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POLITICS AND POLICY

Cash Crunch Crimps Struggling Cities

Fresno, Like Some Other Troubled Municipalities, Has Little Margin for Error

By TAMARA AUDI

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FRESNO, Calif.—In April, the mayor of this Central California city stood in front of municipal employees in a darkened room as bad news glowed on a large screen behind her.

"Our problem is we have no money in the checking account at all," Mayor Ashley Swearengin said to the silent room. "None." The situation was so dire that covering an unexpected expense—a new air-conditioning unit or firetruck, for example—would mean slicing into the payroll or borrowing from another depleted city fund, she said.

Things have improved slightly since, and officials recently put into motion a plan to fix the agricultural hub's finances. But Fresno remains on the edge—short on money, credit and options.

WARNING SIGNS

The fourth in a series on the financial health of U.S. cities

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Fresno Faces Dwindling Reserves



Downtown Fresno, Calif., in late September.
Brian L. Frank for The Wall Street Journal

The sprawling city of about 500,000 people had less than a day's worth of available cash in its general fund, based on its 2012 financial report. That was among the lowest of the 250 largest U.S. cities, according to data provided to The Wall Street Journal by Merritt Research Services LLC. The median was 81.1 days. Cash on hand is a key metric analysts use to flag fiscally stressed cities.

Fresno currently has just \$1.5 million in emergency reserves—a fraction of the \$10 million a city its size should have, based on standards from a national government-finance group. Borrowing is difficult and expensive. Officials fear that an event requiring a lot of police or fire overtime, or an expensive legal judgment, could be a painful setback.

"We can get through the day to day. [But] if there's a derailed train, a natural disaster, where's the money going to come from?" said Karen Bradley, the city's assistant controller. She said she sometimes worries about the freight trains that rumble through town multiple times a day.

Halfway between Los Angeles and San Francisco, Fresno was founded as a stop on the Central Pacific Railroad in 1872. The fertile soil of the San Joaquin Valley attracted

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farmers, and the city's main industry is still agriculture, with its low wages and seasonal employment.

Fresno already had entrenched poverty when the recession hit. A 2005 Brookings Institution report based on 2000 census data named it the top city with "concentrated poverty," the degree to which the poor are clustered together.

Like many other cities, Fresno saw its sales- and property-tax revenue plummet as the economy tanked. The city ran up \$36 million in deficits by 2011, mostly from revenue shortfalls, cost overruns on grant-funded projects and debt incurred to build a \$26 million convention-center garage.

The garage became an albatross: Events at the center dropped off when California State University, Fresno, built its own arena before the garage opened. A planned downtown hotel was canceled. A parking agreement with the federal courthouse was put on hold. Unable to make its \$1.9 million in annual debt payments, the garage ran up a \$14 million deficit and borrowed from a host of city treasury funds to pay its bills.

As revenue declined and creditors fretted over Fresno's deficits, the city decided to use the cash it had to pay down debt. To rectify the garage deficit, the city borrowed from its water and solid-waste funds to pay back an array of other city departments that the parking garage had raided. Such moves helped Fresno clear out a tangle of internal debts, but left the city low on cash and barely able to cover operating expenses.

In response, the city slashed services and staff. Fresno now can pay its bills, but it can't do much more than that.

In the past four years, the city reduced its workforce by 1,200 people—a 29% cut. The police department lost 426 employees, or 30% of its staff. Now, 72 dispatchers handle some 1,000 emergency calls a day, down from 91 dispatchers four years ago. Residents are encouraged to go online to report nonviolent crimes such as auto thefts and break-ins.

"The reality is we're doing less with less," Fresno Police Chief Jerry Dyer said.

Still, murders, assaults and property crimes were down in the first nine months of this year compared with last year.

The fire department, meantime, has cut staff to the level of 1955, when Fresno had one-fifth the population. That prompted the department, which also runs a medical-response service, to concentrate on major emergencies and instruct residents to get to the hospital by other means for less-serious medical needs.

These days, an impromptu cast of volunteers fills gaps: City Council members repair streetlights. Mothers patrol neighborhoods with police radios. Church members maintain parks and patch volleyball courts. Neighbors monitor gang activity and track building-code violations.

"We've recovered stolen vehicles. We track the vacant homes," said Christy Lynn Orozco, a 35-year-old pregnant mother of two who organizes patrols in the Tower neighborhood, the arts district. She recalled driving her car in reverse one day to escape a man in a skirt who had stolen a lawn ornament and began to chase her.

City officials are seeing small signs of hope: Revenue is up slightly this year as the economy improves and tax proceeds rise. Officials say their plan should keep Fresno out of bankruptcy and put it on track to build \$5.8 million in reserves by the end of 2018—still below the \$10 million target.

The Police Department recently announced it will begin hiring 49 employees, mostly cadets to handle low-level, nonviolent crime. The hiring is possible because the city no longer needs salary savings from unfilled police job slots to plug other holes in the budget, the police chief said.

Fresno recently won a \$16 million federal grant to overhaul its pedestrian mall, part of efforts to revitalize the downtown. To spur economic growth, the city launched a food expo in 2011 to match local producers with international and U.S. buyers.

At City Hall recently, the grass had been freshly trimmed and flowers were blooming. Ms. Swearingin said she was thrilled to see city workers painting the door jambs. "It was a sign to me that perhaps we're turning a corner," she said.

Write to Tamara Audi at tammy.audi@wsj.com

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