Analyzing Rural Local Governments' Financial Condition: An Exploratory Application of Three Tools

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Rural local governments frequently lack the capacity to analyze and monitor their financial condition. This article presents three tools that were used in a pilot project to analyze the fiscal health of a rural Minnesota county. The article compares and contrasts these methodologies by pointing out the strengths and weaknesses, the usefulness of the results, and the ease or difficulty of use of the tools.

Local government officials need to be able to analyze their jurisdictions' fiscal health or condition on a regular basis. They want to know how well they are doing compared to similar governmental units and also how they are doing over time. It is important for policymakers to know whether a governmental jurisdiction is heading for trouble before a financial crisis occurs.

Officials need tools that are relatively simple to use and practical in the sense that they suggest specific policies or actions to address identified problems. Officials also need to be able to communicate the results of fiscal health analyses to lay audiences, including the local press and interested citizens.

Rural local governments, in particular, have limited in-house expertise for doing such analyses. Typically, rural public officials are part-time volunteers without any specialized background in public finance.[1] The public finance staffs that rural local governments do have are usually small. This means that they are so busy with the daily work of public finance (as well as other responsibilities) that they may not take the time to take a critical look at the jurisdiction's fiscal health. Or, they may not be aware of the tools available to study fiscal health or how to use them.

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INTRODUCTION AND RATIONALE

This article presents a case study of Swift County, Minnesota, where we conducted an exploratory study applying three tools for analyzing local financial condition.[2] The County commissioners in this relatively small (population about 11,000), rural county requested faculty at the University of Minnesota to help them analyze their fiscal health and make recommendations for improving the County's finances. Researchers at the University of Minnesota worked with the County's finance committee (comprised of two county commissioners, the auditor, and the treasurer—all elected officials) to obtain data and develop recommendations in a collaborative fashion. Our participatory research approach was well-received by the local officials who said that they expect to change some practices as a result of the study. For example, they plan to develop a capital improvement plan, which was one of our recommendations. It appears that the methods we used have potential for wider application in other smaller, rural jurisdictions with limited professional expertise for fiscal analysis.

According to an earlier article in this journal:

> Local decisionmakers, particularly in rural areas, frequently feel isolated from federal and state governments as well as other local jurisdictions. The ability to compare fiscal situations and policy decisions in other similar jurisdictions may not only reduce the perception of isolation, but indicate the relative position of the jurisdiction within the larger system of local government.[3]

The Government Finance Officers Association (GFOA) encourages governments to prepare "popular" reports to help people who need or want a less detailed overview of government's finances. GFOA specifically recommends that:

- popular reports be timely;
- the scope of the report be clearly indicated;
- the report should attract and hold readers' interest, convey financial information in an easily understood manner, present information in an attractive and easy-to-follow format, and be written in a concise and clear style;
- the report should avoid technical jargon, and the report's message should be underscored, as appropriate, by graphics;
- the narrative should be used to highlight and explain items of particular importance;
- comparative data should be used constructively to help identify trends useful in the interpretation of financial data; and
- the report should establish its credibility with its intended readers by presenting information in a balanced and objective manner.[4]

Even though our audience was the local government finance committee and not the kind of popular audience the GFOA had in mind when it wrote these recommendations, these suggested guidelines are very applicable.

SWIFT COUNTY GOVERNMENT CONTEXT[5]

At 743 square miles, Swift County is smaller than the average-sized Minnesota county. Preliminary figures for the 1997 Census of Governments show a total of thirty-eight local governments in Swift County and four local governments which primarily serve other counties but also provide services to Swift County.[6] Swift County includes eight municipalities,[7] twenty-one townships,[8] three school districts,[9] and five special district governments.[10] In addition, three school districts[11] and one special district which are assigned to other counties report providing services to Swift County.[12]

The county has recently seen a slight reversal in a generally downward population trend and was estimated at 10,784 in 1996. Nearly 22 percent of the population is aged sixty-five or over. In 1990, 68 percent of the population over the age of twenty-five were high school graduates and over 11 percent were college graduates.

Swift County is agriculturally dependent with both farming and agricultural processing being very important to the local economy. There were 760 farms in the county in 1992, and 82 percent of the land is in farming. In 1991, there were 314 nonfarm establishments employing 2,191 paid workers with an annual payroll of approximately $32.7 million. The county's income per capita was $15,226 in 1993. The 1994 civilian labor force was reported at 5,100. As of December 1993, there were 1,745 retired workers living in the county and 2,830 Social Security recipients. In 1989, 14.1 percent of the people and 9.4 percent of the families in Swift County were living below the poverty level. Recently a privately-owned prison opened in Appleton, one of the cities in Swift County, and some projections are that it will perhaps triple in employment in the next few years.

So, Swift County has a relatively older population and an economy that is based somewhat on agriculture. However, in recent years the county has seen some economic diversification, and there is some indication that the downward trend in population may be reversing itself, at least for now.

THE PUBLIC FINANCE FUNCTION OF SWIFT COUNTY

Many officials with differing functions and responsibilities are involved in Swift County's finances. It is instructive to know what these roles are and how they relate to each other. For example, one official could have information needed to do their job that other people need to do their jobs. Likewise, decisions made by some actors have implications for other people's responsibilities. We will present a very simplified description of the system as it currently operates so that we can begin to understand these roles and interrelationships. For our purposes, we will concentrate on the roles that the commissioners, the auditor, and the treasurer play in the finances (revenues and expenditures) of Swift County. To a lesser degree we will discuss the roles of departments, but only as they relate to the budget requests that go to the commissioners.

From roughly July to December the county departments present their budget requests to the county commissioners through the auditor. The auditor is the link between the departments and the board in making these requests. The auditor is also the chief executive responsible for daily administration. Among the auditor's other duties are certifying levies and determining rates due and payable. The county commissioners make their spending decisions based on requests that are presented to them. The treasurer serves as the collecting agent for the county, the county's investment officer for excess funds available, and most importantly, is responsible for paying the county's financial obligations. Two county commissioners, the auditor, and the treasurer make up the county's finance committee. This was only formed in the last year, so its actual role is still not entirely clear. In principle, the finance committee is advisory only. The assessor is responsible for establishing the value of property subject to the property tax, which has implications for revenues, equity, administrative costs of the property tax, and other issues.

Given the county commissioners' responsibility for making spending decisions, they need timely and accurate information. They have to decide what the overall level of county spending should be, what expenditures should receive highest priority, and how expenditures should be financed. They need to know the county's current finances and trends, the options for funding current operations and capital projects, and the implications of their decisions for Swift County's current and future finances. The auditor keeps records on how county dollars are spent and these data are potentially useful to the commissioners in their policy making roles. The treasurer's knowledge about the state of the county's finances is also valuable information for managing the county's finances.

FISCAL HEALTH ANALYTICAL TOOLS

Our approach was to identify appropriate public finance analytical tools and apply them to Swift County rather than to develop new instruments. We reviewed the applied public finance literature and consulted with community economists nationally for leads on tests, indicators, monitoring systems, etc., that would help us detect any weaknesses or emerging problems in the county's finances.[13] Some of the analytical methods we encountered in our review were more appropriate for states, cities, or other types of governments, so we did not consider using them.[14] Some tools require data that are not readily available or are overly complicated, so it was not feasible to work with them either. We finally decided to concentrate on the three tools described below.

Brown's Ten-Point Test of Financial Condition[15]

Ken Brown's ten-point test gives a snapshot of a jurisdiction's current fiscal health. The analyst calculates ten ratios to measure four aspects of a jurisdiction's financial

TABLE 1

#	Indicator	
1	Total Revenues/ Population	Total Revenue in General, Special Revenue, Debt Service, and Capital Projects Funds/ County Population
2	Total General Fund Revenues from Own Sources/ Total General Fund Revenues	Total Revenue less Total Intergovernmental Revenue in General Fund/ Total Revenue in General Fund
3	General Fund Sources from Other Funds/ Total General Fund Sources	Total Operating Transfers into the General Fund/Total Revenue in General Fund plus Transfers
4	Operating Expenditures/ Total Expenditures	Total Expenditures in General, Special Revenue, and Debt Service Funds/ Total Expenditures in General, Special Revenue, Debt Service, and Capital Projects Funds
5	Total Revenues/ Total Expenditures	Total Revenue in General, Special Revenue, Debt Service, and Capital Projects Funds/ Total Expenditures in General, Special Revenue, Debt Service, and Capital Projects Funds
6	Unreserved General Fund Balance/ Total General Fund Revenues	Unreserved, Designated, and Undesignated Fund Balance in General Fund/ Total Revenue in General Fund
7	Total General Fund Cash and Investements/ Total General Fund Liabilities	Total Cash & Investments in General Fund/ Total Assets in General Fund less Reserved and Unreserved Fund Balances
8	Total General Fund Liabilities/ Total General Fund Revenues	Total Assets in General Fund less Reserved and Unreserved Fund Balances/ Total Revenue in General Fund
9	Direct Long-Term Debt/ Population	General Obligation Debt to be repaid from Property Tax Revenue/Population
10	Debt Service/ Total Revenues	Total Expenditures in Debt Service Fund/ Total Revenue in General, Special Revenue, Debt Service, and Capital Projects Funds

condition—revenues, expenditures, operating position, and debt structure. These ratios are then compared to the ratios of similar jurisdictions and a score is given based on that comparison. The indicators are presented in Table 1.

The comparison counties came from the 1994 Government Finance Officers Association (GFOA) Financial Indicator database. This database contains the financial data for all counties that were awarded the GFOA's 1994 Certificate of Achievement for Excellence in Financial Reporting.

TABLE 2

Score	Evaluation of Score	
14	99th percentile	1% of GFOA counties scored higher
12	95th percentile	5% of GFOA counties scored higher
10	90th percentile	10% of GFOA counties scored higher
8	75th percentile	25% of GFOA counties scored higher
5	50th percentile	50% of GFOA counties scored higher
2	25th percentile	75% of GFOA counties scored higher
0	10th percentile	90% of GFOA counties scored higher
–2	5th percentile	95% of GFOA counties scored higher
–4	1st percentile	99% of GFOA counties scored higher

We compared Swift County's ratios to those of counties with population under 100,000 (there were 123 in the database), counties in the Midwest (eighty-seven counties), counties in the Midwest with population under 100,000 (twenty-seven), and counties in Minnesota (eleven). The scores varied little by comparison group and, being the largest, the first group was used.

The scores are obtained by comparing the calculated ratio to the ratios of the counties in the database. If the ratio falls below the 25th percentile of all counties, it receives a score of –1, between 25 percent and 50 percent—a score of zero, between 50 percent and 75 percent—a score of 1, and above 75 percent—a score of 2.

The scores on all ten ratios are then totaled to get an overall score which, again, is compared to the overall scores of the counties in the database. For example, a score of –4 puts the county in the first percentile of counties, while a score of 14 puts it in the 99th percentile (see Table 2).

Alter's Ten-Year Trends[16]

Ted Alter's ten-year trends are used to forecast revenues and expenditures. First, a history of revenues and expenditures is prepared. This involves separating revenues and expenditures into categories small enough to make it possible to identify factors that affect a particular category. We used Alter's guideline of 5 percent of the budget, which in 1995 came to about $110,000 for Swift County. We broke down any category that was larger than that into smaller budget items.

The individual categories are then plotted over time to find trends in revenues and spending. For the trends to make sense, administrative changes and one-time events must be identified, such as changes in tax rates or assessment ratios, changes in number of employees, adding or eliminating a service, and so forth. These discretionary changes can distort a trend, making it useless for prediction purposes. When possible, one should adjust the history to reflect the discretionary change. For instance, if the property tax rate increased, one should recalculate what the tax revenue would

have been if the new rate had been in effect for the entire history. That way, the trend shows revenue based on the growth of the tax-base, not on administrative or discretionary changes.

ICMA's Financial Trend Monitoring System[17]

The International City/County Management Association (ICMA) has developed a set of thirty-six indicators for evaluating the financial condition of cities and counties. These cover aspects such as revenues, expenditures, operating position, and debt structure, among others. They are plotted over a five-year period to show warning trends. These are much more complicated than the other tools because much of the information cannot be found in the regular financial statements. When it can be found, it may not be organized in a compatible way.

FINDINGS

In this section we briefly summarize key findings from the Swift County report.[18] Our purpose is to show how we used the analytical tools and the kinds of results each tool can produce. In a subsequent section we will compare and contrast these techniques.

Brown's Ten-Point Test of Financial Condition

We first calculated the 1994 ratios, and Swift County scored 13, which put it above the 95th percentile. We then calculated the 1995 scores and compared them to the 1994 database. The 1995 database was not yet available but it seems unlikely that there would be large changes from one year to the next. The 1995 scores were dramatically lower, falling from 13 to 4 in just one year (see Chart 1).

Indicator 2, own source revenues compared to total revenues, was low in both 1994 and 1995. This means that a large percentage of county revenue was from intergovernmental transfers. As aid from federal and state governments decreases, this will have a disproportionate impact on county finances.

Indicator 4, operating expenditures compared to total expenditures, has a low score (high ratio) both years, meaning that most expenditures are current operating expenditures. This suggests that the infrastructure is not being adequately maintained. This may not be the case, but the lack of a capital account means that all expenditures are reported as current.

Indicator 5, total revenues compared to total expenditures, dropped from the highest possible score to the lowest. This implies that in 1995 Swift County spent more than it took in (unlike 1994). This is largely due to the large expenditure for economic development.

Indicator 7, total cash compared to total liabilities, dropped from 2 to zero. A high ratio suggests the availability of cash to pay short-term obligations. The lack of a capital or debt service account obscures the amount of cash actually available.

CHART 1

#	Indicator	For Counties with Populations Below 100,000 (123)						
		25%	50%	75%	Swift Co. 1994	Score 1994	Swift Co. 1995	Score 1995
1	Total Revenues/Population	371.256	521.05	755.262	$1,168.58	2	$930.54	2
2	Revenues from Own Sources/Tot. Gen. Fund Rev.	0.796	0.875	0.943	0.795	–1	0.780	–1
3	Other Fund Sources/Total Gen. Fund Sources	0.025	0.002	0	0.000	2	0.000	2
4	Operating Expenditures/Total Expenditures	0.989	0.953	0.876	1.000	–1	1.000	–1
5	Total Revenues/Total Expenditures	0.919	0.986	1.046	1.106	2	0.802	–1
6	Unreserved Gen. Fund Bal./Tot. Gen. Fund Rev.	0.135	0.204	0.286	1.568	2	0.945	2
7	Tot. Gen. Fund Cash/Tot. Gen. Fund Liab.	0.683	1.815	3.427	30.201	2	1.599	0
8	Tot. Gen. Fund Liab./Tot. Gen. Fund Rev.	0.28	0.122	0.068	0.052	2	0.617	–1
9	Direct L–T Debt/Population	381.525	79.977	0	$62.93	1	$164.25	0
10	Debt Service/Total Revenues	0.055	0.015	0	0.000	2	0.001	2
	Total Score					13		4

Indicator 8, liabilities compared to revenues, dropped from 2 to –1. In 1994, short-term obligations could be easily paid by annual revenue. In 1995, revenues were down and liabilities way up. In sum, Brown's indicators showed that Swift County's finances were deteriorating rather quickly.

Alter's Ten-Year Trends

We had the most difficulty using the tool developed by Alter *et al.* to discover trends. This had little or nothing to do with this tool, but was related to inconsistent reporting by the county over time. The budget categories changed so frequently that it was almost impossible to tell, from the available data, what changes may have taken place. For example, expenditures for the County Fair bounced back and forth between "Culture and Recreation" and "Conservation of Natural Resources." While it is easy enough to move those into one category to plot a trend, it is much harder to tell what goods and services were actually received. The finance committee combined and rearranged categories to produce a somewhat consistent spreadsheet, but it did not solve the problem of fluctuating expenditures.

For example, expenditures for Ambulance vary greatly from year to year. Each year, $20,000 is expected to go toward the purchase of a new ambulance in the third year. However, since there is no capital budget, the ambulance account shows zeros for two years and a $40,000–$60,000 expenditure in the third year. Countryside Public Health Service was equally erratic. Obviously it is hard to predict where either of these might go next based on past expenditures.

As an example of how Alter's trends are supposed to work, we plotted the expenditures for General Government. The category was over the recommended limit of 5 percent of the budget, so we moved down to the category of County Assessor.

Breaking down the Assessor's budget into Salaries, Employee Benefits, and Other Expenses we were still unable to draw any meaningful conclusions. It appears that an employee left the office between 1992 and 1993, although employee benefits dropped in 1992 and rose again in 1993. Other expenses dropped precipitously from 1990 to 1991.

Intergovernmental revenue makes up about 20 percent of the total revenue. When broken down we found that the Homestead and Agricultural Credit (HACA) accounts for the largest share. When that is removed from other shared revenue we see that the total of other shared revenue has fallen dramatically.

In sum, Alter's analytical tool helped to focus attention on significant trends like the sharp decline in intergovernmental revenues. However, our ability to apply this tool was severely limited by the county's fiscal data. In particular, data would have to be disaggregated more to discern meaningful trends.

CHART 2A
Assessor–Salaries

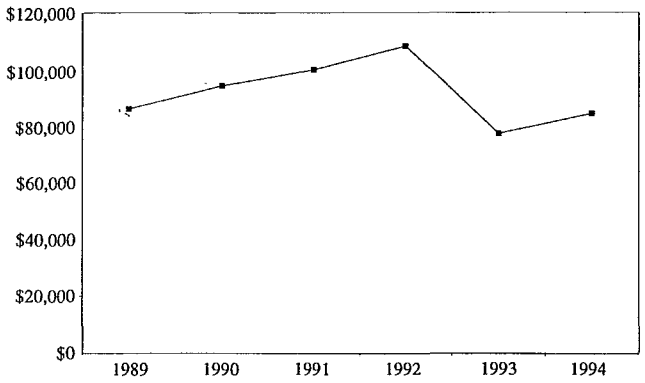


CHART 2B
Assessor–Benefits

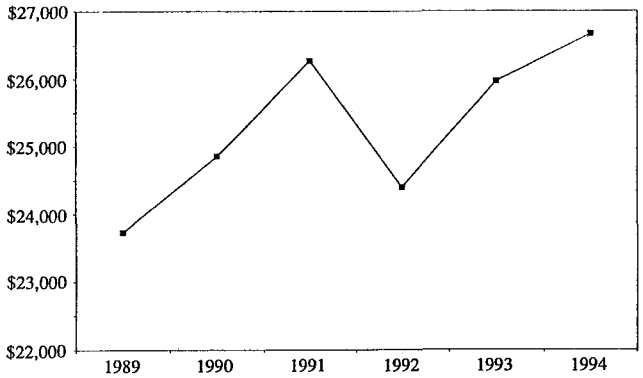


CHART 2C
Assessor–Other Expenses

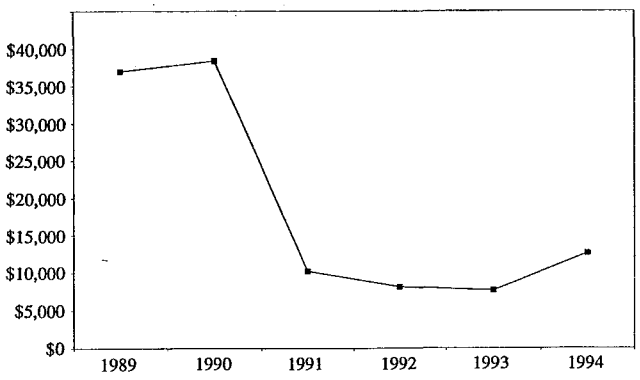


CHART 3A
HACA

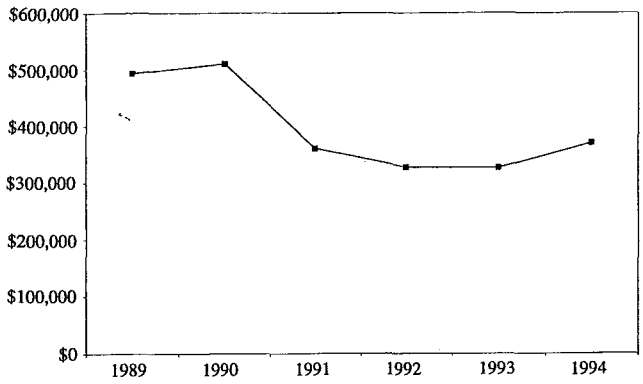
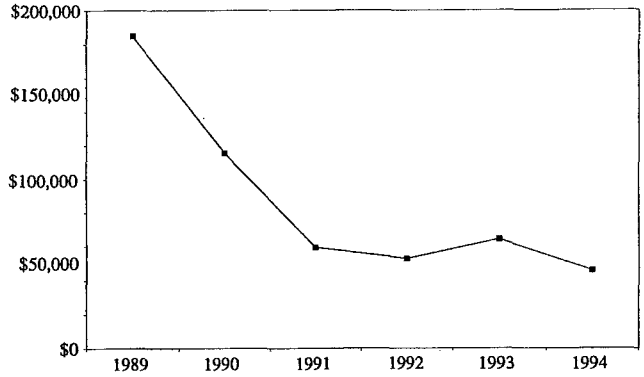


CHART 3B
Total Shared Revenue Excluding HACA



ICMA's Financial Trend Monitoring System

We used the ICMA's Financial Trend Monitoring System to analyze revenues and expenditures separately for Swift County. The indicators that we calculated were: net operating revenues, restricted revenues, intergovernmental revenues, property tax revenues, net operating expenditures per capita, operating deficits, fund balances, liquidity, current liabilities, and debt service.

Revenues. Net Operating Revenues (in constant dollars) per capita show changes in revenues relative to changes in population size. This figure rose steeply from $209 in 1993 to $227 in 1994. In 1995 it fell to $203. This indicates that revenue per person is not keeping up with inflation. This could be because the economy in general is in decline, segments of the population that in the past produced a large portion of the revenue are declining, or there is over dependence on specific sources of revenue that are not keeping up with inflation.

Restricted revenues are legally earmarked for a specific use, such as solid waste or ditch repair. Restricted operating revenues as a percentage of net operating revenues shows what percentage of revenue is available to decision makers. As the percentage of restricted revenues increases, a local government loses its ability to respond to changing conditions and to citizens' needs and demands. Swift County's restricted revenue as a percentage of Net Operating revenues rose from about 68 percent in 1991 to about 76 percent in 1995.

Intergovernmental revenues as a percentage of Gross Operating revenues shows the county's dependence on income from the state and federal governments. Large amounts of intergovernmental revenue can be good if they are paying for services mandated by that government but if the funding ends before the mandated spending the county must find the money elsewhere. Swift County's has varied between 49 and 52 percent over the last five years.

Property taxes make up almost half of all county revenues. If they are not keeping up with inflation, they have a disproportionate impact on total revenue. Property tax revenues (in constant dollars) rose from $584 in 1991 to $680 in 1993 and have fallen for the last two years to $640 in 1995. This can happen for several reasons: a decline in property values, unwilling default by property owners, inefficient assessment or appraisal, or deliberate default by property owners who know the penalty is less than short-run interest rates.

Expenditures. Net Operating Expenditures (in constant dollars) per capita show changes in expenditure relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is increasing faster than the county's ability to pay or that productivity is declining and the government is spending more to support the same level of service. This had been between $227 and $271 until 1995 when it rose sharply to $475, largely due to the expenditure for economic development.

General fund operating deficits as a percentage of net operating revenues show when current expenditures exceed current revenues. Operating deficits have occurred in each year since 1992. Fund balances may still be adequate to prevent a budget deficit but continued operating deficits cannot be sustained.

Unreserved fund balances as a percentage of net operating revenues shows how much is available for spending. Fund balances have been drawn down in recent years to cover the operating deficits.

Liquidity is measured by cash and short-term investments as a percentage of current liabilities and shows if cash is available to pay short-term debts. In the past, Swift County has had large cash reserves (between 300 and 560 percent), but has recently been spending them down (to about 156 percent in 1995).

Current liabilities as a percentage of net operating revenues shows how easily the county could pay off short-term debt. The credit industry considers two situations to be negative indicators: a debt to operating revenue ratio over 5 percent, or a two-year trend of increasing ratios. In the past few years Swift County's ratio has hovered between 15 and 25 percent. In 1995 it rose to almost 40 percent.

Debt service as a percentage of net operating revenues shows how much of operating revenues goes toward debt. The credit industry considers 10 percent acceptable and 20 percent a problem. Swift County is well below that.

One useful indicator that we were unable to calculate is User Charge Coverage. It shows if user charges are covering the cost of the services they are paying for. Revenues from charges for service amount to around $200,000 per year, but the costs of providing those services are buried in other accounts.

In sum, the ICMA Financial Trend Monitoring System helped to identify several problem areas that need to be addressed in Swift County. Of particular concern are the County's reliance on intergovernmental revenues, declining cash balances, and sluggish revenue growth. These findings generally mirror the issues raised by Brown's Ten-Point Test.

Overall Assessment

Swift County's fiscal condition was basically sound, but there were emerging warning signs. Without immediate action to shore up its finances, its long-term fiscal health appears at risk. The basic problem is that the County was spending more money than it was raising. Consequently it was spending down its healthy-looking cash reserve. The large size of the cash reserve was further masking the underlying problems facing Swift County's finances in that the County has a tradition of paying for capital with current revenues. Hence, these funds are, in part, a capital fund to buy and replace large equipment and buildings and are not available for operating expenditures. This is not a sustainable situation and must be addressed quickly, especially in anticipation of reduced intergovernmental aid and increased demand for service from the county.[19]

TABLE 3
Tools for Analyzing Fiscal Health

	Brown	Alter	ICMA
Purpose	concise scoring system to quickly assess financial condition, allows comparison with other local governments	to show trends in revenues and expenditures, project future deficits, plan for capital improvements	series of financial indicators to monitor changes in financial condition, alert government to future problems
Method	1. compute ten ratios 2. compare to other governments of similar size 3. grade condition	1. prepare history of rev. & expend. 2. project rev. & expend. 3. compare projected rev. & expend. 4. use analysis 5. revise & maintain history & projections	1. choose indicators (36 available) 2. collect data 3. develop indicators, plot over time 4. evaluate results 5. develop policy statements
Data Requirements	year-end income statement, GFOA database	past financial statements, projection techniques	budgetary & financial reports, census data
Needed from County	most recent year-end statements	year-end balance sheets, income statements for past 10 years	year-end balance sheets, income statements for past 5 years
Limitations/Strengths	one point in time, compares to other counties	no comparisons with others, shows trends, projections	shows trends, provides flags to indicate problems

Source: Compiled by the authors using: "The 10-Point Test of Financial Condition: Toward an Easy-to-Use Assessment Tool for Smaller Cities," Ken W. Brown, *Government Finance Review*, December 1993; *Analyzing Local Government Fiscal Capacity*, Theodore R. Alter, and others, Pennsylvania State University, Cooperative Extension Service; *Evaluating Financial Condition: A Handbook for Local Government*, Stanford M. Groves & Maureen Godsey Valente, International City Management Association.

COMPARISON OF THE TOOLS

Table 3 compares and contrasts the three tools. It delineates the purpose, method, data and report requirements, and limitations and strengths of each tool. Depending on one's criteria, one could decide to use one or another tool. For example, if one is most interested in how a particular local government's finances compare to those of similar local governments, Brown's Ten-Point Test may be the preferred option. If a more comprehensive, longitudinal perspective on a locality's finances is sought, perhaps the ICMA monitoring system would be more appropriate. If an analyst is interested in projecting expenditures, then one might choose Alter's approach.

In this section we will focus on the three methodologies used, with varying degrees of success, in the Swift County case study. We will compare and contrast them by pointing out the strengths and weaknesses (from our perspective), the usefulness of the results, and the ease or difficulty of use of the tools.

Brown's Ten-Point Test was the easiest of the tools to use and provided the most immediately useful information. It is a relatively simple and straightforward method of taking a snapshot of a jurisdiction's financial condition. One of its strengths is that it allows jurisdictions to compare themselves to other jurisdictions in a database someone else has compiled. Another strength is that Brown suggests how to interpret the results to guide remedial actions.

A potential weakness of Brown's Ten-Point Test is that it is a static tool, providing a picture at one point in time. This can be easily overcome, however, by doing the analysis for more than one year, as we did. By doing the test for two years in a row, we were able to tell where the jurisdiction appeared to be heading for trouble. Another potential weakness of Brown's tool is that the database does not distinguish among groupings of counties by size below a population of 100,000. So, we do not know how well the county we were studying compared to other very small counties.[20] Also, a potential weakness of Brown's tool is that it may oversimplify interpretations. For example, Brown suggests that a low *Operating Expenditures to Total Expenditures* ratio suggests that infrastructure is being maintained adequately. In the case of Swift County, where infrastructure is being financed on a pay-as-you-go basis (which may be a different problem), the jurisdiction could have a relatively high proportion of current expenditures and still maintain its infrastructure. The point is that one has to know about specific local circumstances to judge whether Brown's suggested interpretations of individual ratios make sense in individual cases. In short, simplicity is both a strength and a weakness of Brown's Ten-Point Test.

Alter's Fiscal Capacity Analysis and ICMA's Financial Trend Monitoring System are similar in that they are both trend analyses. Alter's tool is intended to help jurisdictions forecast revenues and expenditures, while the ICMA tool contains a set of indicators for evaluating fiscal health. We found Alter's tool difficult to use only because it required data to be broken down into rather small (less than 5 percent of the budget) categories to make it possible to identify factors affecting a particular category. This is

probably a good technique, but we were not able to take existing data reported by the county and apply this tool. We might suggest that the county reconsider the budget categories it is using now to make it feasible to use this tool in the future. For example, in areas that have relatively uncontrolled spending, the county may want to break expenditures down into smaller categories to help them pinpoint what accounts for the expenditure growth. This approach may help them explain the overall trend or perhaps find ways of bringing expenditures into a more acceptable range.

The ICMA Financial Trend Monitoring System is the most complicated of the three tools used, but the indicators contained in this system were quite useful. Even though we were not able to calculate all the indicators, the ten we were able to figure and analyze told the county a lot about emerging problems. We also found this tool to be very revealing as a complement to the Brown Ten-Point Test. Both were very confirming, which gave us and the County added confidence that the problems we were identifying were real. For example, changes in Brown's *Total Revenues to Total Expenditures, Total General Fund Cash to Total General Fund Liabilities,* and *Total General Fund Liabilities to Total General Fund Revenues* ratios over a two-year period were indicative of Swift County's rapidly shrinking cash balance and expenditures outstripping revenue growth. Brown's indicators also highlighted the County's heavy reliance on intergovernmental revenues. The ICMA indicators pointed to the same issues and provided additional interpretation of the meaning of such results.

Another indication that Swift County's finances have become strained is that the County's bond rating has slipped slightly from **A** to **Baa1**. The practical difference between a Moody's **A** rating and **Baa1** rating is that Swift County's bonds are now considered riskier investments.[21] One implication of a lower bond rating is that the county has to pay higher interest on borrowed funds. An **A** rating means that bonds have "many favorable investment attributes and are considered as upper-medium-grade obligations." A **Baa** rating is for "medium-grade obligations (i.e., they are neither highly protected nor poorly secured)" and "such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well."

In the most recent analysis of Swift County's bond rating, Moody's noted:

> For a number of years, the county has maintained a General Fund balance that is well in excess of annual operating revenues. In order to moderate increases in tax rates, the county has started to draw down the accumulated reserve; however balances are projected to remain sufficient to meet all cash flow requirements as well as unanticipated expenditures. . . . [O]perating revenues are heavily dependent upon state assistance. Property taxes are the second largest source of revenue and continue to demonstrate a satisfactory collection record.[22]

Moody's analysis was done in late 1994. Since that time the County's cash balance has been depleted considerably and the future of state aid is uncertain.

We did not look at the County's bond rating report until after we had done our analyses using the three tools. We did not want to prejudice our interpretation of the results of our analysis. However, Moody's report showed that another independent

analysis had also raised concerns about the County's cash reserve and its reliance on intergovernmental revenues.

SUMMARY AND CONCLUSIONS

The purpose of this article has been to report our initial experience using three tools that are appropriate for analyzing the fiscal condition or health of local government units. We found them all useful to varying degrees. Our overall conclusion is that small rural jurisdictions need tools like these to monitor their financial condition on a regular basis. We plan to expand our work in this area by applying and refining these tools in several more local governments in Minnesota and in delivering educational programming in fiscal health analysis to the target audience—local elected and appointed officials. With more comprehensive data and a larger number of observations, we hope to be able to compare local governments' experiences with these tools and offer more insights into the strengths and weaknesses of each approach, given specified criteria such as time, cost, and performance of each method.

NOTES

1. For a discussion of local government budgeting practices in smaller, rural governments (e.g., multiple roles in budget preparation as opposed to a high degree of centralization and specialization in urban governments), see Alvin D. Sokolow and Beth Walter Honadle, "How Rural Local Governments Budget: The Alternatives to Executive Preparation," *Public Administration Review* 44 (September/October 1984): 373–383.
2. For a brief "highlights" piece focussing on the relationship between the university and Swift County in studying the county's fiscal health using the three tools analyzed in this article, see Beth Walter Honadle and Mary Lloyd-Jones, "University-Local Government Collaboration to Study Fiscal Health," *Government Finance Review* 13 (October 1997): 51–52.
3. Harrison S. Campbell, Jr., "Comparative Fiscal Analysis for Counties," *Public Budgeting & Finance* 10 (Summer 1990): 93.
4. See Government Finance Officers Association, *Recommended Practices for State and Local Governments* (Chicago, IL: Government Finance Officers Association, March 1997): 9–10.
5. Unless otherwise noted, this thumbnail sketch was compiled from information contained in the General Profile tables on Swift County from the U.S. Bureau of the Census, USA Counties, for 1994 and 1996.
6. This information is from an electronic mail message from Mr. Steve Owens at the U.S. Bureau of the Census to Honadle on January 31, 1997.
7. Appleton, Benson (county seat), Clontarf, Danvers, De Graff, Holloway, Kerkhoven, and Murdock.
8. Appleton, Benson, Camp Lake, Cashel, Clontarf, Dublin, Edison, Fairfield, Hayes, Hegbert, Kerkhoven, Kildare, Marysland, Moyer, Pillsbury, Shible, Six Mile Grove, Swenoda, Tara, Torning, and West Bank.
9. Appleton School District 784, Benson School District 777, and Kerkhoven-Murdock-Sunburg School District 775.
10. Swift County Soil & Water Conservation District, Region 6W Development Commission, Benson City Housing & Redevelopment Authority, Appleton Housing & Redevelopment Authority, and Swift County Housing & Redevelopment Authority.

11. Milan School District 128, Hancock School District 768, and Morris School District 769.
12. Upper Minnesota River Watershed District.
13. We put out a query to members of the Community Economics Network of the American Agricultural Economics Association, which is largely made up of Land Grant University faculty involved in community and economic development and related issues. We thank Ron Faas (Washington State University), Lynn R. Harvey (Michigan State University), Mike Hattery (Cornell University), Mark Henry (Clemson University), Maureen Kilkenny (Iowa State University), John Leatherman (Kansas State University), and George McDowell (Virginia Polytechnic and State University) for their suggestions on analytical tools to consider in our review of the literature.
14. See, for example, Michael A. Pagano, "Balancing Cities' Books in 1992," *Public Budgeting & Finance* 13 (Spring 1993): 19–39.
15. See Ken W. Brown, "The 10-Point Test of Financial Condition: Toward an Easy-to-Use Assessment Tool for Smaller Cities," *Government Finance Review* (December 1993): 21–26. This tool is further developed in *The 1996 Edition of the Ten-Point Test of Financial Condition with Comparative Ratios for Counties* published by Solstice Productions, Springfield, MO. We acknowledge Dr. Brown's constructive comments and suggestions throughout the project.
16. See Theodore R. Alter, Diane K. McLaughlin, and Nancy E. Melniker, *Analyzing Local Government Fiscal Capacity*, Pennsylvania State University Cooperative Extension Service, University Park, PA, no date.
17. Sanford M. Groves and Maureen Godsey Valente, *Evaluating Financial Condition: A Handbook for Local Government*, Third Edition, 1994, International City/County Management Association, Washington, D.C.
18. Beth Walter Honadle and Mary Lloyd-Jones, *The Fiscal Health of Swift County, Minnesota* (St. Paul: University of Minnesota, Minnesota Extension Service, March 1997).
19. An earlier article in this journal found that local governments are making wide use of reserve funds to provide tax stability and orderly services. This article suggests that local governments should make distinctions between reserve funds and contingency or rainy day funds, which are for emergencies. See Charles B. Tyer, "Local Government Reserve Funds: Policy Alternatives and Political Strategies," *Public Budgeting & Finance* 13 (Summer 1993): 75–84.
20. One article in this journal has suggested that " . . . decision support systems designed specifically for local governments within each state could be beneficial to analysts as they attempt to improve financial management practices." See J. W. Hughes and R. Laverdiere, "Comparative Local Government Finance," *Public Budgeting & Finance* 6 (Winter 1986): 23–24.
21. Moody's Investors Service, Inc. gives its opinion on the creditworthiness of bond issues for investors. In September 1987 Swift County's rating changed from A to Baa1 and it was still Baa1 on November 14, 1994 when the county issued General Obligation Draining Bonds.
22. *Moodys' Municipal Daily Rating Recap*, Swift County, Minnesota. Rating date: November 14, 1994.