

MUNICIPAL BANKRUPTCY IN THE CZECH AND SLOVAK REPUBLIC (CASE STUDY)

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***Abstract:** Municipal sector is an important and integral part of each national public administration structure but sometimes overlooked and neglected. Municipalities perform and execute various tasks and responsibilities according to the residents and its scope differs by each country settings. Financial health of municipalities is thus one of essential questions of their proper functioning and providing public services as well as its own continuous development. Municipal bankruptcy as extreme negative financial situation of municipality is not a new issue but in the Czech and Slovak Republic still underdeveloped and underestimated as well as associated political debate considering introduction of municipal bankruptcy into national legislation. The aim of this paper is to reveal this issue in both countries and identify causes and patterns of financially distressed Czech and Slovak municipalities. In spite of limited research sample this case study of two countries with similar conditions shows some interesting insights and preliminary findings but also questions for further research in this not very developed issue in both countries from the analytical point of view.*

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***JEL Classification:** H12, H72, M48, R51.*

Introduction

Local governments, both in the Czech and Slovak Republic, play an important role in their residents life as they are integral part of public administration system and also key stakeholders in the local and regional development. Therefore, financial condition of municipalities is one of public finance core issues. If any municipality gets in financial trouble it could have negative consequences on providing of public services for the residents. In better-looking scenario there could be consequences only in the form of budget adjustments or short term public services limitations, in the worst scenario there could be large and long-term limitation of public services or total bankruptcy of the municipality followed by very administratively strict and long recovery process. Last decades of increasing overall indebtedness of the public sector including the municipal sector and continuously changing conditions means growing financial risk and pressure on capacity of public financial management generally. This specific environment and conditions higher the probability of municipal bankruptcy occurrence. While a state bankruptcy is a matter of few individual cases in last decades, municipal bankruptcy is more frequent issue worldwide, especially in the US. The fact is that relevant bankruptcy legislation for municipalities in the Czech and Slovak Republics is missing and there is a lack of studies and analysis focusing on this particular issue. So far we can register a group of municipalities in the Czech and Slovak Republic which reached a state similar to the state of bankruptcy. Such a term is usually regulated by national legislation or act but its missing in both countries and the bankruptcy issue of local governments is systematically unsolved. Nevertheless, the purpose of this paper is not to discuss about the consequences

and implications of such municipal legislation absence. But the absence of it has one important implication for this paper anyway - municipalities thus do not have a legally established avenue and associated conditions for declaring bankruptcy. In fact, it means more difficult and sophisticated identification of municipalities which are in bankruptcy. Meanwhile there is ongoing discussion about how to develop systemic solution, there is still a legislation and policy gap in the Czech and Slovak Republics. So far bankruptcy status for municipalities widely used in US is in both countries usually replaced in practice with receivership status or similar.

Main municipal functions are to maintain entrusted property, to provide public services to citizens at certain level or standard (e.g. outdoor lightening, municipal police, roads, sidewalks or green maintenance etc.), develop the municipality and others. When municipality goes into bankruptcy all of these mentioned functions are threatened, because potential consequences of municipal bankruptcy could be a restriction of publicly provided services to a certain level, enforced sale of municipal assets (usually under not optimal sale conditions) or slowing or even stopping of local or regional development. These and other related effects are in contrary with the requirements and rights specified in the constitutional and relevant municipal acts. Moreover, the practice shows that central government does not automatically have to take over the debts of an insolvent municipality (and usually it does not). According to the fact that any bankrupted municipality without bankruptcy protection is under intensive pressure on cash-flow, on meeting short-term or long-term commitments and liabilities, their maneuvering space in this type of crisis could be very limited. Other parallel effects, in the form of negative impacts on the local or regional economy, can occur when local government fails to meet its financial obligations (Honadle and Lloyd, 1998). Municipal financial management is to be oriented on long-term financial sustainability, because a municipality is not a short-term concept. The purpose of municipalities is defined in the amended Municipal Acts in the Czech and Slovak Republics concerning their existence and functioning (NR SR, 1990; PS PČR, 2000).

The aim of this paper is to analyze financial management of relevant Czech and Slovak municipalities under financial stress and to identify the causes, conditions and symptoms of financial management within the time period (2007-2012) bankruptcy in selected municipalities occurred (2010-2011). The reason why the Czech and Slovak cases have been chosen is their certain comparability according to certain similarities based on common history of these two countries and associated development of public administration, respectively of local self-governments as shown in other studies focusing on this particular issue (e.g. Bakoš, Soukopová and Šelešovský, 2015). The purpose of such selection procedure is that such connection of cases from these two countries widens the eligible sample of municipalities which is not big at all.

1 Statement of a problem

There could be plenty of reasons or causes occurring financial problems to any municipality. The associated discussion should be really complex and deep because the bankruptcy issue is very complex and multidimensional and municipal bankruptcy is no exception (Fudge, 2014; Padovani and Scorsone 2014). Due to its complexity, multidimensionality and certain level of individualism we need to properly distinguish all relevant dimensions and explore this particular issue more in detail and properly. Thus, from the methodological point of view we have decided to focus primarily on municipal financial management and pick up this particular dimension of general municipal

management to be under research. According to the importance of this issue, it is highly desirable to seek and develop a way how to detect this specific negative financial state or even to predict it with certain probability. The topic of municipal bankruptcy or financial (dis)stress is a subject to continuous discussion and various research from many different perspectives (McConnell and Picker, 1993; Kloha, Weissert and Kleine, 2005; Civitillo, 2012; Fudge, 2014; Padovani and Scorsone, 2014). But in the general overview of municipal bankruptcy literature there can be identified the prevalence of law literature than public administration, public finance or economics (Padovani and Scorsone, 2014).

Within the phase of exploring and developing concepts defining a negative state or financial emergency for a public sector entity, there have been identified terms describing negative financial state of a municipality as bankruptcy, default, failure to meet obligations and state declared emergencies, fiscal crisis, fiscal distress, financial crisis, financial stress, financial distress (ACIR, 1985; Kloha, Weissert and Kleine, 2005; Jones and Walker, 2007).

The general concept of bankruptcy is associated with the ability to meet financial obligations which dispose of following features (Ritonga, Clark and Wickremasinghe, 2012): the ability to meet short-term and long-term obligations (short-term and long-term solvency), the ability to cover its operations (budgetary solvency) and the ability to provide services at the level and quality required and desired by its people (service-level solvency). There are also risk aspects which can lead to bankruptcy as mismanagement (e.g. deficits), overly ambitious management goals, short-term management policies, mismanagement of cash flow, excessive debt exposure, inefficient management control system, inability to promptly identify potential causes of damage and/or inability to act promptly to remove them, uncontrolled increase of expenditure, growing deficit (without making investments), continuous increase of certain local taxes, discontinuity in management, lack of business management tools to support management, negative events involving the market (Civitillo, 2012).

2 Methods

This research paper methodology is based on descriptive financial statistic of positivistic nature. The aim of the paper is to identify and positively describe this particular phenomena, its form and features on selected cases from Czech and Slovak Republics which based on specific deduced attributes are identified as financially stressed or bankrupted. The main argument for using this approach is relative rarity of municipal bankruptcy in this region and local uniqueness according specific national legislation and policy. Another reason is, that for this purpose and in these conditions, typical large n studies are unlikely to be useful and due to data limitations are case studies more common (Padovani and Scorsone, 2014).

The method used for this research is modified data triangulation, known as a mix method type of research combining certain different research methods within studying and analyzing one particular thing or phenomena to provide more complex or detailed view or explanation. For this purpose there have been selected both, qualitative and quantitative data and other information available for municipalities selected in the research sample. For these purposes the financial documents of selected municipalities were analyzed (balance sheets, income statements, and budgets) as well as publicly available documents, materials, information and sources mapping the steps or decisions of the municipal management. Disadvantage mainly of qualitative method used is insufficient or limited information on municipal management decision during occurrence of financial troubles.

The philosophy of this research and selection of the research sample of suitable municipalities (fulfilling specified conditions) is based on identification of significant aspects of a sample of failed economic subjects (Smith and Winakor, 1930). For this purposes we used this particular approach on the sample of municipalities with specific financial problems (similar or close to bankruptcy) from Czech and Slovak Republics. The way of leading the research is to identify the financial aspects and symptoms associated with this condition (Evans and Patton, 1987).

From the perspective of the research design was determination of the sample one of the key issues in the absence of bankruptcy legislation in both countries and thus missing clear designation of municipalities going to bankruptcy. We solved this problem by substitution of this term by using similar state to the state of bankruptcy from the financial management perspective according the definition of bankruptcy from technical perspective, not legal. If any municipality in the Czech and Slovak Republic gets into financial troubles, there are four possible solutions, what to do: a) execution and involuntary sale of property and settlement of obligations; b) takeover or guarantee of debts by higher territorial-administrative unit (county, state); c) receivership designated by the state; d) amalgamation with another municipality. The use of scenario b) or d) is unknown in both countries, mostly used ways for municipalities to cope with financial troubles are state receivership (mostly in Slovakia) and execution or involuntary sale of municipal property (mostly in the Czech republic).

Tab. 1: Sample of selected municipalities

Municipality	Country	Population	
CZ1	Czech	4535	Execution
CZ2	Czech	373	Execution
CZ3	Czech	141	Execution
SK1	Slovak	4333	State receivership
SK2	Slovak	1890	State receivership
SK3	Slovak	1346	n.a.

Source: Own processing

Anyway, we are highly aware of specifics and limitations of this particular issue. We are aware of following specifics, limitation or shortage: diversity in interpretation of municipal financial distress; identification of suitable entities for a research sample; the absence of the institute of bankruptcy for municipalities in both countries; accounting reform in the public sector from 2010; shortage of relevant information concerning municipal management failures; data continuity and inner homogeneity.

The data used for this sample are from years 2007 to 2012 due to the availability of relevant data from both Ministry of Finance databases and the willingness of the selected municipalities to provide relevant information and data, as well as due to the continuity of used data. This sample was chosen to achieve as most as possible similar conditions – same time period when financial troubles of municipalities occurred – 2010 and 2011 (it is important mainly according to the functioning of the same municipal funding system at same time periods as the systems are highly depending on actual form of tax revenue sharing sytem) and similar type or size of municipalities (the size and type of municipality affects the size of the municipal budget and thus also financial possibilities of municipalities in financial management). The municipalities in the sample are municipalities of type I, mostly basic type of municipalities in both countries. These type of municipalities are usually characterized by small budgets absolutely or relatively (a little bit more depending

on revenues from tax sharing system than bigger municipalities), usually with non-professional staff (mayor or public servant are usually on part-time job only) and more limited possibilities for external funding, i.e. loans, and thus potentially more vulnerable municipal financial management.

3 Problem solving

As the bankruptcy is usually a complex problem, its causes could have origin not only in continuous deteriorating of the financial situation, but also in wrong management decisions, it is desirable from the perspective of this paper aim to analyze and identify relevant significant management decision which have been taken and influenced significantly the financial situation of the municipality according to the occurrence of bankruptcy.

Tab. 2: Characteristic of management decision-making in association with bankruptcy on selected cases

Municipality	Decision-making
CZ1	Municipality CZ1 sold the land for private housing construction project and was also involved in construction phase of related networks. The municipality should have had some share of the income from the resale of these modified parcels, but it did not get anything. The municipality therefore ended in execution and the municipal property was blocked by executors in 2009.
CZ2	Municipality CZ2 got into a financial stress while it was not able to repay its accumulated debt. Because of this reason, the municipality was forced to request large grant for debt relief. The supervising regional government partially granted the money. The municipality CZ2 fall into this situation because of an ambitious housing project connected with sewerage construction. The inevitable and involuntary execution of municipal property started in 2010.
CZ3	Municipality CZ3 fall into a negative financial situation because of plans for renovating a spa. It has purchased the land for the project and expensive boreholes and licenses meanwhile relevant environmental protection authorities definitively did not allow build a bottling plant in this protected area. The unhedged position of the municipality within this project meant prompt creation of extra-large debt, exceeding the municipal budget several times over. Municipality CZ3 coped with this debt by selling off almost all of its property and by restrictions of public services. The execution process started between 2009 and 2010.
SK1	The municipality signed a building contract for an amount which rose to 2.5 million Slovak crowns. The municipal budget was around two million Slovak crowns at that time. The building company then directed an execution process on the municipality, with total liabilities up to four million crowns. The municipality thus went into state receivership with the agreement of the Slovak Ministry of Finance.
SK2	The municipality wanted to build an industrial park/zone, and they borrowed funds for this purpose. From this money, they also financed building works in the park. The negative situation occurred when part of the park burned, as it was uninsured. The reconstruction works were financed from other loans. The municipality was taken into state receivership.
SK3	The main reason the municipality went into debt was the purchase and facilitation of land, reconstruction of a primary school, and technical infrastructure. In addition, residential houses were constructed with the primary aim of enlarging the population. Within the observed time period, the municipality drew different loans from banks and federal funds for housing development. The state of receivership by the state has not yet been introduced in this municipality.

Source: own processing

Second part of the research is based on basic financial analysis approach as the second dimension of one problem. There can be identified different simple or composite methods or approaches suitable for such analysis based on the use of indicators (obtained from accounting or financial data). But this kind of analysis is based on the suitability of available data. As the data are used as an inputs for such analysis, they should be also comparable (especially to their annual financial reports—relevant items). Suitable indicators which can be used based on Czech and Slovak data were selected based on study literature and identification of relevant concepts like Browns 10-points test and others (Nollenberger, Groves and Valente, 2003; Ngwenya, 2010).

Tab. 3: Selected financial analysis indicators

Indicator name	Formula
Acid-Test Ratio	$(\text{current assets} - \text{inventory}) / \text{current liabilities}$
Debt to Asset Ratio (Leverage)	$\text{total liabilities} / \text{total assets}$
Unrestricted Net Assets to Expenses Ratio (Financial Position)	$\text{unrestricted net assets} / \text{expenses}$
Annual Percentage Change in Net Assets to Total Net Assets Ratio (Financial Performance)	$\% \text{ change in net assets} / \text{total net assets}$
Level of Financial Autonomy	$\text{own equity} / \text{foreign equity}$
Financial Utilization of Equity	$\text{simple cash flow} / \text{own equity}$
Credit Worthiness of Cash Flow	$\text{foreign equity} / \text{simple cash flow}$
Annual Budget Balance	balance (+/-)
Annual Percentage Changes of Total Assets	$\text{annual change of total assets}$

Source: (Nollenberger, Groves and Valente, 2003; Ngwenya, 2010)

All the selected indicators are applicable to the Czech and Slovak municipalities and their accounting data. To eliminate certain diversity and fragmentation of the analytical look only data of financial nature were chosen as the quantitative part of this research concerns analyzing the financial patterns and behavior of selected municipalities.

Liquidity belongs among important and analyzed variables of financial management research generally. Acid-Test shows no clear trend for a quick ratio within the examined time period. The level of liquidity expressed by this indicator in the years immediately before the occurrence of the negative financial situation was about 10-20%, mostly in the Czech municipalities. SIMU (Czech central tool for monitoring of municipalities based on 16 informative and 2 monitoring indicators) recommends that municipalities with liquidity ratio within interval $<0;1>$ are labeled as more riskier (especially in connection with another monitoring ratio - the share of external sources to total assets higher than 25%). From the perspective of this sample we can see that especially Czech municipalities had problems with fulfilling this condition within the period preceding the occurrence of the negative financial state, Slovakian cases also but in lower frequency of occurrence.

Tab. 4: Acid-Test Ratio

Acid-Test Ratio	2007	2008	2009	2010	2011	2012
CZ1	76%	17%	11%	51%	190%	177%
CZ2	26%	10%	13%	126%	194%	341%
CZ3	19%	25%	34%	28%	17%	31%
SK1	2203%	39043%	4315%	1922%	105%	1752%
SK2	n.a.	15%	19%	18%	26%	35%
SK3	139%	145%	190%	35%	16%	53%

Source: own processing

It is interesting that all six municipalities reached significant changes (lows and highs) in liquidity within the observed period (2007-2012). For further research, it would be appropriate to focus attention on key moments in various relationships, such as between liquidity and the involvement of foreign funds.

Another indicator which is in the spotlight of financial management research usually is the leverage. Here it achieves its maximum values (highs) usually shortly before the negative financial situation occurred, and then within, in some cases. SIMU recommends to have this ratio no higher than 25%. All the Czech municipalities exceeded this recommended rate within phase preceding the occurrence of negative financial state, Slovakian cases mainly not.

Tab. 5: Leverage

Leverage	2007	2008	2009	2010	2011	2012
CZ1	20%	26%	27%	21%	23%	22%
CZ2	30%	27%	24%	22%	22%	20%
CZ3	66%	52%	64%	294%	595%	518%
SK1	1%	1%	2%	2%	23%	2%
SK2	n.a.	17%	14%	12%	7%	5%
SK3	9%	10%	13%	41%	30%	30%

Source: own processing

Financial position expressing coverage of budget expenditures by unrestricted net assets shows that the financial situation was volatile due to the budget during the examined period, but it is not proved that it was crucial. Anyway, this could reflect the relationship between the budget and municipal property. Within the period prior the crisis no significant budgetary restrictions recognized in terms of total expenditure.

Tab. 6: Financial position

Financial position	2007	2008	2009	2010	2011	2012
CZ1	6.18	3.74	5.77	7.39	5.09	6.41
CZ2	4.60	14.11	18.64	19.52	15.21	18.41
CZ3	9.55	16.32	1.23	- 28.70	- 7.41	- 1 805.67
SK1	2.49	3.55	3.28	2.42	2.33	1.59
SK2	n.a.	1.05	1.24	1.63	2.02	0.70
SK3	4.08	2.65	2.65	1.10	1.07	1.89

Source: own processing

Poor financial performance expressed by either negative values or downward trend is evident over a longer period within the occurrence of the negative financial situation. Declines are usually associated with enforced sale of the municipal property.

Tab. 7: Financial performance

Financial performance	2007	2008	2009	2010	2011	2012
CZ1	3%	-7%	-4%	7%	-15%	1%
CZ2	6%	7%	3%	2%	-11%	2%
CZ3	-3%	29%	-54%	-505%	-24%	4%
SK1	25%	20%	3%	-2%	0%	0%
SK2	n.a.	3%	1%	4%	13%	12%
SK3	5%	5%	-1%	-12%	2%	-1%

Source: own processing

Visible common trend for all selected entities in form of downward trend (reaching lows within time period observed) in the time just nearly preceding the occurrence of the negative financial situation in most of the six cases.

Tab. 8: Level of financial autonomy

Level of financial autonomy	2007	2008	2009	2010	2011	2012
CZ1	4.02	2.84	2.71	3.74	3.41	3.64
CZ2	2.28	2.74	3.10	3.47	3.47	4.00
CZ3	0.52	0.91	0.56	-0.66	-0.83	-0.81
SK1	90.30	93.06	42.42	43.55	3.23	47.75
SK2	n.a.	0.60	0.68	0.85	1.48	2.12
SK3	9.86	8.88	6.50	1.35	1.63	1.63

Source: own processing

Not a clear trend and usually long-term poor performance but it raises the question of how to adjust and use this indicator for public sector entities because there is a dichotomy problem of using such indicators (make profit or involve funds and finance). Long-term poor performance may be due to several factors, such as inefficient management of municipal property or the specific structure and nature of the property.

Tab. 9: Financial utilization of equity

Financial utilization of equity	2007	2008	2009	2010	2011	2012
CZ1	-0.1%	-0.2%	-0.1%	2.0%	3.3%	1.7%
CZ2	-0.5%	0.0%	0.2%	0.5%	0.3%	1.3%
CZ3	0.1%	0.2%	0.5%	-0.2%	-2.4%	-2.8%
SK1	7.1%	23.3%	8.5%	-5.0%	-6.7%	1.0%
SK2	n.a.	1.4%	1.0%	-0.5%	1.5%	0.9%
SK3	0.1%	1.1%	1.6%	-2.0%	0.0%	0.2%

Source: own processing

There are doubts about use and explanatory power of such indicator in this specific area of municipalities as credit worthiness of the cash-flow. The point is, for example, higher spending on investments tend to be co-financed of subsidies, how is thus important to measure the ability of municipal own cash flow to cover the involved external sources (credits, loans).

Tab. 10: Credit worthiness of the cash-flow

Credit worthiness of the cash-flow	2007	2008	2009	2010	2011	2012
CZ1	- 470.51	- 142.93	- 531.85	13.61	8.84	15.90
CZ2	- 87.04	1 392.28	201.79	57.40	107.87	19.58
CZ3	2 924.51	497.63	358.98	920.86	49.75	44.43
SK1	0.16	0.05	0.28	- 0.46	- 4.64	2.01
SK2	n.a.	120.70	147.19	- 219.99	44.50	52.32
SK3	148.94	10.29	9.87	- 36.84	1 358.16	249.99

Source: own processing

Budget balance indicator shows no clear trends or even signs of deteriorating budgetary situation or financial condition. As the municipal budget is still the well-known tool for managing municipal finances, this indicator analytical power is limited.

Tab. 11: Annual budget balance (surplus/deficit)

Annual budget balance	2007	2008	2009	2010	2011	2012
CZ1	+	+	+	+	-	+
CZ2	-	+	+	+	+	+
CZ3	+	+	-	+	-	+
SK1	+	+	+	+	+	+
SK2	n.a.	+	+	+	+	+
SK3	+	+	+	+	+	+

Source: own processing

The annual change of total assets is a simple indicator that proves in this case that Czech municipalities were more strongly affected by the occurrence of negative financial situations than Slovak municipalities, even though they also experienced declines during the examined period. The significant cross-national difference could be interpreted in following way. Meanwhile the Czech municipalities usually cope with the negative financial situation in form of execution, Slovak municipalities were taken under state receivership. This could positively influence their asset management.

Tab. 12: Annual percentage changes of total assets

Annual percentage changes of total assets	2007	2008	2009	2010	2011	2012
CZ1	1%	1%	-3%	-1%	-13%	-1%
CZ2	12%	1%	0%	-1%	-11%	-1%
CZ3	0%	-7%	-39%	-25%	-51%	13%
SK1	31%	15%	4%	-1%	28%	-2%
SK2	n.a.	3%	4%	3%	1%	10%
SK3	5%	5%	7%	31%	15%	1%

Source: own processing

4 Discussion

This case study shows some interesting points and ideas for policy recommendation or further research even there were not identified any significant trends or symptoms also according to a small research sample. In general, all municipalities encountered a capital-intensive action (e.g. housing, sewerage, or a wastewater treatment plant etc.). Generally,

it seems that all municipalities either underestimated the upcoming situation or overestimated their possibilities (size of the project, financial conditions, other concomitant factors, wrong planning or estimates, e.g.). This implication raises a questions of how to prepare or cope with similar actions for such municipalities, if they are the cause of the negative financial situation. This fact has some implications for municipal strategic planning and management (e.g. strategic planning for development, financial outlook, financial capacity etc.). Based on analyzed cases, it is clear that reaching high percentage changes of short-term liabilities associated with subsequent downward of the acid-test ratio could signal a problem with financial condition of a municipality (in all cases except for municipality SK2 not recognizing major changes). In case of the leverage ratio, the larger the entity, the lower the maximum value of the indicator reached before the occurrence of the negative financial situation. Another interesting fact is that some municipalities were forced to perform some significant managerial actions (e.g. involuntary sale of municipal property), even at values lower than 30% of the leverage ratio. It would be beneficial to examine this issue in the context of government regulation (e.g. SIMU) of municipal economies and determine whether the regulations are appropriately set. It seems that higher leverage ratio (in this case over 20%) could be reasonable risk factor when deciding whether to start a new capital intensive project. As traditional approaches point out the importance of balanced budget, this study shows that municipalities disposed mainly with surplus in the time period observed. Thus the balance of their budgets was not probably the crucial factor in this case. Another preliminary finding and implication for state policy is the question of missing bankruptcy legislation for municipalities. This study also shows in a very limited view that all the municipalities survived without bankruptcy modus, but the other question is the associated costs of such scenario in comparison with the parallel one where the bankruptcy legislation for municipalities is at disposal to use (*ceteris paribus*).

Conclusion

This pilot case study showed that the reason associated with the occurrence of negative financial state of selected municipalities was mainly capital intensive project realization. Subsequent financial analysis of selected municipalities pointed out some preliminary signs or information binding to particular financial characteristics of economic entities (i.e. liquidity, leverage, budget balance etc.) which could be cause of certain problem, risk factor, associated symptom or just a coincidence. To prove this relationships and significance of mentioned aspects there should be larger sample available which is currently not. Limited funding or budget options, non-professional staff or limited possibilities for external funding or guarantees make the municipal financial management vulnerable especially in the context of own or mutually realized capital projects developing (i.e. projects in cooperation with private companies or projects from EU). Recent efforts tend to identify relevant red flags but this pilot shows that the problem could be more complex and not definitely with only one reason or cause in every case. Further research on this issue is required but this pilot study also shows some preliminary findings which could be further researched in exploring municipal bankruptcy issue. Although this issue is in both countries still rather rare so far, we can recognize that individual cases of municipalities in troubles are continuously accruing and also the pressure on financial management is growing (factors - organizational, socio-economic, financial etc.). Therefore, it is highly desirable to study and analyze associated aspects and features as capacity, condition, possibilities and other to understand properly municipal financial management to keep

municipalities from bankruptcy and thus to strengthen it (e.g. Carmeli, 2003; Hendrick, 2004; Kloha, Weissert and Kleine, 2005; Elliehausen and Lawrence, 2013; Justice and Scorsone, 2013).

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