



Local Government Financial Capacity: Feasibility of Assessing Match Waiver Criteria For Proposed Local Park, Trail, and Water-Access Projects

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The Washington Wildlife and Recreation Program (WWRP) funds a variety of activities across the breadth of outdoor recreation, including but not limited to park acquisition and development, and habitat conservation. Grants to local governments require recipients to supply matching funds.

In 2016, the Washington State Legislature passed [Substitute Senate Bill 6227](#) (SSB 6227), which said that the Recreation and Conservation Funding Board (board) may waive or reduce match requirements for projects sponsored by local government projects in the Outdoor Recreation Account ([RCW 79a.15.050](#)). The Recreation and Conservation Office, on behalf of the board now seeks to develop a match waiver or reduction policy for local governments in three grant categories: local parks, trails, and water-access projects. To qualify for the match waiver, “the project [must meet] the needs of an underserved population or a community in need, as defined by the board.”

This white paper explores how local government indicators of financial health or capacity can be used to determine the level of community need to have its match reduced or waived. This includes information in the following three areas:

- Local government financial structures and revenue drivers;
- Background on measuring local government fiscal capacity; and
- Examples of indicators, as applied to select [local governments in the WWRP 2017-2019 preliminary rankings](#) for local parks, trails, and water-access projects and a sample of other agencies.

The Legislature established the WWRP in 1990 with the idea that without action, lands would be overdeveloped and ecosystems would fail. Although SSB 6227 adds a substantive layer to this actionable purpose, the terms *underserved population* and *community in need* remain undefined.

Whereas *underserved population* and *community in need* are distinct terms, there is an overlap between them. If a community is in need, one or more of its populations may be underserved. If a population is underserved, it may be due to the fiscal need of the jurisdiction. The

connection is obviously not uniform, and does depend on the size, needs, and pressures of a jurisdiction. Ultimately, resource deficiency leads to a lack of capital investment, and a lack of parks and parks facilities, which may result in an underserved population.

The review of a government’s financial condition is not new. Innovations which seek to understand and respond to fiscal crises are still evolving and hold little consensus. To define *community in need* requires reflection of the community context, including sources of revenue and areas of expenditure, in addition to socioeconomic factors, such as median household income and the level of educational attainment. The definitions and explorations of each term are linked and worth layering together.

Local Government Finance Background

Local jurisdictions may tax and spend in a variety of ways and for a variety of reasons. For the purposes of this paper, five jurisdictions are under review. They are cities, counties, port districts, public facility districts (PFDs), and park districts.ⁱ Cities and counties are senior taxing districts and provide a broad base of services to residents. Port districts, PFDs, and park districts are junior taxing districts with a well-defined operational mission and a limited taxing authority compared to senior districts. Each district’s responsibilities are different, but they share a common power to tax and spend, and each may acquire and develop parks, trails, and water-access projects that may be eligible for a WWRP match waiver.

Table 1 below provides an overview of each of the districts’ taxing powers.

Table 1: Chief Taxing Authority & Other Revenue Sources							
Jurisdiction	Property Tax	Sales Tax	B&O Tax	Real Estate Excise Tax	Enterprise Funds ⁱⁱ	General Obligation Debt	Revenue Debt
City	Yes. Variable	Yes. Variable	Yes	Yes	Yes	Yes	Yes
County	Yes. Variable	Yes. Variable	Yes ⁱⁱⁱ	Yes	Yes	Yes	Yes
Park District	Up to \$0.75 per \$1,000 AV	Yes	No	No	Yes	Yes	No
PFD	No	Yes ^{iv}	No	No	Yes	Yes	Yes
Port District	Up to \$0.45 per \$1,000 AV	No	No	No	Yes	Yes	Yes

Each of the five profiled jurisdiction types relies on enterprise revenues in addition to a variable collection of primary taxes. Taxes generate revenues for local governments based on market conditions. To illustrate, when the economy is going well, residents buy goods and services, and generate retail sales and use taxes. Business taxes, or the business and occupation tax (B&O)

operate in the same way. In 2015, and for the first time, the B&O tax displaced property taxes as the City of Seattle's largest tax revenue source.^v

Property taxes generate revenues a bit differently. The cumulative value of all taxable properties in a jurisdiction's taxing boundary results in an assessed valuation (AV). AV is of critical importance to a jurisdiction's financial capacity as the base from which property taxes and a jurisdiction's debt capacity are established. However, property taxes statewide cannot increase by more than 1 percent annually.^{vi}

The consequences of this limitation [constrain a jurisdiction's ability to keep up with current liabilities](#) and other cost increases. In some jurisdictions, there may be statutory flexibility to divert funds for other purposes. Counties, for example, may siphon a share of county road funds for law enforcement purposes, rather than finance road or road infrastructure improvements.

Additionally, there is a \$5.90 per \$1,000 assessed value combined limitation for cities, counties, and most junior taxing districts. Where the combined property tax rate exceeds \$5.90, junior districts may experience prorationing, which is the reduction or elimination of an entity's levy rate.^{vii} Metropolitan park districts are also susceptible to prorationing. To review park district taxing authority visit the Municipal Research and Services Center (MRSC) page [here](#).

The taxing authority of cities and counties draws power from numerous sources, many of which are restricted revenue sources with a predetermined purpose. For example, the real estate excise tax (REET) is generated from the sale of real property, and is a proxy indicator of the strength of the state's housing marketplace. Cities and counties may impose the REET to finance capital improvements (RCW 82.46.010(2)), but may also impose additional REET portions for general, or unrestricted purposes (RCW 82.46.101(3)).

In contrast, park, port, and public facility districts are more narrowly confined and have less flexibility to generate general use tax revenues. For example, PFDs may impose a lodging tax, a form of sales tax used primarily for capital investment, including, but not limited to the acquisition, design, construction, remodeling, and maintenance of a jurisdiction's public facilities. Similar to REET, the lodging tax is a specific tax tool used to acquire, develop, or otherwise improve capital facilities. In short, each local government has its own unique revenue generating method(s) to finance capital improvements.

Primary Revenue Drivers

In addition to taxes, a jurisdiction may raise revenue in two ways. First, a jurisdiction's legislative authority may assume general obligation (GO) debt, whether it is approved directly (e.g., non-voted GO) or approved by the will of the voters (voted GO). The assumption of debt finances specific capital projects, and does not serve as a general revenue source.^{viii} Second, each may raise revenue through fee-based services, such as through the sale of electricity/gas or sewer/reclaimed water (i.e., enterprise funds).

Table 2: Primary Revenue Drivers & Total Revenue Generated (2015), by category					
	City	County	Port District	PFD	Park District
Property Tax	\$1,390,005,098	\$1,860,201,077	\$158,821,932	\$0	\$58,469,371
Sales Tax	\$1,284,392,576	\$1,332,870,349	\$0	\$6,471,171	\$9,663,118
B&O Tax	\$1,184,359,158	\$5,351,687	\$0	\$0	\$0
Enterprise Revenues	\$5,548,864,117	\$1,967,905,554	\$1,310,278,731	\$199,302,257	\$25,084,845
Other Revenues	\$3,396,003,595	\$2,872,389,039	\$0	\$3,980,408	\$39,725,842
Total Revenue Generated	\$12,803,624,544	\$8,038,717,706	\$1,469,100,663	\$209,753,836	\$132,943,176
Percentage of Total Revenue Generated, as Unrestricted Revenue	78.6%	55.4%	100.0%	100.0%	62.2%

Source: Local Government Financial Reporting System (LGFRS)

Table 2 contains the primary revenue sources for each jurisdiction type as of 2015, which is the last fiscal year when full data was available. The bottom line of the table shows the percentage of total revenue that, theoretically, can be spent without restriction. Unrestricted revenue sources, as contained in a jurisdiction’s general fund or enterprise fund, are revenues used to finance emergent priorities as well as the day-to-day operational costs of a jurisdiction, while a special revenue fund, debt service fund, and/or capital project fund contain the revenues used for specific, and sometimes statutorily required, capital investments. Most local government financial activities rely on an uneven spread of restricted and unrestricted dollars.

It is important to note that the presence of unrestricted revenue does not necessarily mean that a jurisdiction possesses extra cash to spend on new initiatives or to build new parks. To achieve this intent, a jurisdiction’s available cash balance is an adequate indicator. Moreover, a jurisdiction may earmark unrestricted funds for specific purposes, such as those codified in statute or highlighted by a jurisdiction’s long-range planning. Spending priorities may be found within a city or county’s capital improvement plan, a port’s strategic plan, in addition to other official documents espousing capital priorities.

To offer added context, the Local Government Financial Reporting System (LGFRS) reports that in 2015, cities statewide spent \$30.6 million on swimming pools, and 26 percent derived from capital project funds, a restricted capital investment vehicle, and the remainder derived from unrestricted sources, like the general fund. In total, Washington state’s cities spent more than \$17 billion with approximately \$828 million in parks expenditures.^{ix} Of this total, approximately 64 percent of parks expenditures derived from restricted funds. Counties spent more than \$8 billion during this same period with approximately \$328 million in parks expenditures. Of this total, approximately 78 percent derived from restricted sources.

The key takeaway from these data points is that cities and counties, the engines of local government, variably finance parks and parks facilities through debt, capital project funds, and special revenue sources. In comparison, cities and counties spend the most on public safety, transportation, utilities, and capital financing from a combination of special funds and general funds. To illustrate, counties spent slightly more than \$1.7 billion on general government in 2015, and just less than 40 percent of this total derived from restricted sources.

Methodology

National Method

The International City/County Management Association (ICMA) and the Government Finance Officers Association (GFOA) developed a nationally recognized method for assessing local government financial condition 40 years ago.^x

Much of the early work with this method picked a relatively large number of indicators to track an individual city or county over time. A number of states began regularly measuring local government financial condition using indicators in the 1980s. As the methodology matured, the number of chosen indicators reduced, but the number of red flags used to determine stress is an ongoing question.

In 2010, the Washington State Department of Commerce (Commerce), in collaboration with the Office of the State Treasurer, produced an update to a 2005 study that [assessed the fiscal health of Washington's cities and counties](#). The strength of this report was the selection of 10 indicators of financial health across three areas: service demand, resource supply, and financial results. Any jurisdiction that secured a red flag in four or more indicators would be considered in distress. In other jurisdictions, as many as eight red flags would constitute fiscal distress. Relying on the appearance of many red flags before categorizing a jurisdiction as distressed may cause a jurisdiction's financial condition to degrade, or other issues. The purpose of financial capacity analysis is to anticipate financial challenges and to respond.

Six indicators from the study were selected for this white paper. A jurisdiction is assumed to be in fiscal distress if it possesses red flags in three areas. The consistency of the data, ease of access, and the short project timeline demanded a compact approach to exploring local government fiscal health. For a more detailed portrait of a local government's fiscal health, review of all 10 indicators across two distinct periods is recommended to chart growth over time, and understand the trajectory of a jurisdiction's financial condition.

Credit rating agencies and other financial professionals nationwide use the methodology, but it cannot provide a complete understanding of a jurisdiction's financial condition. The methodology may complement an understanding of the specific needs and pressures each community encounters, including any political constraints, or economic conditions that exist, but it cannot stand alone as a singular informative tool without further data points specific to a jurisdiction's socioeconomic and financial context.

Applied Methodology

To demonstrate the methodology, 22 local government entities from three WWRP categories were selected (see Appendix A). Eleven were from *Local Parks*, seven from *Trails*, and four from *Water Access* projects. The selection of each government was not random, but representative of the top, middle, and bottom scoring jurisdictions within these three grant areas. By comparing the indicators across each scoring area, we may immediately observe the value of the indicators in awarding a match waiver.

In addition, a small 8-jurisdiction sample accompanies the WWRP preliminary grantees under analysis. The purpose of this group was to choose jurisdictions that aligned with the theoretical assumption and definition of what a *community in need* looks like. Seven of the jurisdictions selected fit the *community in need* definition, while one jurisdiction – Yarrow Point – represents a small, but otherwise wealthy community.^{xi}

Data Sources and Limitations

As noted above, this white paper relied on six of the 10 financial indicators used in the 2010 Commerce study. Within this analysis, five of the indicators relied on data available from the Local Government Financial Reporting System (LGFRS), which is maintained by the State Auditor’s Office (SAO). One indicator – tax base condition – relied on tax data publically available from the Department of Revenue. Population data derived from the Office of Financial Management (OFM), and county populations were based on that county’s unincorporated population. All data, unless otherwise noted, used in this white paper is from 2015.

LGFRS is the only comprehensive source of annual financial reporting data available for all cities and counties statewide. Jurisdictions are consistent in their reporting to SAO, as each county reports their financial data every year and 92 percent, or 259 of 281 cities consistently report. However, LGFRS has limitations, including that the local governments self-report the data and in many cases report prior to audit.

Financial indicator systems across the country vary in the number and type of indicators selected or adapted to measure financial stress or condition, but almost all systems rely to some extent on data from local government’s own comprehensive annual financial reports (CAFRs). Local governments produce a CAFR each year, and these are valuable documents, because they contain a nuanced view of the jurisdiction’s financial condition, including specific revenue and expenditure detail for select areas, such as parks and recreation. These documents also offer an opportunity to familiarize with the local context (i.e., perceived pressures, financial constraints, and overall financial position) in a more applied and meaningful way.

The methodology, both as pioneered and presented in this white paper, cannot directly translate to government types beyond cities and counties. Appendix A contains two park districts, which is a purposeful juxtaposition that demonstrates the apparent incompatibility. In short, not all local governments operate or finance activities in the same way. A pressure for cities and counties may not be a consideration for park districts, or for port districts. To compare other jurisdictions’ financial condition or capacity would require computation of

specific financial data in alignment with the way that jurisdiction type functions. To date, there is even less consensus on how to approach special district financial capacity analysis.

Financial Trends Monitoring

The exploration of a government’s fiscal health is a specialized field of study in practice for more than 40 years. Financial trends monitoring, or financial capacity analysis, does not provide a silver bullet solution to understand whether a local government is in distress. Instead, monitoring financial trends is a way for public managers and associated outside parties, including academics and researchers alike, to interpret a jurisdiction’s financial condition through applied context. However, there is still no consensus on how to measure or manage local government fiscal health.^{xii}

Financial capacity analysis is a way to interpret the mosaic of a local government’s fiscal health. As they are adapted from the 2010 Commerce study noted above, these indicators capture a point-in-time view of a jurisdiction’s fiscal health, but may not represent the needs of the community, the internal and external pressures on the government, or the capabilities of that government to respond to those needs and pressures. There is not a uniform way to measure local government fiscal health, because local governments neither face the same pressures year-to-year, nor finance day-to-day activities in the same way. Simply put, local governments plan, tax, and spend differently.

For this reason, in addition to the similarities and services provided by cities and counties, the development of the literature and the tools to monitor fiscal health focuses on cities and counties. The fiscal health of special districts, such as parks and recreation districts or ports, may be assessed by this model, but not without a deep understanding of the district and the differences in revenue, service responsibility, and boundary size and population.

Below are the 10 indicators of local government financial health. Only the first six are present in this white paper. The remaining four indicators shed light on the nexus of a jurisdiction’s financial capacity and its community’s social needs, and are peripheral to this model (see methodology).

1. General Fund Revenue Per Capita
2. Cash Balance
3. Proportion of Expenditures for Debt and Capital
4. Proportion of Revenue Restricted for Specific Purposes
5. General and Special Fund Operating Gaps
6. Tax Base Condition

7. Revenue Elasticity

8. Property Tax Burden
9. Economic Condition
10. Service Demand

What follows is a brief introduction to the six explored indicators, in tandem with the benchmark for each indicator, and a note on the findings of the indicators as they extend to jurisdictions from either the WWRP preliminary rankings or the *community in need* sample (see Applied Methodology for more detail on the selected sample).

Indicator One: General Fund Revenue Per Capita

Indicates the amount of general operating revenue available per person living in the jurisdiction's area. Per capita general revenues provide an indication of the resources available to provide services. The lower the per capita revenue figure, the less able the local government may be to finance basic governmental services, retain qualified employees, and maintain public assets.

Benchmark: Local governments are defined as fiscally stressed if their per capita (or unincorporated per capita for counties) general fund revenue was 50 percent less than the state average. For cities, the benchmark equaled \$512 per capita in 2015, and for counties the benchmark equaled \$508 per capita. The proximity of the figures urged a compromise benchmark of \$510 per capita for cities and counties.

Findings: Only one WWRP preliminary grantee – Island County – fell below the \$510 per capita benchmark. Two of the potential communities in need sampled – Burien and Dayton – fell below the \$510 benchmark. Of note is Dayton's \$396 general fund revenue per capita, which is by far the lowest on the list.

Indicator Two: Cash Balance

Cash balance indicates the availability of financial reserves to meet current year obligations before the receipt of tax revenues and unforeseen contingencies emerge. A decline in unreserved fund balances over time suggests the entity is less able to withstand financial emergencies and may result in the need to borrow funds for capital purchases.

Benchmark: Local governments with a beginning cash balance of 5 percent or less may indicate a stressed entity. Debt rating agencies generally regard a ratio below 5 percent as a red flag indicating stress. Issuers that can consistently maintain unreserved fund balances of 10 percent or more are viewed more favorably.

Findings: One local government sampled from the *community in need* group – Concrete -- held a beginning cash balance of less than 5 percent. Three local governments – the cities of Bothell and Chehalis, and Snohomish County – registered cash balances under 10 percent.

Indicator Three: Proportion of Expenditures for Debt and Capital

Indicates the extent of the government's fixed costs related to paying principal and interest on its tax-supported debt and capital investments. Increasing net direct debt service as a percentage of operating revenues reduces a government's expenditure flexibility and may suggest excessive debt and/or fiscal strain.

Benchmark: Local governments with debt and capital expenditures of 27.5 percent or more of total expenditures were considered stressed. This number is larger than national benchmarks because capital expenditures were included in the analysis.

Local governments are stewards of public infrastructure systems, including streets and roads, utilities, public safety facilities, parks and recreation facilities, and a variety of other public buildings and land. These systems need maintenance, renewal, and expansion in alignment to local growth. Some local governments have greater capital burdens than others due to a variety of circumstances, including the requirements of the state Growth Management Act and various federal statutes. This indicator helps to identify local governments whose capital burdens are a fiscal stressor. The typical measure in this arena is the proportion of a government's expenditures used for debt service. Note that In Washington many local governments rely on pay-as-you-go financing for capital needs, so debt service obligations only capture part of the story.

Findings: The proportion of expenditures for debt and capital within six WWRP local governments indicated fiscal stress. The cities of Bothell, Washougal, Roslyn, and Kenmore in addition to the Town of Wilkeson, and the South Whidbey Parks and Recreation District (SWPRD) spent more than 27.5 percent of expenditures on debt and capital. Although this indicator presents fiscal strain for the SWPRD, these measures do not have a natural fit for special district fiscal health.

Three jurisdictions from the *community in need* sample – the towns of Concrete and Yarrow Point, and the City of Wapato – indicated fiscal stress.

Indicator Four: Proportion of Revenue Restricted for Specific Purposes

The amount of restricted operating revenues as a percentage of net operating revenues may reduce a government's ability to respond to changing conditions and citizens' needs and demands. It may also indicate an overdependence on external revenue sources.

Benchmark: The general interpretation of this indicator is that large amounts of restricted revenue reduces a local government's ability to respond to changing regulatory, economic, or social conditions over time. There is no nationally defined benchmark for this indicator. The 2010 Commerce study assumed that local governments where half or more of their revenue base was restricted fell in the category of being at greater risk than other local governments with fewer restrictions.

In 2015, the average county in Washington had 44.6 percent of their revenue base restricted for specific purposes so that average serves as the county benchmark. In 2015, cities on average had 21.4 percent of their revenue restricted; 42.8 percent represents the city

benchmark (twice the average). Local governments were considered stressed if they met or exceeded these benchmarks.

Findings: The proportion of revenues restricted for specific purposes found five local governments in fiscal stress. The Town of Wilkeson and City of Bothell each held more than 42.8 percent in restricted revenue. In addition, Island, King, and Snohomish counties each held more than 44.6 percent in restricted revenue.

Two jurisdictions from the *community in need* sample – Ferry County and the Town of Yarrow Point held more restricted revenue than the benchmark.

Indicator Five: General Fund and Special Fund Operating Gaps

Increasing general fund operating gaps as a percentage of net operating revenues over time may indicate fiscal strain. However, an operating gap in any one year may not be a cause for concern because reserves from prior years can be used to cover the difference. Frequent and increasing gaps can indicate that current revenues are not supporting current expenditures. Both the general fund and the enterprise fund were reviewed to determine general fund operating gaps.

Special revenue funds in Washington are operating funds that account at least in part for restricted revenue. Special revenue funds support city and county services such as road/street, permitting, human services, parks, and the assumption of debt. The following funds comprise the special revenue object: debt service fund, permanent fund, capital projects fund, and the special revenue fund.

Benchmark: This indicator has two benchmarks that would cause a local government to receive a stressed designation. Local governments with two or more general fund operating gaps between current revenue and current expenditures between 2011 and 2015 combined with more than two operating gaps in aggregated special revenue funds indicates fiscal stress. Operating gaps in both fund groups is a more reliable indicator of financial stress than operating gaps in one fund category alone. Local governments with general fund operating gaps in two or more of the last three years were also considered to be fiscally stressed.

Both of these measures are in use nationally. Ratings firms consider a current year operating gap a minor warning signal. In addition, two consecutive years' of gaps, a current gap greater than that in the previous year, a gap in two or more of the last five years, or an abnormally large gap (i.e., greater than 5-10 percent) in a single year, are more serious and typically viewed negatively. Less than two operating gaps in each area did not constitute fiscal stress.

Findings: A moderate number of the local governments sampled had general fund operating gaps. However, most jurisdictions had special fund operating gaps. Of the 10 entities with general fund operating gaps, five also had special fund operating gaps over the five-year period under review. From the WWRP jurisdictions, this includes the cities of Cosmopolis and Olympia, and Snohomish and Island counties. Snohomish County qualified as stressed with three special

fund operating gaps and two consecutive general fund operating gaps in 2011 and 2012, but have had none since.

Only one jurisdiction from the *community in need* sample – the Town of Concrete – qualified with both general and special fund operating gaps.

It is not surprising to find many special fund operating gaps and few general fund operating gaps. This is what the literature indicates, and how local governments may operate given competing capital priorities. A fund surplus may backfill a fund deficit, but intermixing fund revenues would violate financial integrity and result in audit findings.

Indicator Six: Tax Base Condition

Low levels of per capita tax revenue are indicators of a tax base that may have difficulty supporting basic governmental services. Per capita sales and use tax revenue and assessed value are the basis from which local governments generate taxing power. Retail sales and use tax collections speak to not only the retail activity of those living inside a district's taxing boundary, but those drawn from outside the boundary. In the same token, assessed value communicates the strength of existing business and residential property values. Together, retail sales and use tax, and assessed value are prime indicators of a strong local economy.

Benchmark: Per capita tax revenue and assessed value are nationally accepted benchmark measures of tax base condition. This is likely due to the extensive variation in local tax systems and taxing authority nationally. Per capita measures are frequently used. Red flags in both measures would constitute distress.

The 2010 Commerce study assumed that local governments with sales tax revenue per capita equal to 50 percent or less of the state average are fiscally stressed. The city average in 2015 was \$251.22 per capita; the county average was \$79.80 per unincorporated capita. Cities were considered stressed if their per capita sales tax revenue was at or below \$125.61. Counties were considered stressed if their unincorporated sales tax per capita tax revenue was at or below \$39.40.

The 2010 Commerce study assumed that local governments with assessed value per capita in the bottom quartile of assessed value per capita are fiscally stressed. The cities median assessed value per capita in 2015 was \$72,425; the counties 2015 median assessed value per capita was \$206,768. Cities were considered stressed if their per capita assessed value was at or below \$50,365 in 2015. Counties were considered stressed if their per capita assessed value was at or below \$157,899.

A county's total sales tax revenue was not relied upon in the same manner as for cities because county retail sales and use taxes reflects cumulative policy decisions about tax levels. Levy amounts were not used because they reflect cumulative local policy decisions about tax levels. Increases in levy amounts were significantly limited by a series of state initiatives and statutes occurring after 1994.

Findings: No WWRP preliminary grantees sampled fell below the lower quartile of assessed value per capita, and thus none could be in distress according to this indicator. Four jurisdictions from the *community in need* sample – Okanogan and Ferry counties, and the cities of Wapato and Pullman – had less per capita assessed value than the benchmark. Moreover, only three jurisdictions from the *community in need* sample fell below the sales tax per capita benchmark. They include the cities of Wapato, Burien, and Dayton.

Only one jurisdiction -- Wapato had distressed tax bases in 2015.

Conclusion

This white paper explored the concept of financial capacity analysis and applied this methodological platform to a sample of 30 jurisdictions. The jurisdictions selected represented one of two groups: 22 preliminary grantees from the 2017-2019 WWRP grant cycle, and a comparative sample of eight unique communities. In total, only two jurisdictions – one from each sample, including Island County and the Town of Concrete – failed the stress test. In comparison, the tax bases of each of our *communities in need* sample demonstrated more stress points. As a key finding, these results point toward something already understood: smaller jurisdictions are at more risk of a diminished fiscal capacity.

As a targeted tool to determine what a jurisdiction’s fiscal capacity may be, the methodology selected for this white paper does hold applicable value to the WWRP match waiver process. The methodology does not offer a silver bullet solution to understanding financial capacity, but it can narrow in on a jurisdiction’s individual capacity to assume capital projects, and highlight stressed areas. As tempting as it may be to single-out one indicator or place more value on any one indicator, none may stand alone. Additional data, or complementary data points, would make financial capacity analysis a more useful to construct a match waiver concept for communities in need.

The following recommendations assess the fit of the financial capacity tool to meet the RCO’s goals for a match reduction or waiver designation.

Applied value of financial capacity analysis

The proposed methodology conveyed six financial indicators, as selected, along with three red flags as constituting a jurisdiction in fiscal distress, and keeping in mind that indicators’ five and six have two parts. Other financial trend monitoring systems may vary in design and composition, but all should fit to what is being examined. For a more detailed portrait of a local government’s fiscal health, we recommend review of all 10 indicators across two distinct periods in order to chart progress over time. However, to understand the trajectory of a jurisdiction’s financial condition over time requires a contextualized understanding of the specific needs and pressures each community encounters, including any political constraints, as a complement to a jurisdiction’s economic conditions.

Appendix A contains the financial capacity analysis, complete with six financial indicators and includes a few recommended data points that may add much needed context. For example, “Debt Capacity Used” offers a corresponding data point to “Indicator 4: proportion of expenditures for debt and capital” in the same way that parks expenditures communicates a jurisdiction’s preferences for building and operating parks. Additional metrics, such as growth in assessed value or [credit inclusion](#), may convey economic factors and conditions peripheral to the actual revenues and expenditures. Complementary data points such as these enhance the significance of the tool.

Recommendation 1: To support the continued development of the *community in need* concept, prepare analysis of each of the 10 financial indicators. In addition, financial capacity analysis is incomplete without further data points specific to a jurisdiction’s socioeconomic context. Alan Hardcastle, from the Social and Economic Sciences Research Center, an extension of Washington State University [recommended select measures and metrics](#). Consider integrating any preferred metrics for *underserved populations*, such as median household income, to the *community in need* designation.

Select data that minimize data input or data gathering tasks would supply high replication value, as the methodology would be in practice over time. In addition, the following two recommendations, requesting applicant’s primary data and analyze voted parks measures, layer very well with the idea of complementary data points. In short, shape the financial capacity analysis, as a model, to fit the *community in need* concept.

Analyze Voted Parks Measures

In the complex world of local government finance, analysis of a jurisdiction’s willingness to spend may be a vital counterpoint to any insight gained from fiscal capacity analysis. We make a small attempt to assert this perspective through the per capita parks expenditures for operating and capital, as included in Appendix A. The metric dives deeper into the nuance of a jurisdiction’s willingness to spend, but it remains bogged down in the same overlapping complexity that all governmental expenditures possess. Communities, whether a city, county, or park district, spend money differently and according to different levers.

Recommendation 2: Compile and analyze data of voter-approved parks measures placed on local ballots. Consider the number that pass, where measures pass, and the total value approved by taxpayers. Analysis along this track may reveal not only taxpayer preferences, but may serve as a proxy for the political will to fund parks services. The [Municipal Research and Services Center \(MRSC\)](#) does provide a useful database relevant to this effort.

Request Applicant’s Primary Data

Because the final form of the *underserved populations* and *communities in need* match waiver program are not yet complete, assess additional data needs, if any, and request that applicants provide primary data. An applicant’s unique perspective may offer insights that add value to a financial condition analysis and which may supply context to a given area. For example, in support of a metric that examines capital parks expenditures, an applicant may be able to

provide data and information regarding which parks received investment, or what capital upgrades a facility received.

In other words, if a jurisdiction has multiple red flags and appears in distress, additional information may provide clarity. To illustrate, the City of Bothell is in the midst of a [significant development](#), economically and structurally. Following, the results of the capacity analysis, the city holds a high level of debt and spends much on debt, capital, and other specific purposes. Without the first data point regarding the city's redevelopment efforts, results of the capacity analysis may point to a city on the verge of distress, rather than one that is investing in itself. In financial condition analysis, context is everything.

Recommendation 3: Review the financial capacity indicators and complementary data for gaps in understanding or context. If applicants may provide any noted informational shortages, consider modifying the application to reflect those identified informational needs. This may simultaneously support the evolution of how RCO defines *community in need*.

Conduct Financial Capacity Analysis for Cities and Counties Statewide

The jurisdictions contained in our sample (see Appendix A) are a blueprint that may be readily replicated and would receive a benefit from a larger sample size. A complete analysis may also serve as the foundation stone of any financial condition analysis moving forward, which may provide clarity of the larger economic or financial condition of cities and counties statewide.

Recommendation 4: To achieve a uniform comparative platform, conduct the financial capacity analysis for each city and county in Washington state. The benefit of conducting the analysis in its entirety is to gather an accurate snapshot of each city and county's financial capacity without requiring guesswork as to how other jurisdictions may compare. Without full knowledge about the jurisdictions that qualify as a *community in need*, a definition or construct rooted in either *underserved populations* or *communities in need* may not be well placed.

Endnotes

ⁱ Park districts include metropolitan park districts, and parks and recreation districts.

ⁱⁱ Enterprise funds represent fee-based activities that generate charges for goods and services

ⁱⁱⁱ Counties receive funds from the gambling excise tax, which is a subset of the business and occupation (B&O) tax. This tax generates much less revenue than the standard city-based B&O tax.

^{iv} Park districts do not uniformly receive sales tax revenue. The bulk of local sales and use tax generated in 2015 was for the Metropolitan Park District of Tacoma, following the Zoo, Aquarium and Wildlife Facilities Sales and Use Tax. In addition, three other park districts generated sales or use tax in 2015.

^v <http://www.seattle.gov/financial-services/comprehensive-annual-financial-report>

^{vi} There are situations when a jurisdiction may levy an increase beyond one percent, but these are limited and require a jurisdiction to demonstrate substantial need. In addition, property taxes generated may increase by more than one percent, because the levy does not include annexations, new construction, or excess levies approved by voters.

^{vii} <http://apps.leg.wa.gov/RCW/default.aspx?cite=84.52.010>

^{viii} For more information on local government debt capacity, the following link contains the limitations on municipal debt. <http://www.commerce.wa.gov/wp-content/uploads/2016/06/RS-BUC-Limitations-on-Municipal-Debt-Table-2014.pdf>

^{ix} Spending on parks includes the State Auditor's Office BARS code 570. Within this 570 designation includes cultural and community events, cultural and recreational facilities, and park facilities, in addition to the capital, debt principal and debt interest expenditures. Omitted from this overview were the expenditures for library facilities, which the WWRP does not fund.

^x http://ksu-olg.info/assets/docs/Guide_to_Fiscal_Indicators.pdf

^{xi} <http://www.ecy.wa.gov/programs/tcp/regs/wac173322/>

^{xii} Justice, J., and E. Scorsone. 2013. "Measuring and Predicting Local Government Fiscal Stress: Theory and Practice." In Handbook of Local Government Fiscal Health, edited by H. Levine, J. B. Justice, and E. A. Scorsone. Burlington, MA: Jones and Bartlett Learning.