case studies of small-to-medium-sized cities (chapters 9-13): Flint, Michigan; Wichita, Kansas; North Lauderdale, Florida; Havelock, North Carolina; Commerce, California. Cities spread across the country, with different problems, having different internal flaws and external constraints – but all can be analyzed and understood through the common framework provided by the authors.

They use case studies to illustrate their open systems approach, demonstrating how to use traditional indicators and measures parsimoniously. They use a set of tractable (in terms of time series and cross-sectional analysis) and informative input factors to analyze the broader environment and institutional setting, socioeconomic conditions, and outputs covering revenue and expenditure trends, operating position, and long-term liabilities, and they link such factors to outcomes and policy actions.

In addition, they expand the traditional analysis by incorporating interviews with government officials involved in making budget and finance decisions. Interviews for all but one city covers multiple periods, 2015 and 2021, enabling the authors to paint a picture of how city officials have responded to crises like the Great Recession and COVID-19 pandemic, as well how they made routine public policy decisions in better times, including how they have navigated external and internal structural constraints. The interviews give the reader a perspective on why decisions were made, not just what decisions were made but their impact. Another advantage of including interviews covering multiple periods is that it shows the importance of positive and stable relationships between government officials responsible for a city's financial condition – across and within the executive and legislative branches.

The authors' use of actual time series and cross-sectional data throughout the book is admirable. They build their model by tracing the historical development of measuring financial condition. It shows a thorough understanding of the scholarly literature, enabling them to cut through the noise of many correlated (and therefore) useless indicators and measures often found in the research literature (as shown in Appendix B). They knowledgeably limit the number of indicators and measures used in the case studies and make them more comparable across cities. This alone is a singularly important contribution to the field and should help increase future empirical research's reliability and validity.

Also, in Chapter 1 and Appendix A, they provide a valuable service by critiquing the advantages and limitations of several data sources—Census, GFOA (Government Finance Officers Association), and ACFR (Annual Comprehensive Financial Reports)—commonly used by researchers.

Understanding Municipal Financial Health: A Model for Local Governments in the USA, is an excellent addition to the literature on municipal finance. It reminds me of the contribution

made to local budgeting by Irene Rubin's (2019) *The Politics of Public Budgeting*. I would encourage the authors to develop a full-blown textbook in a future edition. While the book's discussion questions at the end of case study chapters are thoughtful and well-crafted to stimulate class discussion, undergraduate and graduate student learning deserves and requires more. Students of municipal financial analysis deserve analytical treatment like the 600-plus-page fiscal administration and corporate finance textbooks, with supplemental materials like practice problems, quizzes and exams, slideshows, data packages, and Excel spreadsheets. It may be a case of latent demand merely waiting for high-quality supply, which the authors of *Understanding Municipal Financial Health: A Model for Local Governments in the USA* richly supply.

Disclosure Statement

The author declares that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

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