Politics, Policy, and Paradigms:

State Intervention in Local Government Fiscal Crises

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Abstract

The fiscal health of local governments is of paramount importance, particularly at a time of ongoing devolution of responsibility for domestic policy from the federal to the state and state to local levels. State policies and practices relative to local government fiscal crises vary considerably across the 50 states from no role to monitoring to state-takeover of local governments in emergency status. Four potential state-level policy functions were studied: *predicting*, *averting*, *mitigating*, and *preventing the recurrence* of local government fiscal crises. Nineteen states were *very* active (performed all four functions) and another 10 states were *moderately* active (performed at least three of the functions). Using multiple logistic regression, we investigated seven hypothetical factors to explain the difference. Political culture, the proportion of local revenues derived from the state, whether a state has had recent local government fiscal crises, and fiscal home rule all contributed to explaining and predicting state activity levels. Region does not seem to be a significant factor in explaining differences in activity level among states. This study finds that states typically begin by tackling specific causes of recent fiscal crises. Once they embark on this incremental approach, states gradually adopt policies to perform other functions as well. Since states that have less of a financial stake in local government finances tend to be less involved in trying to keep those local governments fiscally viable, one of the implications of our research is that states may play a less active role relative to local government fiscal health.

Politics, Policy, and Paradigms:
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The purpose of this paper is to explain the pronounced differences observed among state governments in their approaches to dealing with local government fiscal crises. This paper is an extension of a national survey of states that inquired about the roles states play in *predicting*, *averting*, *mitigating*, and *preventing the recurrence of* local government fiscal crises (Honadle 2003). This telephone interview survey of “elites” (Beamer 2002) was directed to the membership of the National Association of State Auditors, Comptrollers, and Treasurers (NASACT). The survey (conducted in the spring and summer of 2002) found that only a handful of states are *very* active in most or all of these theoretical roles, some are *moderately* active, and other states have a decidedly “don’t ask – don’t tell” (or hands-off) stance. The specific objective of this paper is to report the results of an empirical study seeking to account for such marked differences in approaches.

In the first section of the paper we give the rationale for the study. Second, we state our hypotheses about factors that would explain differences in state activity levels in dealing with local government fiscal crises. Third, we present our analysis. Fourth, we interpret our results and discuss policy implications of our findings. Finally, we provide some suggestions for subsequent research.

Rationale

The fiscal health and condition of United States' local governments is a matter of national concern. In this era of devolution, state and local governments are taking on increasing responsibility for domestic policy formulation and implementation. As one recent report of the Multistate Tax Commission put it,

> "State and local governments face severe fiscal stress in the foreseeable future….Expenditure pressures will continue to grow….Meanwhile, outdated state and local tax systems will be inadequate to raise the revenue needed to maintain essential services." (Multistate Tax Commission, 2003, p.3)

Thus, the capacity of local governments to carry out those responsibilities is very important (Honadle 2001).

It is axiomatic that local governments are "creatures of the state," meaning that local governments owe their very existence to their states. Local governments operate within legal frameworks prescribed in state policies. In other words, states have broad authority in determining the types, character, functions, and funding options of local governments within their borders. Because of implied responsibility for the health and welfare of their "offspring," it is reasonable to consider the potential role that states play in handling local government fiscal crises.

Various authors have offered definitions of governmental fiscal crises, including the following two examples. Hirsch and Rufolo (1990, 484) have written that fiscal crises occur “when a government reaches a state such that the normal budgetary flexibility no longer exists. If no combination of acceptable expenditure cuts, revenue increases, and borrowing exists, then the government is in a crisis situation.” Inman (1995, 378) has defined a crisis as “when a city’s potential to raise revenues is insufficient to cover the city’s legally required expenditures.”

A recent study (Kloha, Weissert and Kleine 2003) by the Institute for Public Policy and Social Research at Michigan State University (IPPSR) focused on state practices in monitoring local fiscal conditions. That 50-state written survey was administered in 2002 to respondents on lists compiled by NASACT. The focus of that research was on indicators states use to assess the condition of local government units such as cities, villages, and townships. The IPPSR study concluded that most states do not do a diligent and effective job of overseeing local fiscal behavior even though it is a primary responsibility of the states. They found that only 15 states indicate some use of indicators to evaluate their local governments’ fiscal positions and that only seven of those states used both early warning and *ex post* declaration of fiscal distress.

Other researchers have found great variation in how states deal with local government fiscal crises. An article in the *Harvard Law Review* made the observation that “responses from states to local urban fiscal crises have been as diverse as the states themselves, ranging from preventative measures to reactive positions adopted in the face of particular crises.” (Harvard Law Review 1997, 734)

The survey instrument on which the present paper is based consisted of ten questions[2] about how one's state defines a local government fiscal crisis; whether the state has had recent experience with local government fiscal crises; and what the state's role (if any) is before, during, and after a crisis. It is important to note that this survey inquired about the states' involvement in fiscal crises of *any* type of local government as opposed to probing the states' approach to dealing with particular forms of local government such as cities or counties. The advantage is that we were able to gain more information about state interaction with local governments in terms of managing fiscal crises. The disadvantage, of course, is that it makes it difficult to make unqualified comparisons across states. (Such is the nature of interstate research about state-local relations.) Using the survey results, we used multiple logistic regression to test the following hypotheses.

Hypotheses

The response variables[3] used in this paper are whether a state is "*very* actively" involved in its local governments' fiscal crises (coded as Y1) and whether a state is "*at least moderately* active" (coded as Y2). Thus, we distinguished between states that were relatively more active among the states that were active as opposed to inactive states.

Y1 (*very* active) has two levels: 0 if the state does not involve itself *very* actively in its local government fiscal crises; and 1 if the state does. A state is interpreted as being *very* active in response to local government fiscal crises if, based on the survey results, it plays active roles in predicting, averting, mitigating *and* preventing recurrence of its local government fiscal crises. In other words, we tried to be conservative by only calling a state "*very* active" only if it was involved in all four aspects of dealing with crises. If a state was not involved in all four areas, we categorized the state as being "not *very* active".

Another coding (Y2) enabled us to distinguish among the active states in terms of the *very* active states and the states that were *at least moderately* active. Jensen (2003) has suggested using different coding standards for analyzing 50-states level data. By doing this sensitivity analysis, we were able to discern subtle differences between states that are truly involved in dealing with all aspects of local government fiscal crises compared to states that are active, but to a lesser degree.

In this paper we examine seven possible factors to explain differences between states' activity level:

(1) differences in fiscal home-rule provisions of the states (Krane *et al* 2002),

(2) political culture (Elazar 1966, Sharkansky 1969)

(3) the proportion of state revenues in local government finances (using Census of Governments data),

(4) whether there had been local government fiscal crises recently in the state (Honadle 2003)

(5) region, defined by The Council of State Governments (Albert, Hull, & Sprague 1989),

(6) state indicators (Kloha *et al* 2003), and

(7) state-administered early warning indicators (Kloha et al 2003)

We explain the rationale for including each of these possible explanatory factors below.

Fiscal Home-Rule

States vary in the degree to which local governments have home rule. Home rule is self-government or limited autonomy in internal affairs by substate units of government. One question we explored in this paper was if strong home-rule states would tend to be less involved in dealing with local government fiscal crises. We relied on the current authoritative compendium on state home-rule provisions (Krane, Rigos, and Hill 2002) for comparative state data. We hypothesized that states with strong home-rule would be less likely to play a *very* active role in dealing with local government fiscal crises, because we thought perhaps these states would be more prone to keeping the state's nose out of their business.

The home-rule factor basically refers to how much (or how many types of) discretion a state allows its local governments to have. For the purpose of this study, we looked only at whether a state gives its local governments *fiscal discretion*. We had two variables associated this fiscal home-rule factor: MH (whether municipalities have fiscal discretion or not, 1 if yes and 0 if not) and CH (whether counties are allowed fiscal discretion or not; again, 1 if yes and 0 if not).

It might be helpful if we could come up with one indicator (such as "whether allows fiscal discretion or not") for each state. However, because states are the creators of local governments and therefore have the discretion to treat different types of local governments differently, it is legitimate to categorize the states' behavior for counties and for municipalities separately.

<u>Hypothesis 1</u>: We suspected that the states that give their local government units fiscal discretion would tend to be less involved in local government fiscal crises. Our reason for this supposition is we thought that these states would tend not to get involved in local affairs as much as states without fiscal home rule.

Political Culture

Another question was whether a state's so-called political culture is associated with its degree of involvement in handling local government fiscal crises. Political culture has been considered an important factor when investigating states' differences in public policy (e.g., Miller 1991; Cook, Jelen & Wilcox 1993; Rice & Sumberg 1997; Knack 2002). Daniel Elazar (1966) has identified three types of political cultures of the fifty states: Individualistic, Moralistic, and Traditionalistic. We wanted to investigate the relationship between a particular state's political culture and its propensity to be more active or passive relative to local government fiscal crises. The *individualistic political culture* emphasizes the centrality of private concerns and "it places a premium on limiting community intervention –

whether governmental or nongovernmental – into private activities to the minimum necessary to keep the marketplace in proper working order." (Elazar 1966, 86 – 87) The *moralistic political culture*, by contrast, emphasizes the commonwealth conception of democratic government and in that culture "both the general public and the politicians conceive of politics as a public activity centered on some notion of the public good and properly devoted to the advancement of the public interest. Good government, then, is measured by the degree to which it promotes the public good…." (Elazar 1966, 90) The *traditionalistic political culture* exhibits an "ambivalent" attitude toward the marketplace coupled with a paternalistic and elitist conception of the commonwealth…Like its moralistic counterpart, the traditionalistic political culture accepts government as an actor with a positive role in the community." (Elazar 1966, 92 – 93) We hypothesized that states identified by Elazar as having a moralistic political culture would be more involved than states having an individualistic culture because of its emphasis on the public good; it seemed logical to us that one aspect of the public good would be healthy local government finances.

A potential problem is that Elazar's typology, which was established in the 1960's, might not be valid because of changes in the states' political culture. However, Morgan (1991) tried to update Elazar's typology and concluded that "on average, the political culture indices do not vary much from similar measures constructed for 1906-1936." Most recently, Rice and Arnett (2001) found that "civic culture is very durable, with the relative ranking of the states in terms of civic culture staying about the same over the last 100 years."

The political subculture variable has three levels: M for Moralistic; T for Traditionalistic; and I for Individualistic. The variable was coded into the variable PC (Political Culture) and has M, T, and I levels.

<u>Hypothesis 2</u>: We suspected that the states that have a moralistic political subculture would tend to be more involved in local government fiscal crises; while the states that have an individualist political subculture would tend to be less involved in local government fiscal crises.

To test this hypothesis, we investigated the "two extremes" (i.e., individualistic vs. moralistic). We decided to just consider these two opposite situations to see whether markedly different political cultures led to noticeably different policy approaches. Therefore, we recoded the variable from PC into a binary variable MI where MI=1 if moralistic, MI=0 if individualistic and others are treated as missing values. To further examine the potential effect of political culture on state behavior, we also tried a continuous scale for states' political culture developed by Ira Sharkansky (1969). Sharkansky converted Elazar's typology into a pseudo-ratio scale by assigning continuous values one through nine to the political subcultures. In Sharkansky's scale, 1 represents moralistic culture, 5 individualistic culture, and 9 traditionalistic culture. Note that Sharkansky's interpretations of the extremes of political culture according to Elazar is different from ours.

State Revenue Investment

According to Mohr's theory of innovation (1969), it seems logical that the larger the share of local government revenue derived from state sources, the more the state government will be interested in protecting its investment and will get more involved in dealing with local government fiscal crises. For this paper, the state's revenue invested in its local governments is measured by the proportion of local government revenue from the state. It is recorded for counties and municipalities separately, which, again, is in keeping with state autonomy in how they deal with local governments. CPCT stands for percentage of counties' revenue from state government and MPCT stands for percentage of municipalities' revenue from state government.

Hypothesis 3: We suspected that the more states' money is involved in local governments, the more likely that the states will get involved in local government fiscal crises.

Previous Fiscal Crises

The last factor, whether the states have had crises in the recent past (as self-reported in the original survey), is much more straightforward. It is coded as CRISES, 1 if the states have had one or more local government fiscal crises in recent history, and 0 if not.

Hypothesis 4: We suspected that states that have had local government fiscal crises in the recent past would be more active relative to local government fiscal crises.

Region

The rationale for including a regional variable is to ascertain whether states tend to adopt the policies of nearby states. Theoretically, states in similar settings might gravitate toward particular approaches to dealing with policy issues such as local governmental fiscal health. The delineation of regions is somewhat arbitrary (Berry & Berry 1990, 403). For our study we adopted a definition of regions developed by the Council of State Governments (Albert, Hull & Sprague 1989).[4]

Hypothesis 5: We suspected that there might exist certain regional differences in states' activity level.

State indicators

SIIND is the corresponding binary variable where it is coded as 1 if the state has state indicators and 0 if it does not. Having state indicators is associated with the "predict" function in the predict-avert-mitigate-prevent range of possible state actions. We were interested in learning whether states that have taken the relatively passive step of developing indicators of local fiscal health tend to undertake more active functions (such as averting crises, mitigating them, or preventing their recurrence). To measure this variable, we relied on survey data collected by the Institute for Public Policy and Social Research at Michigan State University (Kloha *et al* 2003).

Hypothesis 6: We suspected that states having state indicators would be more active in their responses to local government fiscal crises.

State-administered early warning indicators

Using the same rationale, we considered a state's development of early-warning indicators of financial problems as evidence of some minimal level of activity on the state's part. We used data developed by Kloha *et al* to identify those states that have state-administered early warning indicators.
EWIIND is the indicator variable where it is coded as 1 if the state has state-administrated early warning indicators and 0 if not.

Hypothesis 7: We suspected that states having-administered early warning indicators would be more active in their responses to local government fiscal crises.

Analysis

We chose multiple logistic regression (Agresti 1996, Hosmer & Lemeshow 1989) as our method for comparative analysis. This technique has been used in political science when estimating the likelihood that a state will adopt a particular policy (Mooney 1995, Furlong 1998). It regresses a categorical dependent variable with no less than two categories on a set of independent variables. Thus, it enables an analysis of the multiple factors that might affect states' activity level in local government fiscal crises. In addition, correlation analysis is performed to explore relationships among the response variables and the potential factors, particularly the correlation of the responses with the existence of state indicators and state-administrated early warning indicators.

One might question the application of inferential statistical analysis to "population" data such as all fifty states (Gill 2001). However, data from all the fifty states can be justified as a sample when the goal is to investigate the pattern and draw policy implications for the future.

Using multiple logistic regression analysis, we found that two factors, political subculture and proportion of state's revenue invested in local governments, have statistically significant effects on whether a state reacts *very* actively to local government fiscal crises. One other factor, states' fiscal home rule, proves not to be statistically significant because of the small sample size of states with fiscal home rule for counties. Nevertheless, there exists a strong trend for us to interpret.

Another factor, previous fiscal crises, does not significantly affect whether states will react *very* actively to local government fiscal crises. But, having had previous fiscal crises does significantly affect whether states will be *at least moderately* active. To be in this *at least moderately* active group, the states had to have performed *at least* three of the four potential functions. If a state performed all four of the functions, they were classified as *very* active. Therefore, to be in the *at least moderately* active category, a state was either *very* active (played all four roles) or *moderately* active *(played three out of four roles)*. In other words, states that have had recent local government fiscal crises were somewhat more involved in dealing with local government fiscal crises than states that had not experienced such problems; however, having had a local government fiscal crisis does not appear to lead states to adopt a comprehensive approach to dealing with them. Table 1 presents significant models from multiple logistic regression analysis.

(Insert Table 1 here)

Based on these results, we conclude:

First, individualistic states are more involved in dealing with local government fiscal crises than are moralistic states. Specifically, the odds for individualistic states to respond *very* actively to local government fiscal crises are estimated to be 5.882 times the odds for moralistic states holding CPCT and CH constant; and the odds for individualistic states to be *at least moderately* active with respect to local government fiscal crises are estimated to be 3.650 times the odds for moralistic states. This was an unexpected result for hypothesis 2.

Second, we found that the higher the proportion of county revenue from the state, the higher the probability that the state will respond *very* actively to local government fiscal crises. Specifically, for each unit (percentage) increase in CPCT, the odds of the state's responding *very* actively to local government fiscal crises increase by approximately 8.8%, holding MI and CH constant. This suggests that our hypothesis 3 is reasonable.

Third, the states with county fiscal home rule are more likely to be *very* actively involved in dealing with local government fiscal crises. Although we have insufficient evidence to conclude that CH has statistically significant effects on whether a state responds *very* actively to its local government fiscal crises, the point estimate of the odds ratio suggests a strong trend. Referring to the original data set, we see that the statistical insignificance comes from the relatively small number of states with county fiscal home rule involved in the study. Based on the point estimate, the odds of *very* active involvement in local government fiscal crises for states with county fiscal home rule are 5.614 times the odds for states that do not allow their counties fiscal home rule, holding CPCT and MI constant. This finding does not support hypothesis 1.

For the hypothesis regarding CRISES, we do not have enough evidence to say states that reported in the survey that they have had fiscal crises in the recent past have either a significantly higher or lower probability of responding *very* actively than other states. However, CRISES is a significant factor for Y2, meaning that states that have had local government fiscal crises before are more involved.

Specifically, the odds of *at least moderately* active involvement for states having had previous fiscal crises are estimated to be 3.485 times the odds for states not having had any fiscal crises in the recent past. Taken together with the fact that it is not significant for Y1, we are led to the conclusion that states that have had previous local government fiscal crises appear to be making incremental changes to their policy, although not to the extent of changing dramatically to establish the rational framework. In other words, states deal with the particular problem that led to the fiscal crisis by trying to prevent the recurrence of *that* problem rather than taking a holistic look at their state-local relationship vis-à-vis local fiscal health and overhaul the entire system.

REGION is a not a significant factor for Y1 or Y2. That is, we did not find any regional differences in states' responses to local government fiscal crises. The lack of a discernible regional pattern to state policies relative to local government fiscal crises may reflect the *ad hoc* or idiosyncratic approach to policy development in this area. This is consistent with our finding that states tend to react to fiscal crises at the local level with a policy solution intended to address only the cause(s) of those crises, so looking to surrounding states for policy guidance would be uncharacteristically proactive.

The existence of state indicators does help us explain the activity levels of states' responses to their local government fiscal crises. Based on the odds ratio point estimates from logistic regression, the odds for states with state indicators to be *very* active are 6.875 times the odds for states without state indicators; and the odds for states with state indicators to be *at least moderately* active are 7.719 times the odds for states without state indicators. Thus, as expected, states with indicators tend to be more involved in other ways as well.

Regarding the last hypothesis on the presence of state-administered early warning indicators, we found that states with early warning indicators are more involved in dealing with their local government fiscal crises. Specifically, the odds for states with early warning indicators to respond *very* actively are estimated to be 11.196 times the odds for states without early warning indicators; and the odds for states with early warning indicators to be *at least moderately* active are estimated to be 5.215 times the odds for states without early warning indicators. Although the latter claim is not statistically significant, we do see a strong trend based on our logistic regression analysis.

Table 2 provides the results from correlation analysis among the responses (Y1 and Y2), existence of state indicators (SIIND) and existence of early warning indicators (EWIIND). It also suggests the presence of a strong relationship among the variables. Particularly noteworthy, the existence of state indicators and state-administered early warning indicators are both strongly positively correlated with states' *very active* responses; and the existence of state indicators is highly positively correlated with states' *at least moderately* active responses in dealing with local government fiscal crises.

(Insert Table 2 here)

Conclusion

To summarize, out of the seven factors we investigated (fiscal home-rule, political culture, proportion of local revenues coming from the state, whether there have been recent local government fiscal crises in the state, region, state indicators, and state-administered early warning indicators), political culture and the existence of state indicators are significant factors in explaining states' activity levels. State revenues contribute significantly to explaining and predicting *very* active state behavior. Fiscal home rule, while not statistically significant, showed a strong trend toward predicting *very* active state behavior. Whether a state has had recent local government fiscal crises significantly affects the probability of *at least moderately* active state responses to local government fiscal crises. The existence of early warning indicators also contributes substantially to explaining states' activity levels in their responses to local government fiscal crises.

The finding that fiscal home rule was associated with *very* actively involved states is counterintuitive. One would reason that states with fiscal home rule are relatively hands-off with respect to their local governments in many respects. However, we found the opposite when it comes to dealing with local government fiscal crises.

This is not entirely surprising, given the somewhat paradoxical responses some states gave to the survey. In the telephone interviews for the survey, it was not uncommon for a respondent to start out saying that theirs was a strong home-rule state and then proceed to explain all the things they have done when a local government was heading for fiscal trouble.

Michigan is one such state. Michigan's respondent said that "Michigan has a strong tradition of home rule" and acknowledged the tension between that and the state stepping in and overseeing and taking over local governments in fiscal crisis. The state of Michigan has taken over the financial management of several cities, including Flint, Highland Park, and Hamtramck, that have gotten into serious financial problems. (Carvlin 2002)

Political culture is significant. Individualistic states are more involved in local government fiscal crises, whether examining the probability of *very* active responses or the probability of *at least moderately* active responses. These states may tend to see local governments from more of a business perspective and view the state's role as only dealing with local government fiscal emergencies or crises. In other words, as long as local governments manage their own affairs and avoid fiscal problems, the state stays out of it.

Taken together with the finding that states with fiscal home rule are more likely to be involved in local government fiscal crises, it is possible to conceive of a consistent interpretation. Perhaps these findings mean that states that are more individualistic and grant larger degrees of autonomy to local governments (i.e., are more decentralized) only step in to avoid the most egregious forms of fiscal difficulties, fiscal crises. This interpretation also makes sense in light of some of the survey responses in which state officials suggested that their state would only get involved if there were a serious crisis of public service affecting the health, safety, and welfare of the citizenry or if some other compelling state interest (such as protecting the state's bond rating or the state's investment of its revenues) would be served by state intervention in local government fiscal crises.

From a policy-making perspective, these findings might suggest that introducing reforms in some states will be relatively difficult. It might "go against the grain" to suggest strong state involvement in local fiscal crises in states with moralistic political cultures. In those states, the tendency is toward a "commonwealth" concept of government so that the states may be reluctant to identify and deal aggressively with local government fiscal crises. For those advocating a change in their state's policy regarding intervention in local government fiscal crises, this information provides clues as to the obstacles they might face in trying to change the state's historic role in this area.

As expected, the more that states put money into local governments, the greater the odds that they will be *very* actively involved in trying to keep local governments out of fiscal trouble. This sounds commonsensical, because it is rational to expect that when a state perceives it has more at stake, it will play a more active role. In these times when the states themselves are in financial straits, some of them are cutting back on their aid to local governments. This tendency might not bode well for advocates of a better "watchdog" role for the states in seeing to it that local governments maintain their fiscal health and avoid crises.

Our study found that states that have experienced local government fiscal crises tend to get involved, but not to the extent of becoming *very* active in this area. In fact, the previous study (Honadle 2003) found that about half a dozen states had enacted legislation to remedy the specific cause of particular fiscal crises by local governments in those states. For example, in the wake of the Orange County bankruptcy, the state of California tightened up local government financial reporting requirements. For another example, after several local governmental fiscal crises, the Office of the State Auditor in Minnesota got involved in new legislation that requires audit findings going to governing boards of all local governments at a public hearing. However, the earlier study did not find that states that had experienced local government fiscal crises necessarily enacted comprehensive legislation to deal with the prediction, aversion, mitigation, and prevention of the recurrence of local government fiscal crises.

On the contrary, in New York State, a state with considerable experience with local government fiscal crises, the state has a very *ad hoc* approach to dealing with fiscal crises with each situation being treated differently. In Connecticut, another state with no formal policies to take preventative measures, there have been four cities in fiscal crisis since 1992 and the state dealt with each one separately only to avoid bankruptcy. So, the tendency when faced with fiscal crises may be for states to deal with the crises rather than follow up with a broad-based approach for avoiding such problems in the future.

Region does not have significant effects on states' responses to local government fiscal crises. The absence of a regional pattern exhibits the *ad hoc* approach that states tend to take in response to local government fiscal crises.

The existence of state indicators and state-administered early warning indicators have significant effects on states' activity levels in dealing with local government fiscal crises. In other words, we found that once a state takes the minimum step of monitoring local governments' fiscal behavior, it will perform other functions such as *averting*, *mitigating*, and *preventing the recurrence of future fiscal crises*. This finding reflects states' gradual improvements in adopting policies dealing with local government fiscal health. In short, our study suggests that policy making in this area exhibits a "muddling through" (Lindblom 1959) or incremental approach to policy formation rather than a rational-comprehensive approach.

Future Research

This paper has investigated potential factors that might account for differences in how active states are dealing with local government fiscal crises. It stemmed from a qualitative survey that pointed to sharp differences between states in how aggressive they are in dealing with local government fiscal crises. Here we offer some thoughts for future research.

A new survey of state officials could be undertaken to ascertain the states' roles relative to specific types of local governments, such as counties or municipalities. The survey that formed the basis for this article lumped all local governments together to gain a general understanding of how states address local government fiscal crises. Because states treat cities and counties differently, subsequent surveys could explore in a more refined way how the states differ in dealing with particular types of local governments.

At this particular time a study of how states' responses to their own fiscal crises are impinging on local government finances would be a useful addition to the literature. When we began our study the states were in better shape fiscally than they are now. If the states are cutting back on local government aid and technical assistance to local governments, this could make local governments more vulnerable to fiscal crises than they are now.

At the time the survey was conducted the most recent local government finance data available from the Census was for 1996-1997. Replicating this study with more current data might yield different results. One of the apparent motivations for states getting involved in dealing with local government fiscal crises is the amount of state funds devoted to local governments. Again, if the states are withdrawing their financial support for local governments to deal with their own budget deficits, this might mean that states will be less concerned with local governmental financial problems.

The survey relied on self-reporting by state officials as to whether there have been recent fiscal crises in their states. Since these officials may define a fiscal crisis differently and recall bias is always an issue in survey research, there may be problems of comparability. However, since our goal was to find out how states respond to what the state *perceives* to be a crisis, this might not be a problem.

On the other hand, further research could be done incorporating objective measures of fiscal crisis to see if our results change.

Methodologically speaking, we suggest trying multinomial logistic regression or ordinal multiple logistic regression (Campbell 1989, Agresti 1996) for subsequent studies since we have identified at least three categories of states' response levels. Both techniques regress a response variable with more than two categories on a set of factors.

Finally, although we didn't investigate the role of "policy entrepreneurs" specifically, we found in our study that in some states (e.g., RI and OH), certain state-level policy makers strongly pushed for more aggressive state policies on dealing with local government fiscal problems. These findings are in accordance with Michael Mintrom's study (1997). Thus, case studies comparing states that have relatively active programs for dealing with local government fiscal crises might help us understand the policy adoption process better.

Table 1: Significant Multiple Logistic Regression Models

Model	Max-Rescaled R^2	Model p-value (Likelihood Ratio)
I: Y1=MI CH CPCT	0.3714	0.0162*
II: Y1=SIIND	0.2160	0.0031*
III: Y1=EWIIND	0.1680	0.0098*
IV: Y2=MI	0.1212	0.0747**
V: Y2=CRISES	0.1047	0.0441*
VI: Y2=SIIND	0.1985	0.0047*
VII: Y2=EWIIND	0.0754	0.0893**

Model I: Y1=MI CH CPCT

Variable	p-value	Odds Ratio Point Estimate
MI	0.0450*	5.882
CH	0.1489***	5.614
CPCT	0.0420*	1.088

Model II: Y1=SIIND

Variable	p-value	Odds Ratio Point Estimate
SIIND	0.0054*	6.875

Model III: Y1=EWIIND

Variable	p-value	Odds Ratio Point Estimate
EWIIND	0.0320*	11.196

Model IV: Y2=MI

Variable	p-value	Odds Ratio Point Estimate
MI	0.0840**	3.650

Model V: Y2=CRISES

Variable	p-value	Odds Ratio Point Estimate
CRISES	0.0487*	3.485

Model VI: Y2=SIIND

Variable	p-value	Odds Ratio Point Estimate
SIIND	0.0140*	7.719

Mode VI: Y2=EWIIND

Variable	p-value	Odds Ratio Point Estimate
EWIIND	0.1412***	5.215

Table 2: Correlation Analysis among Y1, Y2, SIIND and EWIIND
Pearson Correlation Coefficients, N = 50

	y1	y2	SIInd	EWIInd
y1	1.00000	0.72414 <.0001	0.41560 0.0027*	0.35735 0.0108*
y2	0.72414 <.0001	1.00000	0.38023 0.0065*	0.22656 0.1136
SIInd	0.41560 0.0027	0.38023 0.0065	1.00000	0.61632 <.0001
EWIInd	0.35735 0.0108	0.22656 0.1136	0.61632 <.0001	1.00000

* Significant at .05 level. * Significant at .1 level. * Strong trend.

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ENDNOTES

She is the 2003 recipient of the Wray Jackson Smith Scholarship from the Government Section of the American Statistical Association.

[1] The authors would like to thank Dr. Nancy Boudreau, Associate Professor, Applied Statistics and Operations Research, and Director of the Statistical Consulting Center; Dr. Mary Ellen Benedict, Professor of Economics; and Alfred DeMaris, Professor of Sociology, Bowling Green State University for their help with statistical techniques used in this paper.

[2] Details on the survey and the results are available from Beth Walter Honadle (honadle@bgnet.bgsu.edu) and are in Honadle, 2003.

[3] The codings for all variables in this paper appear in Appendix I.

[4] East = CT, DE, ME, MA, NH, NJ, PA, RI, VT; South = AL, AR, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, WV; Midwest = IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI; West = AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY.